



**昆明机床**  
KUNMING MACHINE TOOL

**沈機集團昆明機床股份有限公司**  
**SHENJI GROUP KUNMING MACHINE TOOL COMPANY LIMITED**

(A sino-foreign joint stock limited company established in the People's Republic of China with limited liability)  
(Stock Code: 0300)

**Create Classic of  
High Precision Machine Made in China**

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Annual Report 2017

## IMPORTANT NOTICE

1. Directors Mr. Kang Jun and Ms. Wu Yu, supervisors Ms. Wei Aixue and Mr. Lv Jianbo could not assure the truthfulness, accuracy and completeness of the contents of this report with the following reasons: according to the relevant requirements of the Articles of Association of the Company and Rules of Procedures of Board of Directors, the Board shall notify all directors 10 days before the meeting convened, and the contents of the notice should include the information required for the meeting. However, the related materials of the 2017 financial report were received on the day of the meeting (25 April 2018). Not receiving the related materials in time led to unable to analyze and judge the accuracy of the financial report. Therefore, the third motion, "the annual report of the Company for the year 2017 ("Annual Report") and the summary of the Annual Report" was abstained. Investors are advised to pay attention to it.

Other directors and supervisors of the Company confirmed that they jointly and severally accept responsibility for the truthfulness, accuracy and completeness of the contents in the report.

2. Directors' not attendance of the Board meeting

Positions	Names	Reasons for not attending	Appointee
Director	Zhang Xiaoyi	Office duty	Peng Liangfeng
Director	Xia Changtao	Office duty	Liu Chunshi

3. Da Hua Certified Public Accountants issued standard unqualified audit report with emphasis paragraphs for the Company.
4. Wang He, Chairman, Xu Juan, the person in charge of accounting affairs, and head of accounting department (Accounting Supervisor), have declared that they assured for the truthfulness, accuracy and completeness of the financial statements in the Annual Report.
5. Proposal on profit distribution or capitalization of capital reserve to increase share capital for the reporting period approved by the board of directors of the Company  
In accordance with the China Accounting Standards, in 2017, the Group recorded a net loss of RMB352,503,000 attributable to shareholders of the Company. No surplus reserves was made, the accumulated profit available for distribution amounted to negative RMB708,805,000. In particular, the Company recorded a net loss of RMB324,839,000. No surplus reserves was made, the accumulated profit available for distribution amounted to negative RMB649,477,000. Therefore, the Company will not distribute cash dividend or bonus share, or conduct conversion of capital reserves into share capital.
6. Risk declaration for the forward-looking statements  
Applicable Not applicable

The forward-looking statements contained in this annual report regarding the Company's future plans do not constitute any substantive commitment to investors and investors are reminded of the investment risks and to exercise caution in their investment.

7. Any appropriation of non-operating fund by the controlling shareholder and its related parties?  
Yes
8. Any external guarantee provided not in compliance with the required decision-making procedures?  
No

## IMPORTANT NOTICE

### 9. Significant Risk Warning

As the Company had losses for the three consecutive years of 2014, 2015 and 2016, according to relevant regulations of Shanghai Stock Exchange Listing Rules, the Company's A Shares has been suspended listing after it published its 2016 annual report. Since the Company's audited net profit for 2017 was a loss, Shanghai Stock Exchange will make a decision to terminate the listing of the Company's A Shares within the 15 trading days after the disclosure of the 2017 annual report of the Company. Investors must pay attention to the A-share delisting situation faced by the Company and make careful decisions.

Currently, trading in H Shares of the Company has been suspended. The Company disclosed the resumption conditions required by the Hong Kong Stock Exchange on 21 June 2017. The Company is making efforts to take measures to achieve various conditions and strives to resume the trading of H Shares as soon as possible. However, the Company cannot accurately predict and determine whether it is possible to reach the resumption conditions and the time for achieving the conditions and successful resumption.

The Company has disclosed that it has received lawsuits from small and medium shareholders due to information disclosure violations. Currently, the lawsuits are in the stage of accepting and responding to the cases. The Company predicted that it will receive lawsuits one after another based on the same subject matter. Due to the wide range involved, it is not possible to accurately assess the amount of potential compensation for the corresponding lawsuits and the possible impact on the Company. Investors should be aware of the potential adverse effects of equity lawsuits on the Company's assets and cash flow.

The Company's subsidiary, Xi'an Ser Turbo Machinery Manufacturing Co., Ltd. ("Xi'an Ser") and its subsidiary, Changsha Ser Turbine Machinery Co., Ltd. ("Changsha Ser") have difficulties in operation. The basic bank accounts and some general accounts of the two companies were judicially frozen due to lawsuits. The two companies have basically been in a semi-suspended position, their related financial conditions have gradually deteriorated, and the two companies may have risks of bankruptcy liquidation. Investors are required to pay close attention to the risks associated with the subsidiary and the possible negative impact on the financial status of the Company.

### 10. Others

Applicable Not applicable

#### (1) Explanation on the matters of the financial irregularities of the Company

- i. On 2 November 2017, the Company received the Prior Notice of Administrative Penalties and Prohibition of Entering the Market issued by China Securities Regulatory Commission ("CSRC") and received the Decision of Administrative Penalties issued by CSRS in February 2018 which punished the Company and the corresponding senior management officers of the Company. Details were published on the Company's announcement on 13 February 2018.
- ii. Currently, the Company is under the inquiry and investigation of the Hong Kong Securities and Futures Commission ("SFC"), actively cooperates with corresponding investigation of SFC.
- iii. The Company established the independent investigation committee. Pursuant to the requirements of Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the Company appointed forensic auditors, internal control consultancy and financial adviser to solve various problems properly and actively fulfill its information disclosure obligations.

#### (2) Notes on Auditing Method of 2016 Specific Financial Report and 2017 Annual Report of the Company

The breach of financial regulations of the Company in previous years had a substantial negative impact on the Company's financial cost calculation basis, and the costs calculation of the Company's principal activities at the beginning and the end of 2016 could not be completed in accordance with the normal recognition and measurement of cost calculation method as result of the problems such as lacking of standardization of the Company's financial cost calculation, weak basis and not strict management in internal control. The Company could only engage the third-party valuation institution to conduct technology valuation on the Company's inventory amount at the relevant time point according to the auditor's opinion, and took the result as a basis for cost calculation of the principal activities of the year.

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# DEFINITION

## I. DEFINITION

In this report, unless the context requires otherwise, the following terms and expressions shall have the following meanings:

Meanings of the following terms

“The Company”, “Company”, “Parent”, “Kunji”	Shenji Group Kunming Machine Tool Company Limited
“Shenyang Group”	Shenyang Machine Tool (Group) Company Limited
“Shenyang Machine Tool”	Shenyang Machine Tool Company Limited
“Industry”	the machine tool industry in the PRC
“Horizontal machine”	horizontal boring and milling machine tool
“Floor-type machine”	floor-type boring and milling machine tool
“Machining center”	horizontal products machining center
“Gantry machine”	gantry boring and milling machine tool
“Company Law”	the Company Law of the People’s Republic of China
“Securities Law”	the Securities Law of the People’s Republic of China
“Accounting Law”	the Accounting Law of the People’s Republic of China
“RMB”, “RMB’000” and “RMB’0000”	RMB, RMB thousand and RMB ten thousands

# COMPANY PROFILE AND FINANCIAL HIGHLIGHTS

## I. COMPANY INFORMATION

Name of the Company (Chinese)	沈機集團昆明機床股份有限公司
Abbreviated Name of the Company (Chinese)	昆明機床
Name of the Company (English)	SHENJI GROUP KUNMING MACHINE TOOL COMPANY LIMITED
Abbreviated Name of the Company (English)	kmtcl
Legal Representative	Wang He

## II. CONTACT PERSON AND CONTACT INFORMATION

	Secretary to the Board	Securities Affairs Representative
Name	He Xi	Wang Bihui
Correspondence address	23 Ciba Road, Kunming City, Yunnan Province	23 Ciba Road, Kunming City, Yunnan Province
Telephone number	86-871-66119759	86-871-66166623
Facsimile number	86-871-66166288	86-871-66166288
E-mail	hexi@kmtcl.com.cn	wangbh@kmtcl.com.cn

## III. BASIC INFORMATION

Registered address	23 Ciba Road, Kunming City, Yunnan Province, the PRC
Post code of registered address	650203
Business address	23 Ciba Road, Kunming City, Yunnan Province, the PRC
Post code of business address	650203
Website of the Company	www.kmtcl.com.cn
E-mail	dsh@kmtcl.com.cn

## IV. PLACE OF INFORMATION DISCLOSURE AND DOCUMENT INSPECTION

Designated newspapers for publishing	"China Securities Journal", "Shanghai Securities News" and "Securities Times"
Designated internet websites by CSRC for publishing annual report	www.sse.com.cn, www.hkex.com.hk, kmtcl.com.cn
Annual report available at	Office Building, 23 Ciba Road, Kunming City, Yunnan Province

# COMPANY PROFILE AND FINANCIAL HIGHLIGHTS

## V. SHARE LISTING

Class of Shares	Particulars of the Company's Shares		
	Stock exchange	Short Name	Stock Code
A Shares	Shanghai Stock Exchange	*ST Kunming Machine	600806
H Shares	The Stock Exchange of Hong Kong Limited	Kunming Machine	0300

## VI. OTHER RELEVANT INFORMATION

Appointed Auditor of the Company (domestic)	Name	Da Hua Certified Public Accountants (Special General Partnership)
	Address	Unit 1101, Bldg7, No.16 Xi Si Huan Zhong Road, Haidian District, Beijing
	Signature of accountants	Ao Du Ji Ya, Xu Ping

## VII. PRINCIPAL ACCOUNTING DATA AND FINANCIAL HIGHLIGHTS FOR THE LATEST THREE YEARS

### 1. Principal accounting data

Principal accounting data	2016			Increase/Decrease as compared with the corresponding period last year (%)	2015	
	2017	After adjustment	Before adjustment		After adjustment	Before adjustment
Operating income	560,399,237.36	645,877,233.13	617,752,190.35	-13.23	621,336,648.49	776,594,761.09
Net profit attributable to equity shareholders of the Company	-349,693,190.86	-297,212,908.98	-209,295,551.74	17.66	-328,299,877.86	-196,385,215.66
Net profit (excluding extraordinary gains and losses) attributable to equity shareholders of the Company	-358,218,970.73	-528,271,318.02	-440,353,960.78	-32.19	-355,580,299.30	-218,582,693.59
Net cash flow from operating activities	-820,980.81	-74,672,629.80	-74,672,629.80	-98.90	-163,568,963.03	-163,568,963.03
		As at the end of 2016		Increase/Decrease as compared with the corresponding period last year (%)	As at the end of 2015	
	As at the end of 2017	After adjustment	Before adjustment		After adjustment	Before adjustment
Net assets attributable to equity shareholders of the Company	-38,221,029.07	311,472,161.79	418,150,145.65	-112.27	627,445,697.39	889,172,358.16
Total assets	1,691,638,201.32	2,264,224,708.08	2,328,197,043.67	-25.29	2,774,571,795.70	2,796,144,096.72

# COMPANY PROFILE AND FINANCIAL HIGHLIGHTS

## 2. Principal financial data

Principal financial data	2017	2016		Increase/ Decrease as compared with the corresponding period last year (%)	2015	
		After adjustment	Before adjustment		After adjustment	Before adjustment
Basic earnings per share (RMB/share)	-0.66	-0.56	-0.39	17.66	-0.62	-36.25%
Diluted earnings per share (RMB/share)	-0.66	-0.56	-0.39	17.66	-0.62	-36.25%
Basic earnings per share excluding extraordinary gains and losses (RMB/share)	-0.67	-0.99	-0.85	-32.19 decreased by 193.88	-0.67	26.22%
Return on net assets (weighted average) (%)	-255.95	-62.07	-35.89	percentage points decreased by 125.22	-37.44%	-4.15%
Return on net assets excluding extraordinary gains and losses (weighted average) (%)	-270.63	-145.41	-76.96	percentage points	-40.55%	89.77%

## VIII. DIFFERENCE IN ACCOUNTING DATA UNDER DOMESTIC AND OVERSEAS ACCOUNTING STANDARDS

### 1. Differences in net profits and net assets attributable to equity shareholders of the Company prepared under international accounting standards and PRC GAAP

Applicable Not applicable

### 2. Differences in net profits and net assets attributable to equity shareholders of the Company prepared under foreign accounting standards and PRC GAAP

Applicable Not applicable

### 3. Explanation on difference in accounting data under domestic and overseas accounting standards

Applicable Not applicable None

# COMPANY PROFILE AND FINANCIAL HIGHLIGHTS

## IX. PRINCIPAL FINANCIAL DATA IN 2017 BY QUARTER

	The first quarter (Jan – March)	The second quarter (April – June)	The third quarter (July – Sept)	The fourth quarter (Oct – Dec)
Operating income	99,497,084.41	175,349,062.19	116,240,460.95	169,312,629.81
Net profit attributable to equity shareholders of the Company	-58,950,566.51	-95,715,935.75	-46,479,786.58	-148,546,902.02
Net profit (excluding extraordinary gains and losses) attributable to equity shareholders of the Company	-59,621,399.08	-94,636,138.75	-46,863,248.54	-151,554,281.94
Net cash flow from operating activities	-97,929,354.74	35,483,563.93	117,153,559.14	65,194,000.61

Unit: RMB

### Explanation on differences between quarterly information and regular reports information

Applicable Not applicable

## X. EXTRAORDINARY GAINS AND LOSSES AND AMOUNTS

Applicable Not applicable

Extraordinary Gains And Losses Items	2017	2016	2015
Disposal of non-current assets	640,824.24	215,069,425.99	-223,313.83
Unauthorized or informal approval documents or one-off tax returns and exemptions on tax			
Government grants recognized through profit and loss (excluding those having close relationship with the Group's operation and enjoyed in fixed amount or quantity according to uniform national standard)	8,883,770.03	20,998,627.01	19,299,669.51
Gains or losses on debt restructuring	495,619.02	-2,676,693.25	
Other non-operating income and expenses besides items above	442,421.57	-2,164,504.94	-3,363,747.30
Other items complied with definitions of extraordinary gains & losses		7,182,546.47	
Gain on financial liabilities adjustment			11,567,813.06
Effect of non-controlling interests	-208,806.20	-7,350,992.24	-746,161.12
Effect of income tax	-1,728,048.79		-4,336,782.39
Total	<u>8,525,779.87</u>	<u>231,058,409.04</u>	<u>22,197,477.93</u>

Unit: RMB

# OVERVIEW OF MAIN BUSINESS

## I. THE COMPANY'S MAIN BUSINESS, BUSINESS MODEL AND SECTOR CONDITIONS DURING THE REPORTING PERIOD

The Company's main business includes R&D, design, manufacture and sale of horizontal boring machine, large NC floor-type milling and boring machine, NC gantry-type boring and milling machine, NC planer-type boring and milling machine, jig boring machine, horizontal boring and milling machining center, precision rotary table and other products; most of the main products maintain a leadership position in China.

In 2017, China's economy maintained a good momentum, and structural adjustment continued to be deepened. Affected by this, the machine tool consumption market in China showed a clear recovery and growth momentum. At the same time, the structural adjustment and differentiation of the market became increasingly obvious and prominent. With the deepening of the structural reforms on the supply side of China's economy, both the demand side and the supply side were undergoing new changes and forming new relationships, but the market demand fluctuations in future was still highly probable.

## II. ANALYSIS OF CORE COMPETITIVENESS

Applicable Not applicable

### 1. Technical advantages of products:

Horizontal boring and milling machine tool series, jig boring machine tool series, and CNC floor-type boring and milling machine tool series are major products of the Company. NC floor-type boring and milling machine product series are heavy machine tool products developed by the Company, a pioneer in applying made-in-China simple NC system to control the motion coordinates of machine tools, and quickly become commodities after successful development. With continuous improvement and optimization over the years, the Company has increased the scientific and technological components of the products and made breakthroughs in five-axis linkage, thus pushing the overall quality of the products to a leading position in China. In the meanwhile, the products have also become one of our most competitive leading products thanks to the Company's efforts to continuously expand specification and varieties of machine tools.

### 2. Technical R&D advantages:

The Company has a national level enterprise technology center, representing the Company's competitive strength and important position in the precision machine tools area in China, which will play an important role in further enhancement of the Company's technological innovation, improvement of R&D capability and market competitiveness of products, and achieving sustainable development. The Company has continuously undertaken several national special projects, and 10 products such as KHC80 $\mu$ , FMS800, XH2420/2 and XH2530 have passed provincial new product certification, and domestic high-end CNC machine tools and CNC systems have been applied in special applications such as aircraft rib beams and other processing units, conducted in-depth application and research of 5-axis technology, and strengthen the complete solution technology research on user's typical parts processing for wind power, auto parts and key areas of mold.

### 3. Precision manufacturing advantages:

The motto of "to take innovation as the priority, take quality as the foundation and take precision as the soul" is the concentrated reflection of the spirit of Kunji. The high precision machine tools continuously launched by the Company are all high precision, high-speed and highly automatic products with complete independent intelligent property right. Moreover, the Company is able to manufacture products with precision based on R&D, and many products have reached the advanced world standard in precision indexes, inheriting and carrying forward a fine tradition of precision manufacturing.

### 4. Participation in national intelligent manufacturing projects:

Upon receipt of Reply on Implementation Plan of Intelligent Manufacturing Equipment Development Projects in 2013 issued by the National Development and Reform Commission, the Ministry of Finance and the Ministry of Industry and Information Technology, the Company participated in building digital NC lathe manufacturing workshops of Yunnan Machine Tool Works in 2016, which satisfied the demand for highly flexible, automatic and intelligent mass and multi-type production of key parts of high-end machine tools, realized system intelligence and reached out for intelligent manufacturing.

# MANAGEMENT DISCUSSION AND ANALYSIS

## I. MANAGEMENT DISCUSSION AND ANALYSIS ON OPERATION

### (I) Analysis on Operation in 2017

In 2017, with focusing on the market changes, Kunji has rapidly increased the brand's market competitiveness. It rapidly established the market leading position of its products through further subdivision of the market, optimization and upgrading of products, implementation of a differentiated market strategy, and driven by the new corporate organization model under the market-focused product line structure.

#### 1. Marketing

- (1) Strengthened production and marketing coordination and plan management;
- (2) Developed new product sales price system;
- (3) Established 400 expert knowledge base platform;
- (4) Prepared the market analysis and sales outline for 2018, expanded the market, and carried out special actions to sell inventory and promote receivables.

#### 2. Technology

- (1) Integrated old products and research and develop new products;
- (2) Technical rectification: completed 7 QC projects;
- (3) National major special project: 2012 special THM- $\mu$  project, completed technical acceptance and financial acceptance;
- (4) Regulated the management of intellectual property rights (patents): completed 21 patent applications and authorized 17 patents.

#### 3. Production

- (1) Introduced vertical machining center OEM flow production: led standard manufacturing management, exercised the team and enhanced the capacity to lay a solid foundation for flow-type product manufacturing;
- (2) Established an inventory management system: established a complete work-in-process and inventory consumption work flow and management measures;

#### 4. Quality

- (1) Successfully completed the transfer of the 2015 version of the quality environmental management system;
- (2) Continued to promote two special actions, polish the brand, discovery 4,600 problems, with an average error rate of 2.41%, improvement of 452 quality engineering projects, and a quality indicators compliance rate of 80%, and a decreased in quality costs of RMB1,171,400.
- (3) Strengthened quality assessment, and conducted assessment on the quality of machine tool products in 2017 in accordance with the Quality Assessment Management Approach.

#### 5. Management

Conducted overall reducing cost engineering from design source to the procurement, manufacturing, assembly to packaging etc. links through optimization design, comparing manufacturers, change self-made to outsourcing, using domestic products instead of imports items, some easily packaged products, reducing inventory etc. measures.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (II) Operation Difficulties

Since 2012, the Company has continued to experience operation difficulties such as a sharp decline in operating performance, high management costs, coupled with slow product mix adjustments and significant historical burdens. In 2015, it attempted to reorganize but failed, and subjected to administrative penalty by the CSRC due to the major omissions in information disclosure, and in 2017, it was investigated and inspected for disclosure of breach of financial regulations in previous years, the Company and several senior directors, supervisors and senior management were subject to penalty and barred from the market. The above violations of law and regulations do have a greater negative impact on the capital market, and it also exposes the Company to huge operating pressures and complex risks.

1. Contingent claims resulting from the risk of small and medium stock traders' litigation will have a negative impact on the Company's operating cash flow and financial reporting performance in the coming years;
2. Insufficient investment in the construction of Yanglin Base will lead to the Company's failure to complete the relocation of the whole plant on schedule;
3. The continuous deterioration of financial statement performance and the inability of financial institutions to maintain their existing credit standards lead to the further adverse impact on operating cash flow from the draw of loans;
4. The increase in suppliers' accounts payable litigation has increased the Company's operating burden.

Faced with the above difficulties, the management of the Company is making efforts in the following aspects to maintain the normal operation of the Company:

1. Respond to stock traders' demands in a steady manner, respect the legitimate rights and interests of stock traders, actively respond to them, and safeguard the rights and interests of all shareholders of the Company according to the law;
2. Actively seek strategic investment partners to negotiate cooperation to solve the problem of insufficient construction funds, and complete construction and relocation of the whole plant as soon as possible;
3. Actively communicate with banks granting credits to strive to maintain the current credit limit without reducing and withdrawals of facilities;
4. Collect receivables of the Company to make up for the insufficient funds for production investment, increase operating repayments, and use incremental operating fund repayments to make up for historical accounts payable to the suppliers.

## II. BUSINESS OPERATION DURING THE REPORTING PERIOD

In 2017, 75% of the economies in the world had an accelerated growth, which was the most extensive growth in the global economy within the past 10 years, and the reviving force of global economic activities is getting stronger.

China's GDP rose by 6.9% as along with the optimization in economic structure, speed up the conversion of old and new kinetic energy, improvement in the quality and efficiency; the stability, coherence and sustainability of economic development increased and a trend of steady progress, stable and improved continued to develop.

## MANAGEMENT DISCUSSION AND ANALYSIS

The domestic industry of machine tool presented a trend of stabilization at the bottom in 2017. Although the corresponding market had a recovery growth and the demand of short-term industrial consumables grew significantly, the metal cutting machine tools products related to the long-term investment remained underperformed. There was an apparent increase in imports and exports, yet trade deficit rose significantly, indicating the domestic machine tool industry was not out of the doldrum, especially in the area of high-end machine, where the domestic product still couldn't satisfy the need of customers like imported products do. In terms of machine tool industry, In order to promote a revolution of quality, efficiency and momentum in the machine tool industry, economic policies should be formulated, macro-control should be implemented, the new development concept and the main line of structural reform should be adhered. We must reflect and understand that the traditional mode of expansion based on product quantity can no longer sustain. Our new emphasis should be on the research and innovation, and develop sustainably with emphasis on quality in accordance with the natural evolution of the industry.

Principal financial data of 2017 of the Company as follows: achieved sales revenue of RMB560,399,000, comprehensive gross profit margin was negative 3.91%; net loss for the year attributable to shareholders of the Company was RMB349,693,000 and loss per share was RMB0.66 dollar, of which, sales revenue of machine tool was RMB464,213,000.

### (I) Analysis of Principal Activities

Table of analysis of changes in relevant items of income statement and cash flow statement

Item	Unit: RMB		
	2017	2016	Percentage of change(%)
Operating income	560,399,237.36	645,877,233.13	-13.23
Operating costs	582,290,174.33	664,781,791.69	-12.41
Selling and distribution expenses	85,193,796.00	84,248,636.53	1.12
General and administrative expenses	170,013,131.66	207,779,711.41	-18.18
Financial expenses	56,469,493.05	55,433,277.60	1.87
Net cash flow from operating activities	-820,980.81	-74,672,629.80	98.90
Net cash flow from investing activities	-19,313,398.54	431,586,918.13	-104.47
Net cash flow from financing activities	-215,091,036.91	-102,459,626.86	-109.93
R&D expenses	33,662,020.60	72,437,385.89	-53.53
Assets impairment losses	18,059,173.52	177,580,934.51	-89.83
Investment income	-3,107,018.80	-625,304.03	-396.88
Income tax expenses	747,256.32	23,748,933.95	-96.85

#### 1. Analysis of revenue and cost

Applicable Not applicable

- A. The reduction of operating income as compared with the same period of last year was due to sluggish in machinery industry, insufficient demand of the market, and increase in unit costs as a result of the reduction in sales;
- B. The decrease in loss on impairment of assets was due to a significant amount provision made for the previous period by the appraiser through conducting impairment testing;
- C. The increase of investment loss was due to the loss of invested company Xi'an Ruite increased in the current period as compared with previous period;
- D. The decrease in income tax expenses was due to the deferred income tax assets provided in previous years were reversed to income tax expenses in the case of a continuous loss of the Company in the previous year.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (1) Segment, product and regional operation

Unit: RMB

Analysis of principal activities by segments						
Business segments	Operating income	Operating cost	Gross profit margin (%)	Percentage change in operating income (%)	Percentage change in operating cost (%)	Percentage change in gross profit margin (%)
Machine tools	518,186,720.46	545,712,010.54	-5.31%	-13.23%	-12.63%	decreased by 0.73 percentage points
Turbo machines	42,212,516.90	36,578,163.79	13.35%	-13.26%	-9.00%	decreased by 4.06 percentage points

Analysis of principal activities by products						
Products	Operating income	Operating cost	Gross profit margin (%)	Percentage change in operating income (%)	Percentage change in operating cost (%)	Percentage change in gross profit margin (%)
Horizontal boring and milling machine tools	92,231,167.27	104,342,660.13	-13.13%	14.22%	23.32%	decreased by 8.34 percentage points
Floor-type boring and milling machine tools	88,561,752.23	87,244,273.26	1.49%	12.71%	20.97%	decreased by 6.72 percentage points
Table-type boring and milling machine tools	162,160,093.99	143,053,070.33	11.78%	77.65%	79.26%	decreased by 0.79 percentage points
Horizontal products machining center	28,801,538.46	20,500,477.16	28.82%	-83.20%	-86.85%	increased by 19.74 percentage points
Gantry boring and milling machine tools	58,979,487.19	65,013,898.10	-10.23%	-47.10%	-34.76%	decreased by 20.86 percentage points
Turbo machines	42,212,516.90	36,578,163.79	13.35%	-13.26%	-9.00%	decreased by 4.06 percentage points
Others	87,452,681.32	125,557,631.56	-43.57%	37.43%	-5.24%	increased by 64.55 percentage points

### Explanation on principal business by segment, by product and by region

The gross profit margin of the machine tool segment declined by 8.42 percentage points year-on-year, in 2017, the comprehensive gross profit margin was negative mainly attributable to: i) lower product selling prices given the more intensified market competition; and ii) an increase in unit operating cost due to a shrinkage of sales, in contrast with no reduction in labor costs and total fixed assets. The adverse changes both in product selling prices and operating costs led to negative gross profit margin of the machine tool segment.

## MANAGEMENT DISCUSSION AND ANALYSIS

- (2) Table of analysis of production and sales  
Applicable Not applicable

Main products	Production	Sales	Inventory	Percentage change in production (%)	Percentage change in sales (%)	Percentage change in inventory (%)
Horizontal boring and milling machine tools	47	177	47	46.88	29.20	-69.87
Floor-type boring and milling machine tools	8	18	9	-46.67	-5.26	-40.00
Table-type boring and milling machine tools	57	63	12	50.00	65.79	50.00
Horizontal products machining center	11	13	6	-82.26	-81.94	-40.00
Gantry boring and milling machine tools	42	35	8	40.00	-2.78	700.00
Turbo machines	7	4	10	-30.00	0.00	-16.67

Description of production and sales volumes:

- The Company mainly organized the production of machine tools according to the users' orders. However, given factors such as sluggish domestic and international economies., the customers postponed delivery of goods which resulted in lower machine tools production volumes.
  - The Company adopted promotional model to reduce inventory, inventories of horizontal boring and milling machine tools and gantry boring and milling machine tools decreased largely.
- (3) Table of analysis of costs

Unit: RMB

Business segments	Items of costs structure	Analysis by segments				Increase/Decrease (%)
		2017	Proportion (%)	2016	Proportion (%)	
Machine tools	Raw materials	416,641,988.01	71.63	486,922,335.69	73.25	-12.92
	Direct labor costs	59,910,826.14	10.30	60,335,587.81	9.08	1.04
	Benefits expenses	15,064,955.31	2.59	14,800,816.34	2.23	3.55
	Fuel and power	3,024,624.23	0.52	3,854,712.82	0.58	-20.04
	Manufacturing costs	43,798,885.52	7.53	48,739,474.38	7.34	-8.52
Turbo machines	External processing expenses	7,270,731.33	1.25	9,934,979.83	1.49	-25.72
	Raw materials	20,286,249.64	3.43	22,580,924.50	3.4	-10.16
	Direct labor costs	4,553,981.39	0.77	6,599,835.89	0.99	-31
	External processing expenses	6,679,172.71	1.13	5,691,454.09	0.86	17.35
	Shipping fee	373,097.27	0.06	458,210.29	0.07	-18.58
	Manufacturing costs	4,685,662.78	0.79	4,863,460.06	0.73	-3.66

Other information relating to cost analysis:

The market demand for the year was still downturn, the sales of machine tools tended to the personalized, it is difficult to form mass production resulting in high cost of machine tool. On the other hand, in order to digest inventory machine tools in previous year, the Company uses the previous inventory to reform the machine tools for new contracts, resulting in increase in cost of machine tools. As affected by the sluggish macro economy and declined in the orders of compressors business, the operating income decreased as compared with the same period of last year, and the corresponding operating costs decreased.

# MANAGEMENT DISCUSSION AND ANALYSIS

- (4) Information on the major customers and suppliers  
Applicable Not applicable

The total sales revenue of the top 5 customers amounted to RMB142 million, which accounted for 33% of the total sales revenue for the year. In particular, sales revenue of related parties of top five customers amounted to RMB20.42 million, representing 5% of the total sales revenue for the year.

The total purchase from the top 5 suppliers amounted to RMB38.548 million, representing 33.66% of the total purchase for the year. In particular, purchase of related parties of the top five suppliers was zero, representing 0% of the total purchase for the year.

## 2. Expenses

- Applicable Not applicable

- A. The Company strictly controlled the expenses and the sales expenses increased less which was within reasonable fluctuations.
- B. The general and administrative expenses decreased mainly due to most of the R&D projects in the current period have entered the final stage, and the amount incurred decreased as compared with the same period of last year.
- C. The financial expenses increased mainly due to more interest expenses incurred on borrowings to make up for the lack of liquidity.

## 3. R&D expenses

- Applicable Not applicable

### Table of R&D expenses

	<i>Unit: RMB</i>
R&D expenses expensed for the current period	27,505,572.59
R&D expenses capitalized for the current period	6,156,448.01
Total R&D expenses	33,662,020.60
Percentage of total R&D expenses to operating income (%)	6.01
Number of R&D personnel	192
Percentage of R&D personnel to total number of personnel of the Company (%)	10.94
Percentage of R&D expenses capitalized (%)	18.29

Explanation:

In 2017, 5.91% of the R&D expenses of the Company were capitalized, mainly the national science and technology major projects such as research and application of key technologies on high precision CNC jig boring machine for processing of precision box-type parts. The remaining R&D investments were expensed, mainly the national special projects including KHC100/2 double-station precision horizontal machining center, processing of large aero-engine engine brake and development of measuring complete equipment, application of domestic high-end CNC machine tools and CNC systems in processing units such as aircraft rib beams, National 863 Program and new products independently developed by the Company.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 4. Cash flows

Applicable Not applicable

- A. The net cash flow from operating activities increased year on year because the cash received from sale of commodities and provision of services in the period increased as compared with the same period of the previous year;
- B. The net cash flow from investing activities decreased year on year mainly because Company disposed of land and buildings which increased the amount of cash inflows from the same period of last period;
- C. The net cash flow from financing activities decreased mainly because borrowings of the current period decreased as compared with the same period of last year

## (II) Explanation on Non-principal business led to significant changes in profit

Applicable  Not applicable

## (III) Analysis of Assets and Liabilities

Applicable Not applicable

### 1. Table of assets and liabilities

Item	2017	Percentage of total assets (%)	2016	Percentage of total assets (%)	<i>Unit: RMB</i>
					Percentage change in closing balance (%)
Cash at bank and on hand	91,148,044.38	5.39	343,677,662.66	15.18	-73.48
Accounts receivable	254,544,796.00	15.05	278,873,873.56	12.32	-8.72
Prepayments	38,114,906.00	2.25	59,323,830.30	2.62	-35.75
Inventories	561,821,346.40	33.21	752,464,775.39	33.23	-25.34
Other current assets	18,165,469.49	1.07	47,844,664.26	2.11	-62.03
Fixed assets	409,396,449.93	24.20	461,611,632.46	20.39	-11.31
Construction in progress	54,044,868.15	3.19	41,937,441.52	1.85	28.87
Short-term borrowings	363,683,036.94	21.50	560,672,720.00	24.76	-35.13
Bills payable	-	-	15,273,453.50	0.67	-100.00
Accounts payable	320,626,464.70	18.95	406,765,144.78	17.96	-21.18
Other payables	388,757,750.80	22.98	285,856,014.96	12.62	36.00
Non-current liabilities due					
within one year	45,000,000.00	2.66	85,000,000.00	3.75	-47.06
Long-term borrowings	1,665,275.66	0.10	46,665,275.66	2.06	-96.43
Deferred income	195,202,914.02	11.54	141,102,491.10	6.23	38.34
Retained earnings	-706,144,182.57	-41.74	-356,450,991.71	-15.74	98.10

# MANAGEMENT DISCUSSION AND ANALYSIS

## *Other notes:*

- A. The decrease in cash at bank and on hand was due to the maintenance of normal production operations and the repayment of loans and interest;
  - B. The Company strengthened the management of accounts receivable in the year and the cash collection increased;
  - C. The decrease in prepayments was due to the transferring to accounting as construction in progress;
  - D. The Company made greater effort in destocking in the year;
  - E. Due to the decrease in remaining value-added tax in the period as compared with the previous period;
  - F. The decrease in fixed assets was due to the reduction of interest capitalization;
  - G. Increased investment in the construction of Yanglin Base;
  - H. Decrease in short-term borrowings was due to the repayment of due bank loans;
  - I. Bills payable, the maturity of bank acceptance bills issued in the previous period;
  - J. The decrease in accounts payable was due to a decrease in the volume of purchases as result of a reduction in the volume of business;
  - K. The increase in other payables was due to the provision for accrued technology use fees in Shenji Hong Kong.
  - L. Decrease in transfer of non-current assets due within one year;
  - M. Due to the repayment of long-term borrowings in the period was lower than that of the previous period;
  - N. The increase in deferred income was due to the receipt of a subsidy for R&D project the Ministry of Finance during the period;
  - O. The increase in loss of retained earnings was due to the continuous loss of the business as result of the low sales volume of products and the low gross profit margin.
2. *Restrictions on main assets as at the end of the Reporting Period*  
Applicable Not applicable
3. *Other Explanations*  
Applicable Not applicable

# MANAGEMENT DISCUSSION AND ANALYSIS

## (IV) Analysis of sector business information

✓Applicable    Not applicable

The Company's revenue mainly comes from sales of machine tools, which is affected by the factors of market, price and inventory. Product services and machining business do not have significant impact on the Company's revenue.

### 1) *Market factors*

In 2017, as affected by the slow recovery of the world economy, weak international trade and investment, lack of growth momentum, rise in protectionism, reversal of the economic globalization trend and difficult political and economic situation in the euro area, the global productivity was decreased and the world economy was stuck in a "low growth trap". With the influence of the global economic downturn, the optimization progress of China's economic structure was slow, innovation was blocked and the overall economic growth was slow down. 2017 was the sixth downward trend year of China's machine tool industry, the machine tool industry was experiencing unprecedented downward pressure, and the contradiction between overstocked products and insufficient sales was even more prominent. Due to overcapacity, the overall investment in manufacturing industry in 2017 was sluggish, the fixed investment in the entire society increased by 7.9% year-on-year, and the manufacturing industry increased by 4.2% year-on-year. From January to November, the growth rate of the fixed asset investment in the machinery industry fell to 1.07%. The investment-driven downstream heavy and chemical industries were severely affected, leading to a notable decline in the quality of customers in these fields. More and more customers suspending or partially suspending production caused delayed or suspended delivery of the machine tools they have ordered. As a result, there was a decline in our sales revenue as our inventory piled up and we were under the pressure of fund return.

### 2) *Price factor*

In 2017, the machine tool industry continues to under pressure and operate at low position. The increasingly keen market competition put buyers at the dominant position. They had more choices and therefore were more sensitive to price. To grab market share and get orders, the Company maintained the strategy of quick returns and small margins and flexibly adjusted prices from time to time. Meanwhile, in order to encourage each sales channel to increase sales volume to speed up capital circulation, the company adopted a discount pricing strategy, which affected sales revenue.

### 3) *Inventory factor*

Customers' delay or suspension of delivery caused piling up of our inventory of machines tools, which retarded the return of funds, reproduction and operation. To reduce inventory, the Company adopted an aggressive sales policy and implemented price reductions on some spot goods. In 2017, it had reduced 173 units in stock with 174 million, which also affected sales revenue.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (V) Investment Analysis

### 1. External Equity Investment Analysis

Applicable Not applicable

(1) Significant equity investment  
Applicable Not applicable

(2) Significant non-equity investment  
Applicable Not applicable

(3) Financial assets measured at fair value  
Applicable Not applicable

## (VI) Disposal of material assets and equity interest

Applicable Not applicable

## (VII) Information of major subsidiaries and invested companies

Applicable Not applicable

Name	Business nature	Main products and services	Registered Capita (RMB)	Asset size	Operating income	Net profit
Xi'an Ser Turbo Machinery Manufacturing Co., Ltd. ("Xi'an Ser")	Special equipment production	turbo machines	50,000,000	163,365,264.80	42,212,516.90	-3,114,332.44
Kunming TOS Machine Tool Manufacturing Co., Ltd. ("Kunming TOS")	Development, design, production and sales of self-produced machine tool series products and accessories	Floor-type, table-type boring and milling machine tools, Horizontal products machining center	5,000,000 Euros	103,953,323.41	73,007,488.42	-5,543,607.85
Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd. ("Xi'an Ruite")	Laser prototyping machine	Laser prototyping machine	60,000,000	120,285,334.70	41,494,751.91	-16,321,828.07
Kunming Kunji General Machine Co., Ltd.	Development, design and sales of machine tool products and accessories	Turntable, milling head and machine parts, contract machining; measurement, physical and chemical testing and maintenance services	3,000,000	103,648,517.17	29,576,338.80	-20,760,105.20

## (VIII) Structured entities controlled by the Company

Applicable Not applicable

## III. DISCUSSION AND ANALYSIS OF THE COMPANY'S FUTURE DEVELOPMENT

### (I) Landscape of competition and development trend of the industry

Applicable Not applicable

In the context of complex and ever-changing world economy, China's economic construction insisted on the guidance of new development concept, strived to adapt to the new normal of the economy, grasped and lead the new normal, accelerated the structural adjustment and transferred to model to increase efficiency, thereby achieving steady and healthy development, making world-renowned achievements. The recovery demand for the machinery industry, not high capacity utilization and fierce low-price competition damaged the interests of all parties. With rising operating costs resulting in the continuous heavy burden on enterprises. The progress of innovation was slow, and transformation and upgrading were difficult.

## MANAGEMENT DISCUSSION AND ANALYSIS

In 2017, the total consumption of metal-working machine tools in China was US\$29.97 billion, representing a year-on-year increase of 7.5%. In particular, the consumption of metal-cutting machine tools was US\$18.4 billion, representing a year-on-year increase of 7.8%; the consumption of metal forming machine tools was US\$11.57 billion, representing a year-on-year increase of 7.0%. The overall consumption of metal-working machine tools showed a significant recovery, with the year-on-year growth rate rising by 6.1 percentage points as compared with the same period of 2016.

In terms of production, in 2017, the total amount of metal-working machine tools was US\$24.52 billion, representing a year-on-year increase of 5.1%. In particular, the metal-cutting machine tools recorded US\$13.35 billion, representing a year-on-year increase of 3.6%; the metal forming machine tools recorded US\$11.17 billion, representing a year-on-year increase of 7.1%. The production of metal-working machine tools rebounded slightly, and the growth rate of metal forming machine tools was still higher than that of metal forming machine tools. In terms of change in growth rate, the year-on-year growth rate of metal forming machine tools was decreased by 0.4 percentage point as compared with the same period of 2016, in particular, metal-cutting machine tools and metal forming machine tools showed a differentiation trend, with decreased by 2.1 percentage points in the former and increased by 1.7 percentage points in the latter.

In terms of import and export, in 2017, the total export of metal-working machine tools was US\$3.29 billion, representing a year-on-year increase of 11.4%. In particular, the metal-cutting machine tools recorded US\$2.18 billion, representing a year-on-year increase of 13.2%; the metal forming machine tools recorded US\$1.11 billion, representing a year-on-year increase of 8.0%. In 2017, the total import of metal-working machine tools was US\$8.74 billion, representing a year-on-year increase of 16.3%. In particular, the metal-cutting machine tools recorded US\$7.23 billion, representing a year-on-year increase of 18.4%; the metal forming machine tools recorded US\$1.51 billion, representing a year-on-year increase of 7.3%. The import and export deficit was US\$3.59 billion, representing a year-on-year increase of 33.5%, and the growth rate was increased by 64.2 percentage points as compared with the same period of 2016. The change in the growth rate of the trade deficit in the year clearly indicated the strong rebound in imports.

### (II) Development Strategies of the Company

Applicable   Not applicable

#### *Strategic objectives*

To focus on finance to create value for shareholders; focus on the market to create value for customers and focus on products to create value for the industry, the Company's sales revenues will reach 1 billion in the next 3 years to achieve break-even.

While maintaining the management on conventional products, the Company will have three strategic transition in the market for the next three years.

1. Transition from universal machine tools to industry specialized machine tools. Aim at national strategic focuses and emerging industries such as aviation industry, military equipment, railway, wind power and automotive market to conduct market layout, and re-divide the market by region and industry;
2. Transition from single-machine manufacturing to intelligent solutions. Machine tool + Internet; transition to industry service provider;
3. Transition from domestic market to international market. Based on international market special demand, continue to develop export products, with emphasis on products required for industrialization of developing countries. The proportion of export goods should reach over 10% within the next 3 years.

# MANAGEMENT DISCUSSION AND ANALYSIS

## (III) Operation plan

Applicable Not applicable

Faced with the new normal, the Company must strengthen confidence, deepen reforms, promote innovation, continuously improve the implementation standard, complete the works of the whole year, for external, focus on customers, for internal, focus on financial management and control, and take operating performance as the orientation to establish an efficient business units operating system and achieve the annual target: sales revenue of RMB890 million.

## (IV) Potential risks

Applicable Not applicable

1. The risk of delisting of A shares of the Company;
2. The risk of failure of resumption of trading for H shares;
3. Supplier litigation risk;
4. The risk of litigation from small and medium stock traders;
5. The risk of overdue repayment of bank loans;
6. Risk of unable to relocate on time as a result of delay in the construction of new plant of Yanglin;
7. The Company's subsidiaries and their subsidiaries face the risk of bankruptcy liquidation.

## (V) Others

Applicable Not applicable

## IV. EXPLANATION ON CIRCUMSTANCES AND REASONS OF FAILURE DISCLOSURE UNDER GUIDELINES DUE TO NOT APPLICABLE TO THE PROVISION OF GUIDELINES OR STATE SECRETS, BUSINESS SECRETS ETC. SPECIAL REASONS

Applicable Not applicable

## SIGNIFICANT EVENTS

### I. PRE-EMPTIVE RIGHTS

Since there is no provision for pre-emptive rights under the Company's Articles of Association, the Company did not have any arrangement for the pre-emptive rights scheme during the reporting period.

### II. WARRANTS AND OTHERS

Neither the Company nor any of its subsidiaries issued any warrants, convertible securities, options or other securities with similar rights, nor did any person exercise any rights as stated above.

### III. PURCHASE, SALE AND REDEMPTION OF SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries purchased, sold or redeemed any securities issued by the Company during reporting period.

### IV. BANK LOANS, OVERDRAFT AND OTHER BORROWINGS

Details of bank loans, overdrafts and other borrowings as at 31st December 2017 are set out in the notes to the financial statements.

### V. FINANCIAL RESOURCES AND CAPITAL STRUCTURE OF THE GROUP

For the year ended 31st December 2017, the Group had long-term borrowings of RMB1,665,000 and the Group had borrowings due within one year of RMB363,683,000.

As at the end of 2017, total equity attributable to shareholders of the Company was negative RMB38,221,000 compared to RMB311,472,000 as at the end of 2016.

### VI. GEARING RATIO

The shareholders' equity to debt ratio of the Group for 2017 was negative 0.02, compared to 0.14 in 2016.

# SIGNIFICANT EVENTS

## VII. PROFIT DISTRIBUTION FOR ORDINARY SHARES OF THE COMPANY AND CONVERSION OF CAPITAL RESERVES INTO SHARE CAPITAL

### (I) Formulation, implementation or adjustment of profit distribution policy

Applicable Not applicable

According to the Circular on Further Implementing Relevant Matters Concerning Cash Bonus in Listed Companies issued by the China Securities Regulatory Commission ("CSRC") on 8 May 2012, the Company had amended the clauses relating to profit distribution in its Articles of Association and the amended Articles of Association had been adopted at the Company's second general meeting of 2012.

The Company strictly carried out the cash bonus policies specified in the Articles of Association.

As at the end of the reporting period, the cash bonus policies remained unchanged.

### (II) The dividend distribution plans for ordinary shares (proposed) and the proposals on conversion of capital reserves into share capital (proposed) over the past three years (the reporting period inclusive)

*Unit: RMB*

Year of distribution	Numbers of bonus share per 10 shares (share(s))	Dividend distribution per 10 shares (RMB) (tax inclusive)	Conversion per 10 shares (share(s))	Amount of cash dividends (tax inclusive)	Net profit attributable to ordinary shareholders of the Company in the consolidated financial statements during the year of distribution	As a percentage of net profit attributable to ordinary shareholders of the Company in the consolidated financial statements
2017	0	0	0	0	-349,693,190.86	0
2016	0	0	0	0	-297,212,908.98	0
2015	0	0	0	0	-196,385,215.66	0

### (III) Repurchase of shares by cash included in cash dividends

Applicable Not applicable

### (IV) The Company should disclose reasons in detail and the purpose and use plan of undistributed profit if the Company made a profit and had positive retained profit available for ordinary shareholders during the reporting period without cash dividend for ordinary shares being proposed

Applicable Not applicable

# SIGNIFICANT EVENTS

## VIII. FULFILLMENT OF COMMITMENTS

### (I) Commitments made by the Company's beneficial controller, shareholders, connected parties, acquirers and the Company etc. commitment parties during or subsisting to the Reporting Period

Applicable Not applicable

Background of commitment	Type of commitment	Commitment making party	Content of commitment	Date of commitment and duration	Is there a fulfillment time limit	Whether duly and timely fulfilled	Explanation on not complete fulfillment	Explanation on the next plan
Commitment in relation to share reform	Other	Shenyang Machine Tool (Group) Co., Ltd.	It would provide full support to the business development of the Company in terms of technology, business and resources and would consolidate the relevant resources and markets by leveraging on its own unique strengths based on the principles and models favorable to accelerating the growth of the Company within two years after the completion of the share transfer and share reform with a view to developing Kunming Machine Tool as an important platform for technological upgrade, business expansion and sector growth to provide comprehensive support and facilitate the sustainable and healthy development of the Company. Currently, Shenyang Machine Tool (Group) Co., Ltd. has introduced production management officers to the Company in order to facilitate the enhancement of the production management capabilities and provide convenience for the exports of the Company in terms of market expansion.	None	No	Yes	Not applicable	Not applicable
Other commitments to small and medium shareholders of the Company	Solve the problem of industry competition	Shenyang Machine Tool (Group) Co., Ltd.	Elimination of industry competition between the Company and Shenyang Machine Tool Co., Ltd within 60 months from 1 January 2013. Shenyang Machine Tool Co., Ltd currently has no specific transfer plan and will legally transfer the equity of the Company at the time permitted by laws and regulations.	within 60 months from 1 January 2013	Yes	Yes	Not applicable	Not applicable

### (II) If the Company's assets or items exists profit forecast, and the reporting period is still in the profit forecast period, explanation on whether the Company achieve the original profit forecast and the reasons.

Achieved Not achieved Not applicable

## IX. EMBEZZLEMENT OF FUNDS AND REPAYMENT OF DEBT DURING THE REPORTING PERIOD

Applicable Not applicable

## X. EXPLANATION OF THE COMPANY ON THE "AUDITORS' REPORT WITH NON-STANDARD OPINIONS" ISSUED BY THE AUDITORS

Applicable Not applicable

## SIGNIFICANT EVENTS

### XI. ANALYSIS AND EXPLANATION ON THE REASONS AND IMPACTS OF CHANGES IN ACCOUNTING POLICIES, ACCOUNTING ESTIMATES OR CORRECTION OF MATERIAL ACCOUNTING ERRORS OF THE COMPANY

**(I) Analysis and explanation on changes in accounting policies and accounting estimates of the Company**

Applicable Not applicable

**(II) Analysis and explanation of the Company on the reasons for and impacts of corrections of material accounting errors of prior periods**

Applicable Not applicable

The Board considered that the correction of accounting errors of prior periods complied with laws, regulations, and provisions of financial accounting system, objectively and truly reflected the financial position of the Company and did not impair the legitimate rights and interests of the Company and all shareholders. For details, please refer to Announcement on Correction of Accounting Errors.

**(III) Communication with former accounting firm**

Applicable Not applicable

**(IV) Other explanations**

Applicable Not applicable

### XII. APPOINTMENT AND REMOVAL OF AUDITORS

*Unit: RMB'0000*

Domestic auditor	Current appointment Da Hua Certified Public Accountants (Special General Partnership)
Domestic accounting firm remuneration	170
Term of domestic accounting firm	1 year

	Name	Remuneration
Internal control auditor	Da Hua Certified Public Accountants	The fees of audit of financial reports and audit of internal control was RMB1.70 million in total.

### XIII. FACING THE CIRCUMSTANCE AND REASONS OF TERMINATION OF LISTING

Applicable Not applicable

As the Company had a loss for the three consecutive years of 2014, 2015 and 2016, pursuant to relevant regulations of Shanghai Stock Exchange Listing Rules, the Company's A Shares has been suspended from listing after it published its 2016 annual report. The audited net profit of the Company for the year 2017 was a loss, Shanghai Stock Exchange will make a decision whether or not to terminate listing of the Company's A Shares within 15 trading days after the Company released its 2017 annual report.

# SIGNIFICANT EVENTS

## XIV BANKRUPTCY AND RESTRUCTURING RELATED MATTERS

Applicable Not applicable

## XV. MAJOR LITIGATION AND ARBITRATION

### (I) Litigation and arbitration issues have been disclosed in the provisional announcements without development in subsequent implementation

Applicable Not applicable

Summary and type of event	Query index
The Company received a notice of response to civil action with the reason of false statements of securities	For details, please refer to the provisional announcement no.2017-034
The Company received a notice of response to civil action with the reason of false statements of securities	For details, please refer to the provisional announcement no.2018-018

### (II) Litigation and arbitration issues have not been disclosed in the provisional announcements or with development in subsequent implementation

Applicable Not applicable

### (III) Other explanations

Applicable Not applicable

1. The Company and its distributor Beijing Hanhai Hongzheng Machinery Co., Ltd. ("Beijing Hanhai") signed a Machine Tool Sales Contract in August 2011, and the Company signed a Manufacturer Authorization Letter authorizing Beijing Hanhai to participate in a tender exercise conducted by Jilin Haoyu Electrical Co., Ltd. ("Jilin Haoyu") using the tool machine, and the Company undertook to assume responsibility for quality assurance of the tool machine. Subsequent to being awarded the tender, Beijing Hanhai signed a Machine Tool Sales Contract with the end-user, Jilin Haoyu. Jilin Haoyu instituted legal proceedings in November 2013 whereby Beijing Hanhai and the Company was named the 1st and 2nd defendants, respectively. Jilin Haoyu considered that Beijing Hanhai and the Company were unable to resolve product quality issues effectively within the product warranty period, and requested that the product be returned and the amount of RMB11.7325 million paid to Beijing Hanhai be refunded, and liquidated damages of RMB1.235 million be paid; and at the same time requested that the Company assume joint and several liabilities for payment.

At the beginning of 2016, the Company received the final judgment made by the Higher People's Court of Jilin Province which required the Company returning the consideration of the contract of RMB11,732,500 to Jilin Haoyu Electrical Co., Ltd., together with a payment of RMB617,500 as liquidated damages; and may at its own cost fetch the TK6926 CNC floor-type boring and milling machine tool deposited at Jilin Haoyu Electrical Co., Ltd.; and the Court costs and authentication fee shall be borne by the Company.

As at the date of this report, the case has been completed.

## SIGNIFICANT EVENTS

2. In July 2014, the Company (the defendant) entered into a Purchase and Sale Contract of Industrial and Mineral Products with Xuchang Zhongji Power Equipment Co., Ltd. (許昌中機動力設備有限公司)(the plaintiff). The plaintiff purchased two machine tools from the defendant, and paid for the goods in accordance with the contract. Various losses caused to the plaintiff due to delay delivery of goods by the defendant and the quality of products. Therefore, the plaintiff requested the people's court to support its claim, and asked the court to order the defendant to compensate the plaintiff for economic losses of RMB3,422,973, the legal costs were borne by the two defendants. The defendant(Kunji) filed an objection to the jurisdiction of the court of first Instance, and the people's court ruled that the case should be transferred to the people's court of Panlong district for trial. During the reporting period, the plaintiff had withdrawn the lawsuit.
3. The Company received a statement of claim in respect of contract consideration of Shanghai Pudong Tonglezhigang Machine Tool Accessories Co., Ltd. (上海浦東同樂志剛機床附件有限公司). The Company was required to pay the contract consideration of RMB439,908 to Shanghai Pudong Tonglezhigang Machine Tool Accessories Co., Ltd. and compensate the economic losses of RMB26,204 due to the Company's overdue payment. On 17 January 2017, the Company received a notice of property preservation from Shanghai Pudong New Area People's Court. According to the civil judgment (2017) Shanghai 0115 Min Chu No. 1598 of Shanghai Pudong New Area People's Court, the Company should repay the amount of contract payment of RMB439,907.00 and the overdue interest of RMB88,708.00 to Shanghai Pudong Machine Tool Accessories Co., Ltd. On 12 January 2017, Shanghai Pudong Machine Tool Accessories Co., Ltd. applied for litigation preservation to freeze RMB613,939.00 in the account 5052 in Bank of Communications Huguo Branch.

## XVI. PENALTIES ON THE COMPANY, ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS, HOLDING SHAREHOLDER OF THE COMPANY, BENEFICIAL CONTROLLER AND ACQUIRER, AND RECTIFICATION ISSUES

✓Applicable    Not applicable

1. On 22 September 2016, the Company published the announcement of receiving Prior Notification of Administrative Penalty issued by China Securities Regulatory Commission ("CSRC") in China Securities Journal, Shanghai Securities News and Securities Times and on the following websites: <http://www.sse.com.cn>, <http://www.hkex.com.hk>, and <http://www.kmtcl.com.cn>.

On 16 February 2017, the Company, the then chairman of the Board of the Company and the then secretary to the Board received the Written Decision of Administrative Penalty from CSRC (Chufa Zi [2017] no. 18). According to article 193.1 of the Securities Law of the People's Republic of China (the "Securities Law"), CSRC decided to:

- A. Give a warning to the Company, and impose a fine of RMB400,000;
- B. Give a warning to relevant personnel, and impose a fine of RMB150,000 respectively.

## SIGNIFICANT EVENTS

2. On 23 September 2016, the Company published the announcement that the substantial shareholder of the Company, Shenyang Machine Tool (Group) Company Limited (“Shenyang Group”), and Mr. Guan Xi You and Ms. Liu Yunxia received the Prior Notification of Administrative Penalty issued by CSRC in China Securities Journal, Shanghai Securities News and Securities Times and on the following websites: <http://www.sse.com.cn>, <http://www.hkex.com.hk>, and <http://www.kmtcl.com.cn>.

In May 2017, Shenyang Group received the Notification of Case Closed (Jie’an Zi [2017] 19) and the Decision of Administrative Penalty ([2017] 45) issued by CSRC. For details, please refer to the provisional announcement of the Company (2017-051).

3. On 23 March 2017, the Company published the Announcement on Receiving the Notification of Investigation of CSRC (2017-029) in China Securities Journal, Shanghai Securities News and Securities Times and on the following websites: <http://www.sse.com.cn>, <http://www.hkex.com.hk>, and <http://www.kmtcl.com.cn>. Since the information disclosure of the Company breach of securities laws and regulations, according to the Securities Law, CSRC decided to initiate an investigation to the Company.

On 14 November 2017, the Company and Mr. Wang Xing, Mr. Chang Baoqiang, Mr. Jin Xiaofeng, Mr. Zhang Zeshun, Ms. Li Hongning, Mr. Zhang Xiaoyi, Ms. Liu Haijie, Mr. Zhou Donghong, Mr. Guan Xin, Mr. Gao Minghui, Mr. Liu Yan, Mr. Yu Chengting, Mr. Liu Qiang, Mr. Yang Xiongsheng, Mr. Chen Fusheng, Mr. Tang Chunsheng, Mr. Luo Tao, Mr. Shao Li, Mr. Fan Hong, Ms. Jiang Jingying, Mr. Qin Jianzhong, Mr. Zhou Guoxing, Mr. Cai Zhemin, Mr. Peng Liangfeng, Mr. Zhu Xiang, Mr. Ye Nong, and Mr. Xu Kunping received the Prior Notice of Administrative Penalties and Prohibition of Entering the Market from CSRC (Chu Fa Zi [2017] no. 122). For details, please refer to the provisional announcement of the Company (2017-067). Some of the then directors and supervisors made hearing request (provisional announcement of the Company 2017-070).

In February 2018, the Company received the Decision of Administrative Penalties Issued by CSRC (the Company and Wang Xing and Chang Baoqiang etc. 23 Responsible Persons) and the Decision of Prohibition of Entering the Market (Wang Xing, Chang Baoqiang and Jin Xiaofeng) by CSRC. For details, please refer to the provisional announcements (2018-012, 013) of the Company.

### XVII. CREDIBILITY OF THE COMPANY, ITS CONTROLLING SHAREHOLDERS AND BENEFICIAL CONTROLLERS

Applicable Not applicable

### XVIII. IMPLEMENTATION OF THE EQUITY INCENTIVE PLAN, EMPLOYEE SHAREHOLDING PLAN OR OTHER EMPLOYEE INCENTIVE MEASURE OF THE COMPANY

Applicable Not applicable

# SIGNIFICANT EVENTS

## XIX. RELATED PARTY TRANSACTIONS OF THE COMPANY DURING THE REPORTING PERIOD

### (I) Related party transactions associated with day-to-day operation

1. *The transactions disclosed in the provisional announcements without development or changes in subsequent implementation*

Applicable Not applicable

Summary of events	Query index
The connected transaction (the "Transaction") was about undertaking the national intelligent manufacturing equipment development project. The Company commissioned Shenyang Machine Tool (Group) Design & Research Institute Shanghai Branch ("Shanghai Branch") to develop digitized workshop software system suitable for processing key components with high-end CNC lathe and would pay the research and development expenditure and remuneration to Shanghai Branch.	For details, please refer to the provisional announcement no. 2015-108
The Company intended to cooperate with the related party, Shenji (Group) Hong Kong Ltd. to conduct the production and the prototype machines commissioned sales for the three type licensed technologies of Horimill63, Horimill100 horizontal machining center and VertiFlex70300 traveling column milling machine.	For details, please refer to the provisional announcement no. 2016-030
The daily connected transactions regarding the proposed transactions of purchase of goods, receipt of services, sales of goods, provision of services in the year 2017 entering into between the Company and its joint venture Kunming TOS Machine Tool Manufacturing Company Limited ("Kunming TOS") and its foreign shareholder TOS VARNSDORF a.s. in the ordinary business.	For details, please refer to the provisional announcement no. 2016-036
The Company intended to enter into agreements of purchase or sales products with Yunnan CY Group Co., Ltd., Yunnan CY Group Jinhui Coating Factory and Shenyang Rui Shi Da International Trade Co., Ltd with the term of three years.	For details, please refer to the provisional announcement no. 2016-050
The Company intended to sell digitalised workshop management and control system integration with amount of RMB20.42 million to Yunnan CY Group.	For details, please refer to the provisional announcement no. 2016-051

2. *The transactions disclosed in the provisional announcements with development or changes in subsequent implementation*

Applicable Not applicable

3. *The transactions not disclosed in the provisional announcements*

Applicable Not applicable

## SIGNIFICANT EVENTS

**(II) Connected transactions of assets or equity acquisition or disposal**

Applicable Not applicable

**(III) Major connected transactions of co-investment outside the Company**

Applicable Not applicable

**(IV) Connected credit and debt dealings**

1. *The transactions disclosed in the provisional announcements without development or changes in subsequent implementation*

Applicable Not applicable

**Summary of the events**

**Query index**

The Company intended to enter into loan agreement with the amount not more than RMB200 million with Shenyang Group.

For details, please refer to the provisional announcement no. 2018-003

2. *The transactions disclosed in the provisional announcements with development or changes in subsequent implementation*

Applicable Not applicable

3. *The transactions not disclosed in the provisional announcements*

Applicable Not applicable

**(V) Others**

Applicable Not applicable

## XX. MATERIAL CONTRACTS AND THEIR PERFORMANCE

**(I) Escrow agency, contracting and lease matters**

1. *Matters of Escrow agency*

Applicable Not applicable

2. *Matters of contracting*

Applicable Not applicable

3. *Matters of lease*

Applicable Not applicable

## SIGNIFICANT EVENTS

### (II) Guarantee

Applicable Not applicable

Unit: RMB

External guarantees provided by the Company (excluding the guarantees for subsidiaries)													
Guarantor	Relationship between the guarantor and the Company	Guaranteed party	Amount of guarantee	Date of guarantee (agreement)	Commencement date of guarantee	Maturity date of guarantee	Type of guarantee	Whether the guarantee is discharge	Whether the guarantee is overdue	Amount of overdue guarantee	Whether there is any counter guarantee	Whether it is a connected party guarantee	Connected relationship
The Company	Company headquarter	Shenyang Group	Not more than 200 million	Not signed			Guarantee with joint liability	No	No	Not applicable	No	Yes	the controlling shareholder

Explanation:

The Company intended to provide corporate guarantee with joint liabilities to Shenyang Group for its working capital to be borrowed from China Export-Import Bank Yunnan Branch. Meanwhile, the Company provide property pledge for the loan that Shenyang Group to be borrowed from the Bank. The total of secured amount of corporate guarantee and property pledge will be not more than RMB200 million. The property pledge includes the Company's buildings located in the east side of the north-south main road in Yang Lin Industrial Park and the land use rights of the land located in the east side of the north-south main road in Yang Lin Industrial Park and the land located in the east side of the airport avenue in Yang Lin Industrial Park. For details, please refer to the provisional announcement of the Company (2018-004).

### (III) Cash assets management by others under entrustment

Applicable Not applicable

### (IV) Other major contracts

Applicable Not applicable

## XXI. OTHER SIGNIFICANT EVENTS

Applicable Not applicable

1. Kunming municipal government planned to resume 255 mu lands located in Kunming Machine Tool Factory area for subway project construction. The Company responded to the overall planning requirements of the Kunming municipal government, and therefore the company planned to implement the relocation in recent years. As the Yanlin factory area is under construction, currently, the Company does not have the overall relocation conditions. Hence, the Company needs to lease the resumed land, buildings (structures) and fixtures erected thereon for about two years until the end of 2018.

The Land and Buildings Lease Agreement entered into between the Company and Kunming Rail Transit was approved by the 38th meeting of the 8th Board of the Company. According to the Agreement, the Company is going to lease the land located in Railway Line No. 8 Huayugou Kunji Land project of Ciba Street Office of the Panlong People's Government with a site area of approximately 418.4834 mu (亩) together with the buildings, structures and fixtures erected thereon. The lease term is from the effective date of the Agreement to 30 November 2018, the longest extension to 31 December 2018. The total rental of land and buildings during the leasing period is RMB60.92 million (including tax).

## SIGNIFICANT EVENTS

2. Changsha Ser Turbine Machinery Co., Ltd (“Changsha Ser”), a sub-subsiary of the Company, privately kept a number of financial account sets for different purposes. It is impossible to predict whether the accounts of different accounting contents and data were submitted or not and the consequences arising therefrom. The matter existed higher legal risk, control risk and greater uncertainty. On the other hand, it was revealed that the book records showed that Xi’an Ser borrowed funds from the third parties, the non-financial institutions with bank acceptances and deposited the same in cash in its bank account, however, the expiry date and other information on part of the attached vouchers were altered. The Company sent a special investigation team to its subsidiary, Xi’an Ser and the sub-subsiary, Changsha Ser on 2 April 2017 to conduct investigation. After finalizing the conclusion of investigation, the Company will disclose it.

## XXII. ACTIVE FULFILLMENT OF SOCIAL RESPONSIBILITY

### (I) Poverty Alleviation by the Company

Applicable    Not applicable

#### 1. Targeted Poverty Alleviation Plan

Targeted Poverty Alleviation Plan: According to the spirits of Notice on Issuing the Five-year Plan of Targeted Poverty Alleviation of Yunnan Industrial Investment Group for Longzhupeng Village of Chonggang Township (Yun Gong Tou Dang Fa [2015] No. 90) and Notice on Division of Responsibility of Targeted Poverty Alleviation of Yunnan Industrial Investment Group for Longzhupeng Village of Chonggang Township” (Yun Gong Tou Dang Fa [2015] No. 91) issued by the Party Committee of Yunnan Industrial Investment Group, the higher-level Party Committee, The Company jointly contributed with Nantian Co., Ltd. (南天股份公司), Yunnan State-owned Grain and Oil Trading Company (雲南國資糧油貿易公司) and Yunnan Pharmaceutical Industry Co., Ltd. (雲南醫藥工業股份公司), and coordinated with agroforestry departments such as agricultural stations and forestry stations in county and township to provide villagers with training in planting and breeding technology. Through the poverty alleviation for the backbone of the rural households to carry out the planned training of planting and breeding technology, provide technical support for industrial poverty alleviation, and promote the smooth realization of poverty alleviation targets. The Company intends to provide RMB50,000 as technical training funds, which will be included in the special account of Industrial Investment Group for unified management of the expenses.

#### 2. Summary of Targeted Poverty Alleviation Work in the Year

The Company conducted a planting and breeding technology training in the form of on-site training courses.

#### 3. Subsequent Targeted Poverty Alleviation Plans

Subsequent Targeted Poverty Alleviation Plans: The Company will focus on strengthening the technical guidance after the training on key planting and breeding industry such as walnuts, pigs, chickens, cattle and sheep based on agricultural stations and forestry stations at the county and township levels, establish demonstration households and demonstration bases, and cultivate and publicize technology leaders. For technical training involving other planting and breeding industry, the Company will establish demonstration households and demonstration bases based on State-owned Grain and Oil Trading Company and Pharmaceutical Industry Co., Ltd., respectively, to promote technology.

## SIGNIFICANT EVENTS

### (II) Social responsibility

Applicable Not applicable

Please refer to the "2017 Social Responsibility Report" of the Company published on the website of Shanghai Stock Exchange [www.sse.com.cn](http://www.sse.com.cn) and the Website of the Company [www.kmtcl.com.cn](http://www.kmtcl.com.cn) on 28 April 2018, and the "2017 Environmental, Social and Governance Report" of the Company set out in this annual report.

### (III) Environmental information

1. Explanation on environmental information of heavy pollution listed companies and their subsidiaries as required by the state environmental protection department

Applicable Not applicable

2. Companies that are not in severely polluting industries

Applicable Not applicable

3. Other explanation

Applicable Not applicable

### (IV) Other explanation

Applicable Not applicable

## XXIII. INFORMATION OF CONVERTIBLE CORPORATE BONDS

Applicable Not applicable

# CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

## I. CHANGES IN ORDINARY SHARES

### (I) Table of Changes in Ordinary Shares

1. *Table of changes in ordinary shares*

There is no change in total number of ordinary shares and share capital structure.

2. *Explanation on changes in ordinary shares*

Applicable Not applicable

3. *Effect on changes in ordinary shares to the earnings per share and net assets per share etc. financial indicators of the past year and the latest period (if fit)*

Applicable Not applicable

4. *Other information which the Company considered necessary or required disclosure by the securities authority*

Applicable Not applicable

### (II) Changes in restricted shares

Applicable Not applicable

## II. SECURITIES ISSUANCE AND LISTING

### (I) During the reporting period, the securities issuance and listing

Applicable Not applicable

Explanation on securities issuance during the reporting period (Please explain respectively if bonds with different interest rate in the duration period)

Applicable Not applicable

### (II) Changes in total number of ordinary shares and share capital of the Company and changes in assets and liability structure of the Company

Applicable Not applicable

### (III) Existing internal employee shares

Applicable Not applicable

# CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

## III. SHAREHOLDERS AND BENEFICIAL CONTROLLERS

### (I) Number of shareholders

Total number of Shareholders as at the end of the reporting period 33,099 (among which, 32,988 were holders of A Shares, 111 were holders of H Shares)

Total number of shareholders of ordinary shares as at the end of the month prior to the publication date of this annual report 33,099 (among which, 32,988 were holders of A Shares, 111 were holders of H Shares)

### (II) As at the End of the Reporting Period, Shareholdings of the Top Ten Shareholders or Top Ten Holders with Circulating Shares (Or Selling Unrestricted Shares)

*Unit: shares*

#### Shareholdings of the top ten shareholders

Name of shareholders	Total number of shares held at the end of the period	Proportion (%)	Number of shares pledged or frozen Status of shares	Nature of shareholders
HKSCC NOMINEES LIMITED	134,354,498	25.30	Unknown	Unknown
Shenyang Machine Tool (Group) Co., Ltd.	133,222,774	25.08	None	State-owned legal person
Yunnan Industrial Investment Holding Group Co., Ltd.	34,153,444	6.43	None	State-owned legal person
Cai Ruiwen	1,730,600	0.33	Unknown	Unknown
Hong Kong Securities Clearing Co., Ltd.	1,725,900	0.32	Unknown	Unknown
Zheng Haiyu	1,660,428	0.31	Unknown	Unknown
Huang Guifang	1,479,400	0.28	Unknown	Unknown
BAI YUANQIN	1,306,000	0.25	Unknown	Unknown
Zhang Shuping	1,260,200	0.24	Unknown	Unknown
Dong Can	1,239,877	0.23	Unknown	Unknown

# CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

## Shareholdings of the top ten shareholders with selling unrestricted shares

Name of shareholders	Number of selling unrestricted circulating shares held	Type and quantity of shares	
		Type	Quantity
HKSCC NOMINEES LIMITED	134,354,498	Overseas listed foreign shares	134,354,498
Shenyang Machine Tool (Group) Co., Ltd.	133,222,774	RMB ordinary shares	133,222,774
Yunnan Industrial Investment Holding Group Co., Ltd.	34,153,444	RMB ordinary shares	34,153,444
Cai Ruiwen	1,730,600	RMB ordinary shares	1,730,600
Hong Kong Securities Clearing Co., Ltd.	1,725,900	RMB ordinary shares	1,725,900
Zheng Haiyu	1,660,428	RMB ordinary shares	1,660,428
Huang Guifang	1,479,400	RMB ordinary shares	1,479,400
BAI YUANQIN	1,306,000	RMB ordinary shares	1,306,000
Zhang Shuping	1,260,200	RMB ordinary shares	1,260,200
Dong Can	1,239,877	RMB ordinary shares	1,239,877

### Explanation of the connected relationship or acting in concert relationship among the above shareholders:

Except for no connected relationship between state-owned legal person shareholders, the Company was not notified of any connected relationship or acting in concert relationship regulated by "Measure for the Administration of Acquisition of Listed Company" among the top ten shareholders. Other than the substantial shareholders disclosed above, as at 31 December 2017, there were no other shareholders whose shareholdings exceeded the amount required to be disclosed under Article 60 of "Administration of the Issuing and Trading of Shares Provisional Regulations" of the PRC and Issue No.3 of "The Content and Format of Disclosure of Information of the Listed Companies" (amended in 2016); and under Section 16(1) of the Securities and Futures Ordinance under the Hong Kong Exchanges and Clearing Limited, the Company was not notified of any interests representing 10% or more of the issued share capital of the Company. Among top ten shareholders, there are three shareholders holding 5% or more of the Company's shares. They are HKSCC Nominees Limited (hereinafter referred to as "HKSCC Nominees Limited"), which holds the overseas listed foreign shares; Shenyang Machine Tool (Group) Co., Ltd., which holds the state-owned legal person shares; and Yunnan Industrial Investment Holding Group Co., Ltd., which holds state-owned legal person shares. All shares held by these shareholders are not pledged, frozen, nor designated.

Explanation of preferred shareholders of recovery voting rights and their shareholdings

None

# CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

Notes:

- (1) HKSCC (Nominees) Limited holds shares on behalf of clients. The Company did not receive any notification that any H shareholder held more than 10% in total share capital of the Company, neither received any notification that any H shareholder held more than 5% of total H shares of Company.
- (2) Save as disclosed above, the Directors were not notified by any person (who is not a Director or a chief executive officer) who owns the interest or short position in the shares or underlying shares of the Company that shall be disclosed to the Company in compliance with the requirements contained in Divisions 2 and 3 of Part XV of Securities and Future Ordinance ("SFO"), or the interest or short position that shall be included in the prescribed register in accordance with Section 336 of SFO.
- (3) As at 31 December 2017, none of the Directors and the Supervisors had any interests or short positions in the shares, underlying shares and/or debentures (as the case may be) of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which have been notified to the Company and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO, including interests or short positions which the Directors or the Supervisors are taken or deemed to have under such provisions of the SFO, or which are required to be and are recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code.

This issue was announced in accordance with the regulation – Notice of Supervising the Shareholders of Listed Companies Implementing the Rules on Lessening Terminated Selling Restricted Shareholding issued by Shanghai Stock Exchange.

Shareholdings of the top ten shareholders with selling restricted shares and the restricted conditions

Applicable Not applicable

### (III) Strategic Investors or General Legal Persons Became Top Ten Shareholders By Placing of New Shares

Applicable Not applicable

## IV. CONTROLLING SHAREHOLDER AND BENEFICIAL CONTROLLER

### (I) Controlling Shareholder

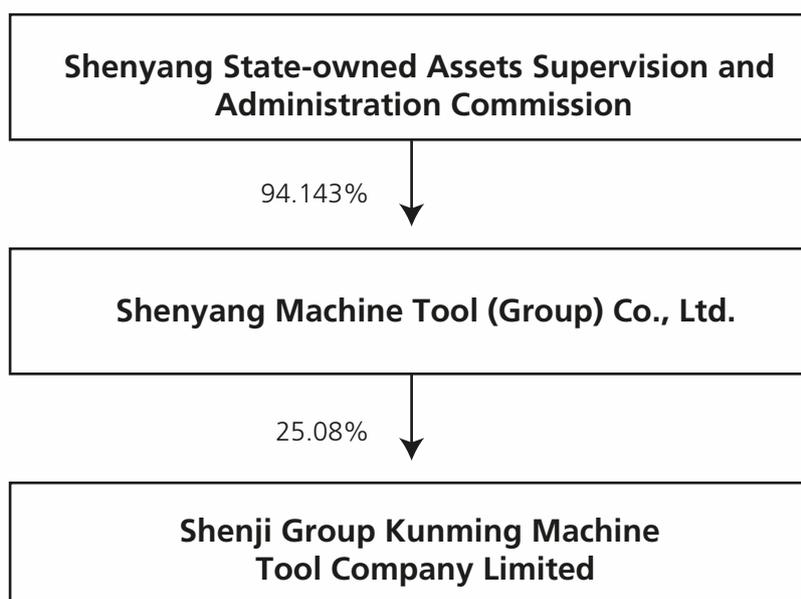
#### 1. Legal person

Applicable Not applicable

Name	Shenyang Machine Tool (Group) Co., Ltd.
Person in charge or legal representative	Guan Xiyou
Date of incorporation	18th December 1995
Principal activities	Manufacturing of metal cutting machines, CNC machines and mechanical equipment; general commercial trading, technology trading, property leasing within the PRC, economic information consulting services.
Equity interests in other domestic and overseas listed controlling and invested companies during the reporting period	Shenyang Machine Tool (Group) Co., Ltd. holds 30.12% equity interest in Shenyang Machine Tool Co., Ltd., whose beneficial controller is Shenyang State-owned Assets Supervision and Administration Commission
Explanation on other information	None

## CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

2. *Natural person*  
Applicable Not applicable
3. *Special explanation on the Company not having controlling shareholders*  
Applicable Not applicable
4. *Index and date of changes in controlling shareholders during the reporting period*  
Applicable Not applicable
5. *Diagram of the ownership and controlling relationship between the Company and its beneficial controller*  
Applicable Not applicable



# CHANGES IN ORDINARY SHARES AND INFORMATION ON SHAREHOLDERS

## (II) Beneficial Controller

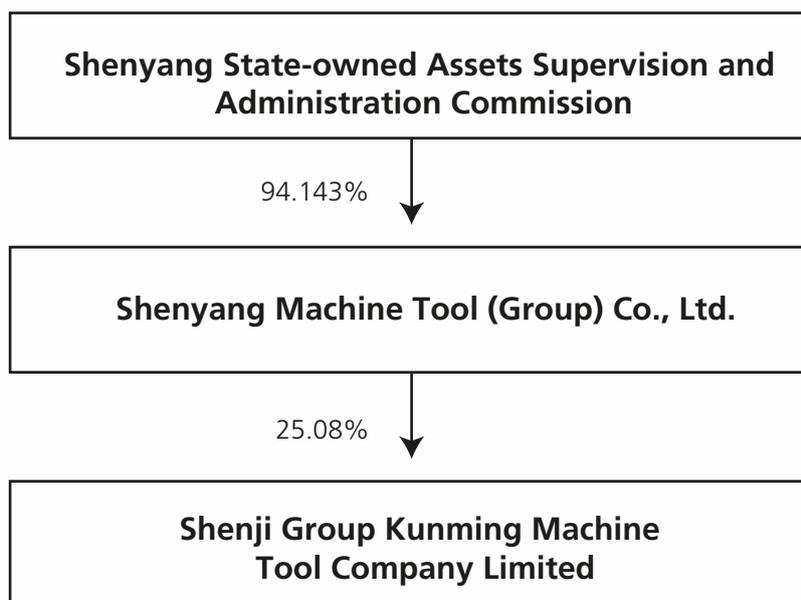
### 1. Legal person

Applicable Not applicable

Name	Shenyang Machine Tool (Group) Co., Ltd.
Person in charge or legal representative	Guan Xiyou
Date of incorporation	18th December 1995
Principal activities	Manufacturing of metal cutting machines, CNC machines and mechanical equipment; general commercial trading, technology trading, property leasing within the PRC, economic information consulting services.
Equity interests in other domestic and overseas listed controlling and invested companies during the reporting period	Shenyang Machine Tool (Group) Co., Ltd. holds 30.12% equity interest in Shenyang Machine Tool Co., Ltd., whose beneficial controller is Shenyang State-owned Assets Supervision and Administration Commission
Explanation on other information	None

### 2. Diagram of the ownership and controlling relationship between the Company and its beneficial controller

Applicable Not applicable



## PREFERENCE SHARES

The Company had no preference shares during the Reporting Period.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## I. MOVEMENT IN SHAREHOLDING AND EMOLUMENTS

### (I) Movement in shareholding and emoluments of existing and resigned directors, supervisors and senior management during the reporting period

✓Applicable    □Not applicable

Name	Title (note)	Gender	Age	Date of appointment	End date of appointment	Emoluments (before tax) received from the Company during the reporting period (RMB'0000)	Whether he/she received emoluments from related parties of the Company
Wang He	Executive director Chairman	M	50	15 Feb 2017 17 Feb 2017	31 Oct 2020 31 Oct 2017	29.5	No
Zhang Xiaoyi	Vice chairman	M	52	31 Oct 2008	31 Oct 2020	32.4	No
Zhang Tao	Non-executive director ("NED")	M	46	31 Oct 2008	31 Oct 2017	0	Yes
Peng Liangfeng	Executive director General Manager Vice general manager	M	35	15 Feb 2017 23 Jan 2017 30 March 2015	31 Oct 2020 31 Oct 2020 23 Jan 2017	29.7	No
Jian Xiaofeng	Executive director Chief financial officer Acting secretary to the Board	M	50	31 March 2015 9 March 2015 22 July 2016	29 Nov 2017 29 Nov 2017 17 March 2017	24.8	No
Liu Yan	NED	M	52	31 Oct 2014	31 Oct 2017	0	Yes
Liu Haijie	NED	F	50	31 Oct 2014	31 Oct 2017	0	Yes
Zhang Zeshun	NED	M	37	18 March 2014	31 Oct 2017	0	Yes
Yang Xiongsheng	Independent non-executive director ("INED")	M	56	23 March 2013	31 Oct 2017	4.8	No
Chen Fusheng	INED	M	51	16 June 2011	15 June 2017	16.7	No
Tang Chunsheng	INED	M	51	18 March 2014	31 Oct 2017	11.9	No
Liu Qiang	INED	M	54	15 May 2014	31 Oct 2017	11.9	No
Shao Li	Chairman of the supervisory committee	M	58	31 Oct 2008	31 Oct 2017	29.2	No
Fan Hong	supervisor	M	53	31 Oct 2008	31 Oct 2017	0	Yes
Cai Zemin	supervisor	M	53	10 May 2011	31 Oct 2020	0	Yes
Zhou Guoxing	Employee supervisor	M	54	31 Oct 2014	31 Oct 2020	25.4	No
Ye Nong	Vice general manager	M	56	30 December 2006	31 Oct 2020	20.6	No
Zhu Xiang	Vice general manager	M	50	20 August 2007	31 Oct 2020	23.2	No
He Xi	Secretary to the Board	M	31	17 March 2017	31 Oct 2020	28.2	No
Wang Xing	Former chairman, executive director	M	51	28 July 2011	18 Jan 2017	2.8	No
Chang Baoqiang	Former executive director, former general manager	M	50	31 Oct 2014	18 Jan 2017	2.5	No
Na Chaohong	INED	M	40	31 Oct 2017	31 Oct 2020	1.4	No
Chi Yilin	INED	M	64	31 Oct 2017	31 Oct 2020	1.4	No
Jin Mei	INED	F	40	31 Oct 2017	31 Oct 2020	1.4	No
Tian Ruihua	INED	F	54	31 Oct 2017	31 Oct 2020	1.4	No
Liu Chunshi	NED	M	51	31 Oct 2017	31 Oct 2020	0	Yes
Xia Changtao	NED	M	53	31 Oct 2017	31 Oct 2020	0	Yes
Kang Jun	NED	M	41	31 Oct 2017	31 Oct 2020	0	Yes
Wu Yu	NED	F	33	31 Oct 2017	31 Oct 2020	0	Yes
Su Jiao	supervisor	F	36	31 Oct 2017	31 Oct 2020	0	Yes
Wei Aixue	supervisor	F	49	31 Oct 2017	31 Oct 2020	0	Yes
Lv Jianbo	supervisor	M	35	31 Oct 2017	31 Oct 2020	0	Yes
Total	/	/	/	/	/	/	/

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Working Experience
<b>Wang He</b>	male, born in August 1966, professorate senior engineer. Currently, Mr. Wang is the chief engineer and president of the Design and Research Institute of Shenyang Group, supervisor of Schiess GmbH, supervisor of Schiess Tech GmbH and the chairman of the board of directors of Shenyang Flying Aviation CNC Technology Co., Ltd.. From June 2008 to August 2011, he was the general manager of Zhong Jie vertical machining CNC machine tools business unit; from August 2011 to October 2012, he was the special assistant to the general manager of Shenyang Group, general manager of Zhong Jie vertical machining CNC machine tools business unit and secretary of the party general branches of Shenyang Machine Tool Co., Ltd.; from October 2012 to February 2013, he was the special assistant to the general manager of Shenyang Group. From February 2013 to May 2013, he was the vice general manager of Shenyang Machine Tool Co., Ltd.; from May 2013 to May 2015, he was the general manager of Shenyang Machine Tool Co., Ltd.; from May 2015 to July 2015, he was the chief engineer and president of the Design and Research Institute of Shenyang Group; from July 2015 to April 2016, he was the he was the chief engineer and president of the Design and Research Institute of Shenyang Group, supervisor of Schiess GmbH, supervisor of Schiess Tech GmbH; from April 2016 up to now, he has been the chief engineer and president of the Design and Research Institute of Shenyang Group, supervisor of Schiess GmbH, supervisor of Schiess Tech GmbH and the chairman of the board of directors of Shenyang Flying Aviation CNC Technology Co., Ltd. From 15 Feb 2017, he has been a director of the Company, and from 16 Feb 2017, he has been the chairman of the Board of the Company. His tenure of appointment will expire on 31st October 2020.
<b>Zhang Xiaoyi</b>	male, born in April 1964, holding master postgraduate qualification and a bachelor degree of engineering and is a senior engineer. He is currently the vice-chairman, executive director and deputy secretary to the Committee of Communist Party of China ("CPC") of the Company. Mr. Zhang joined Kunming Machine Tool Factory in 1985. He has extensive experience in machinery design and technology management. He worked as the deputy manager, manager of the technical center of the Company, general manager assistant and chief engineer, vice general manager and general manager of the Company. From 29th April 2008 to March 2013, he was the general manager of the Company. From 31st October 2008, he has been a director of the Company. His tenure of appointment will expire on 31st October 2020.
<b>Peng Liangfeng</b>	male, born in August 1981, holding a master degree in engineering, engineer. Mr. Peng is currently a vice general manager of the Company. Mr. Peng graduated from Mechanical and Electrical Engineering College of Kunming University of Science and Technology in July 2006 holding a master degree in engineering. From July 2006 to December 2012, he was a designer of Technology Center, designer of product parts, executive designer of products and director of gantry product designing office of the Company. From December 2012 to February 2014, he was a product manager of gantry product line of CNC machine tool division, director of technology department, vice chief engineer. From February 2014, he has been the general manager of gantry division of the Company. From 30 March 2015, he has been the vice general manager of the Company. From 23 Jan 2017, he has been the general manager of the Company, and from 15 Feb, he has been a director of the Company. His tenure of appointment will expire on 31st October 2020.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

<b>Name</b>	<b>Working Experience</b>
<b>Liu Chunshi</b>	male, Han, born in November 1966 in Liaoyang city, Liaoning province. In July 1986, he joined the Communist Party of China. Mr. Liu graduated from Department of Mechanical Engineering, Jilin University, holding a bachelor degree, and he graduated from Northeastern University with the major in Machinery Manufacturing, holding a master degree. Then he accepted in-service education and obtained his doctorate graduate degree in Mechanical Design and Theory from Northeastern University. He also obtained the title of professorate senior engineer. From April 2013 to July 2013, he was the vice general manager of Shenyang Group. From July 2013 up to now, he has been the senior vice president and vice general manager of Shenyang Group. From 31 Oct 2017, he has been a non-executive director of the Company. His tenure of appointment will expire on 31st October 2020.
<b>Xia Changtao</b>	male, Han, born in January 1964 in Hai Cheng city, Liaoning province. Mr. Xia joined the Communist Party of China in January 1986. He graduated from Automobile College, Jilin University of Technology with the major in automobile transportation and he enjoys the title of senior engineer. In April 2009, he obtained Shenyang "5.1" Labor Medal which was awarded by Shenyang city. In March 2013, his job position was changed to vice chairman of Shenyang Machine Tool Co., Ltd. from general manager and secretary to the party committee of Zhongjie Machine Tool Co., Ltd. From May 2015 up to now, he has been the president of Kunming Ji Qun and the chairman of Shenyang Machine Tool (Group) Kunming Co., Ltd.. From 31 Oct 2017, he has been a non-executive director of the Company. His tenure of appointment will expire on 31st October 2020.
<b>Kang Jun</b>	male, born in October 1976, master graduate student. From September 1994 to July 1996, he studied at Jiangxi Finance and Economics College Jiu Jiang Branch with the major in Tax. From October 1996 to August 2006, he worked in local taxation bureau of Jin Xi county, Jiangxi province. From September 2006 to July 2008, he as a postgraduate studied accounting in Yunnan University of Finance and Economics. From July 2008 to December 2012, he worked in assets and finance department in Yunnan Industrial Investment Holding Group Co., Ltd. (Yunnan Industrial Investment) From December 2012 to July 2015, he worked in Dali Creative Park Development Co. Ltd. as chief financial officer. From July 2015 to March 2017, he worked as chief financial officer in Wei Qi Investment Management Co., Ltd under Yunnan Industrial Investment. From March 2017 up to now, Mr. Kang has been the general manager of Equity Operation Department of Yunnan Industrial Investment. From 31 Oct 2017, he has been a non-executive director of the Company. His tenure of appointment will expire on 31st October 2020.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Working Experience
<b>Wu Yu</b>	female, born in March 1984, master of business administration, Certified Public Accountant. From September 2002 to July 2006, she studied accounting in Jin Qiao College, Kunming University of Science and Technology. She obtained certified public accountant qualification in December 2006. From June 2007 to November 2011, she was a project manager of China Audit Asia Pacific Certified Public Accountant LLP (Yunnan Branch). From November 2011 to August 2014, she worked as a finance staff in financial management department of Yunnan Industrial Investment. From September 2012 to March 2014, she studied at School of Management and Economics Kunming, University of Science and Technology. From August 2014 to November 2014, she was the head of finance department of Yunnan Industrial Investment. From November 2014 to March 2017 she was the vice general manager of finance management department of Yunnan Industrial investment. From March 2017 up to now, she has been the general manager of financial management department of Yunnan Industrial Investment. From 31 Oct 2017, she has been a non-executive director of the Company. Her tenure of appointment will expire on 31st October 2020.
<b>Na Chaohong</b>	born in May 1977, national accounting academic leader (reserve) personnel, doctor of financial management, professor of school accountancy of Yunnan University of Finance and Economics, director of the institute of corporate finance, deputy director of Yunnan enterprise development and research center, master tutor, member of PhD tutor group. Mr. Na was a former deputy director of MBA center, assistant to the Faculty of Business, part-time researcher of China Europe International Business School (CEIBS), visiting scholar of Aarhus University, Denmark, Chinese University of Hong Kong, Fudan University and Shanghai Jiao Tong University. He worked as a securities brokerage and investment analyst, assistant to general manager of a foreign trade company, general manager of a consulting firm, member of investment decision committee of a fund company, independent non-executive director of a listed company (300142). He presided many management projects and financial related research under Ministry of Education of the PRC, Provincial Science and Technology Planning, and he participated over 30 national level, provincial level and ministerial level research projects and enterprise commissioned projects, such as Kunming Zhong Tie, Huangneng Lancang Jiang, Yunnan Power Grid etc.. His major research were group governance and corporate finance, senior management incentives and salary, M & A, corporate social responsibility. The research results were published in "Journal of Economic Behavior and Organization", "Management and Organization Review", "Harvard Business Review" and "Accounting Research" etc. domestic and international first-class publications. He provided corporate financial management, financial statements analysis, corporate mergers and acquisitions, group financial control, corporate valuation, PE/VC operations etc. curriculums for many groups, listed companies, banks and tax bureaus etc. From 31 Oct 2017, he has been an independent non-executive director of the Company. His tenure of appointment will expire on 31st October 2020.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Working Experience
<b>Chi Yilin</b>	<p>male, born in April 1953, professor of Kunming University of Science and Technology, PhD Tutor. Mr. Chi graduated in 1982 at Kunming Engineering Institute with major of Machinery manufacturing, holding bachelor degree in engineering. In June 1986, Mr. Chi graduated at Wuhan University of Science and Technology with major of mechanical design and obtained the master of engineering. From July to December 1995, he conducted cooperative research at Universität Karlsruhe (TH), Germany. He was the dean of School of Mechanical and Electrical Engineering of Kunming University of Science and Technology, doctoral and master tutor in the major of mechanical design and theory, head of Mechanical and Electrical Product Development and Technology Innovation Institute... Professor Chi has long been engaged in mechanical engineering and automation professional teaching, teaching reform, disciplines construction, team building and scientific research. His granted courses included "Advanced Manufacturing Technology", "Elastic Mechanics and Finite Element" and "Introduction to Machinery" etc. He presided and completed "The training mode for large machinery talents in the new century – teaching reform and practice of multi – characteristic module under large platform" which won the 2005 national teaching achievement second prize and Yunnan Province teaching achievement first prize... He edited three textbooks, including Foundation of Computer Aided Design Technology which was rated as excellent teaching materials for ordinary colleges and universities. He obtained one national invention patent and three utility model patents, published over 30 papers in domestic and foreign publications, of which, 4 were included in the EI. Mr. Chi presided, completed or participated in over 20 projects which under National Natural Science Foundation, or cooperated with provincial government or enterprise commissioned. The accumulated project funds were more than RMB10 million. His presided over the development of nickel, cobalt, copper non-ferrous metal automated production lines have been put into use, running in good condition which played a promoting role for the introduction of foreign advanced technology to achieve localization and integration development of non-ferrous metal smelting equipment. From 31 Oct 2017, he has been an independent non-executive director of the Company. His tenure of appointment will expire on 31st October 2020.</p>
<b>Jin Mei</b>	<p>female, born in November 1977, holding a bachelor degree, has professional qualifications for Certified Tax Agent, Certified Public Valuer, Chinese Certified Public Accountant, Secondary Registered Tax Accountant, National Senior Accountant and Mergers and Acquisitions. From January 1998 to November 2002, Ms. Jin engaged in asset assessment, financial audit at Yunnan Jingwei Certified Public Accountants, and served as the person in charge of the assessment projects. From December 2002 to December 2004, she engaged in asset evaluation and served as project manager at Yunnan Hua Kun Certified Public Accountants. From 2005 up to now, she organized and set up Kunming Qingying Tax Affairs Co., Ltd. and served as general manager of the company. She served as the general manager of Yunnan Zhong He Hong Rui Certified Public Accountants Co., Ltd. In 2016. From 31 Oct 2017, she has been an independent non-executive director of the Company. Her tenure of appointment will expire on 31st October 2020.</p>

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Working Experience
<b>Tian Ruihua</b>	female, born in April 1963, associate professor of School of Law, Yunnan University. From September 1981 to July 1985, she studied law at Faculty of Law, Yunnan University and has a bachelor degree in law. From February 2000 to July 2000, she was a visiting scholar of Tsinghua University; from February 2004 to May 2004, she was a visiting scholar of Hong Kong University. From July 1985 up to now, she was a lecturer and has been an associate professor at Faculty of Law, Yunnan University, mainly teaching civil and commercial law, contract law, civil law, tort liability law, property law etc. From September 2009 up to now, she served as director of teaching affairs office at School of Law. She passed the lawyer qualification exam in 1992 and now she is a part-time lawyer of Hiways Law Firm (Kunming). From 31 Oct 2017, she has been an independent non-executive director of the Company. Her tenure of appointment will expire on 31st October 2020.
<b>Su Jiao</b>	female, Han, born in August 1981 in Fu Shun city, Liaoning province. She studied financial management at accounting department, Dongbei University of Finance and Economics, holding a bachelor degree and she obtained her master degree in accounting major from Dongbei University of Finance and Economics and obtained junior accountant qualification certificate. In September 2013, her job position was from deputy manager of financial department of Zhong Jie vertical machining CNC machine tools business unit to deputy manager of headquarter of inspection office of Shenyang Group. From August 2015, she was the director of Schiess Machine Tool (Shenyang) Co., Ltd.. From June 2017, her job title was changed to manager of audit department of Shenyang Group and she has held the position up to now. From 31 Oct 2017, she has been a supervisor of the Company. Her tenure of appointment will expire on 31st October 2020.
<b>Wei Aixue</b>	female, born in December 1968, holding a bachelor degree, accountant/certified public assets valuer. From September 1988 to July 1992, she studied accounting at accounting department of Yunnan University of Finance and Economics. From July 1992 to December 1995, she was an accountant of financial department of Kunming Flat Glass Plant. From December 1995 to May 2006, she worked at Yunnan Everbright Certified Public Accountants served as director of asset valuation department, deputy director accountant. From May 2006 to November 2011, she was a staff of investment department of Yunnan Industrial Investment. From September 2011 to April 2012, she served as a staff of audit and inspection department of Shenji Group Kunming Machine Tool Co., Ltd. From April 2014 to November 2014, she was the deputy director of audit and inspection directors. From April 2014 to November 2014, she was the deputy director of Policy and Regulation Department of Yunnan Industrial Investment. From November 2014 to June 2015, she served as director of Policy and Regulation Department of Yunnan Industrial Investment. From June 2015 up to now, she has been the director of Risk Control Department. From 31 Oct 2017, she has been a supervisor of the Company. Her tenure of appointment will expire on 31st October 2020.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

<b>Name</b>	<b>Working Experience</b>
<b>Lv Jianbo</b>	male, born in June 1982, obtained his bachelor degree at night university, certified public accountant. From September 2001 to June 2004, he was a staff of financial department of Kunming Chanstar Glass Co., Ltd., from October 2004 to December 2007, he was an accountant of financial department of Kunming Colourful Yunnan Qing Feng Xiang Tea Co., Ltd. From May 2008 to May 2012, he was an auditor, audit project manager of Kunming Qin Tian Accounting Firm. From May 2012 to February 2017, he was in the audit position of audit department of Yunnan Industrial Investment. From February 2017 up to now, he has been in the audit position of discipline inspection and supervisory department. From 31 Oct 2017, he has been a supervisor of the Company. His tenure of appointment will expire on 31st October 2020.
<b>Cai Zhemin</b>	male, born in 1962, member of the CPC, holding college diploma, engineer, currently, Mr. Cai is the head of the strategy planning department of Shenyang Machine Tool (Group) Company Limited. Mr. Cai went into workforce in 1981. In 1996, he joined Shenyang Machine Tool (Group) Company Limited and was successively the official of technology department, production department, planning department. From 2007 to 2008, he was the manager of the planning department. From 2008 to 2009, he was the manager of engineering planning department of Shenyang Machine Tool Company Limited. From 2009, he has been the head of the strategy planning department of Shenyang Machine Tool (Group) Company Limited. From 31 Oct 2014, he has been a supervisor of the Company. His tenure of appointment will expire on 31st October 2020.
<b>Zhou Guoxing</b>	male, born in November 1962, holding a master degree and is a senior engineer. He is currently the chairman of the union and employee supervisor of the Company. Mr. Zhou joined Kunming Machine Tool Factory in 1987 and has extensive experience in machine tool design and production management. He was the manager of the Laboratory of the Company; vice manager and manager of the Technical Center; deputy chief engineer; manager of the Manufacture Center; general manager assistant and the head of the assembly sub-plant; chief engineer and vice general manager of the Company. From October 2014, he has been an employee supervisor of the Company. His tenure of appointment will expire on 31st October 2020.
<b>Ye Nong</b>	male, born in November 1960, holding postgraduate qualification and is an engineer. Mr. Ye currently is the vice general manager of the Company. During February 2000 to May 2002, he was the manager of the Technology Department of Shenyang Machine Tool (Group) and the vice president of Shenyang Machine Tool Design Institute. During May 2002 to December 2003, he was the manager of the Quality Control Department of Zhongjie Machine Tool Co., Ltd. He was the manager of Production Department of Zhongjie Machine Tool Co., Ltd. from December 2003 to June 2006. Since June 2006, he has worked for the Company as general manager assistant and vice general manager. From 30th December 2006, he has been the vice general manager of the Company. His tenure of appointment will expire on 31st October 2020.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Working Experience
<b>Zhu Xiang</b>	male, born in April 1966, holding master postgraduate qualification and is a senior engineer. He is currently the vice general manager of the Company. He joined Kunming Machine Tool Factory in 1988. He has extensive experience in machine tool products design and sales management. He has held the positions of vice director of Assembly Sub-Plant of Kunming Machine Tool Factory, deputy director of the Technology Centre, vice manager of the Sales Department, manager of Sales Company, general manager assistant, and from 20th August 2007, he has been the vice general manager of the Company. His tenure of appointment will expire on 31st October 2020.
<b>He Xi</b>	male, born in October 1986, graduated at the School of Law, Xiamen University, has the qualification of secretary to the board of directors of Shanghai Stock Exchange. From 2008 to 2012, Mr. He worked for Hong Kong Water Stone Investment Group Company Limited Hong Kong office as an industrial researcher focusing on Hong Kong red chips and H-share listed companies fundamental research; from 2012 to 2013, he was the assistant director of investment bank and risk compliance of the company; from 2015 to now, he has been the managing director of Shenzhen Qianhai Water Stone Asset Management Co., Ltd. and the deputy managing director and director of risk control of Yunnan Elephant Equity Investment Fund Management Co., Ltd. From 17 March 2017, he has been the secretary to the Board of the Company. His tenure of appointment will expire on 31st October 2020.
<b>Xu Juan</b>	female, born in July 1981, CPC member, master of financial management. From April 2008 to July 2008, she worked as a cashier in Yunnan CY Group Co., Ltd. ("CY Group"); from August 2008 to December 2009, she worked on cost accounting in CY Group; from Jan. 2010 to June 2010, she worked on expenses accounting in CY Group; from July 2010 to June 2015, she was the head of the funding department in CY Group; from July 2015 to October 2016, Ms. Xu was the assistant financial manager in the research department of Shenji Group Kunming Machine Tool Company Limited (the "Company"); from November 2016 to July 2017, she was the vice manager of finance department and from August 2017 to now, she has been the manager of finance department of the Company. From 12 December 2017, she has been the chief financial officer of the Company. Her tenure of appointment will expire on 31st October 2020.
<b>Zhang Tao</b>	male, born in June 1970, holding a bachelor degree and is an engineer. Mr. Zhang graduated from the Department of Architecture of Yunnan Industrial University majoring in city roads and bridges in 1991. During July 1991 to December 1993, he worked as the technician and subsequently the assistant engineer for the Kunming railroad second maintenance team under Chengdu Railroad Bureau. During December 1993 to May 1996, he was the secretary to the office of Kunming Railroad Bureau. During May 1996 to June 2004, he worked as the vice manager, manager and the vice chairman of the labor union of Yunnan Guangda Railroad Co., Ltd. During June 2004 to March 2008, he held the positions of office manager, secretary to the board, general manager assistant and vice chief engineer at Dianxi Railroad Co., Ltd. Since March 2008, he has been the general manager of Investment Department of Yunnan Industrial Investment Holding Group Co., Ltd. From 31st October 2008, he has been a director of the Company. From 18th March 2014, he had been the vice chairman of the Company. His tenure of appointment expired on 31st October 2017.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Working Experience
<b>Jin Xiaofeng</b>	male, born in November 1966, having postgraduate education, accountant. From August 1986 to May 2004 Mr. Jin worked for Shenyang First Machine Tool Factory as a staff for costing in financial department, team leader, assistant department director, vice department director, assistant general manager and vice general manager. From May 2004 to June 2008, Mr. Jin was the vice director of financial department, director of treasury management department and director of fund settlement center of Shenyang Machine Tool (Group) Co. Ltd.. From June 2008 to November 2009, he was the director of financial and assessment department of Shenyang Machine Tool Co. Ltd. From November 2009 to February 2014, he was the director of financial and investment department, accounting department of Shenyang Machine Tool (Group) Co. Ltd. From 28th February 2014, he had been the vice general manager of the Company. From 8 March 2015, he also has been the chief financial officer of the Company. From 31 March 2015, he has been a director of the Company, and from 22 July 2016 to 17 March 2017, he was the acting secretary to the Board. His tenure of appointment expired on 31 October 2017.
<b>Liu Yan</b>	male, born in September 1964, holding a master degree, senior economist. Mr. Liu started his career in December 1980. In September 2008, he was appointed as the general manager, secretary to the Committee of CPC of Zhong Jie Drilling and Boring Machine Factory. In August 2011, he was also appointed as the special assistant to the general manager of Shenyang Machine Tool (Group) Co., Ltd. and project manager of Foxconn joint venture. In October 2012, he was appointed as the head of financial department and the special assistant to the general manager of Shenyang Machine Tool (Group) Co., Ltd.. In February 2013, he was appointed as the vice general manager of Shenyang Machine Tool (Group) Co., Ltd.. From July 2013 to now, he had been the senior vice president and COO, vice General Manager of Shenyang Machine Tool (Group) Co., Ltd.. His tenure of appointment expired on 31st October 2017.
<b>Liu Haijie</b>	female, born in December 1966, holding a master degree. She started her career in July 1989. In February 2006, she was a chief judge of Shenyang City Intermediate People's Court. In July 2009, she was appointed as the general legal counsel of Shenyang Machine Tool (Group) Co., Ltd.. From July 2013 to now, she has been the senior vice president and CLO, general legal counsel, secretary to the board of directors and head of legal affairs of Shenyang Machine Tool (Group) Co., Ltd.. From 31 Oct 2014, she had been a director of the Company. Her tenure of appointment expired on 31st October 2017.
<b>Zhang Zeshun</b>	male, Han nationality, born in June 1979, university graduate, senior accountant, certified public accountant. Currently, he is a director of the Company. Mr. Zhang graduated from Jiangxi University of Science and Technology in accounting auditing major in 2002. From August 2002 to July 2004, he worked as an auditor in the auditor department for Yunda Technologies Co., Ltd. From July 2004 to July 2007, he was the accounting supervisor, financial manager of the finance department of Yunda Technologies Co., Ltd. From July 2007 to October 2007, he worked for Yunnan Investment Guarantee Co., Ltd. business development department; from October 2007 to now, he has worked as the manager of the finance department of Yunnan State-owned Kunming Economic Development Zone Industrial Development Co., Ltd.. From 18th March 2014, he had been a director of the Company. His tenure of appointment expired on 31st October 2017.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

<b>Name</b>	<b>Working Experience</b>
<b>Yang Xiongsheng</b> (INED)	male, born in February 1960, chair of the accounting department of the school of business of Nanjing University, professor, doctoral tutor. Mr. Yang was graduated at Xuzhou Normal University in 1981, and he has doctorate of accounting at Dongbei University of Finance and Economics. He had worked for Lianyungang Finance School and Lianyungang audit bureau. From 1995, he has worked at the accounting department of Nanjing University. Presently, he is the chair of the accounting department of Nanjing University, the vice president of the fifth council of Chinese Institute of Finance and Cost for Young and mid-career professionals, deputy secretary-general of Accounting Society of China, vice president of Accounting Society of Jiangsu Province, advisory expert of accounting standards for China Accounting Standards Committee under the Ministry of Finance; adjunct doctoral tutor at Nanjing University of Science and Technology, adjunct professor at Anhui University of Finance and Economics. The main research areas of Mr. Yang: internal control, basic theory of accounting, financial management and management accounting. Presently, he has published more than 200 papers, monographs and more than 20 textbooks. He directly involved in the research of specific control criterion and drafting work of the Internal Accounting Control Standards – Basic Standards by the Ministry of Finance, and he undertook a number of key scientific researches for the Ministry of Finance. From 22nd March 2013, he had been an independent non-executive director of the Company. His tenure of appointment expired on 31st October 2017.
<b>Chen Fusheng</b> (INED)	male, born in 1965, doctor of accountancy, master of economics, member of American Accounting Association, member of Hong Kong Academic Accounting Association. During 1996 to 1998, he was a part-time demonstrator of the Faculty of Business at University of Alberta in Canada. In 2006, he was a visiting professor at Tsinghua University. He is now an associate professor in accounting of the Faculty of Business at the Hong Kong University of Science and Technology, editor of "International Accounting Research Journal", specialized professor of the Faculty of Business at Nanjing University and the Faculty of Accounting at Shanghai University of Finance and Economics. From 18th July 2011, he had been an independent non-executive director of the Company. His tenure of appointment expired on 15 June 2017.
<b>Tang Chunsheng</b> (INED)	male, born in 1966, Ni nationality, holding a master degree, senior accountant, China CPA, China CPV, Certified Valuation Analyst (CVA), vice chairman of Yunnan assets valuation association, director of Yunnan CPA association, member of evaluation expert group of major asset restructuring projects for Yunnan State-owned Assets Supervision and Commission ("SASAC"), member of senior accountant professional title judging panel of department of human resources and social security of Yunnan Province, financial expert of the financial office of Yunnan provincial government, outside campus graduate mentor of Yunnan Financial and Economics and, Yunnan University. From 1985 to 1998, he took the positions of manager of financial department, manager of audit department, chief accountant at Chuxiong Autonomous Prefectures Power Industry Company. From 1999 to October 2000, he worked in Kunming High-tech Industrial Development Zone. From November 2000 to 2008, he worked as senior manager, chief appraiser, vice general manager in Yunnan Tianying accounting firm, and the chairman of Yun Tianying Appraisal Co., Ltd. From 2009 to now, he is the partner of Zhonghe Appraisal Company Limited and general manager of Zhonghe Appraisal Company Limited south-west branch. From 18th March 2014, he had been an independent non-executive director of the Company. His tenure of appointment expired on 31st October 2017.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Working Experience
<b>Liu Qiang</b> (INED)	<p>male, born in March 1963, doctor of engineering, professor at School of Mechanical Engineering &amp; Automation – BUAA, doctoral supervisor, director of National Defense Industry Efficient CNC Machining Technology Research And Application Center, leader of “Advanced Manufacturing Technology” Innovation Team and a member of the University Academic Committee. Mr. Liu graduated at Central South Institute of Mining Metallurgy with a bachelor degree in 1983. In 1989, he has his master’s degree in engineering at Beihang University. From 1996 to 1998, he studied in Canada at the University of British Columbia as a visiting scholar and joint training doctoral student. In 2000, he has his doctoral degree at Beihang University. He was selected in former National Defense “511 Talents Project” and became an academic leader. Presently, he also handles the important academic work: subject matter expert in the field of Advanced Manufacturing Technology under National “863 Project”; expert of the CNC first general application demonstration project overall group under the Ministry of Science and Technology; team leader of expert group of technology and equipment; chairman of Machinery Industry Automation Branch under Chinese Mechanical Engineering Society; vice chairman of the national numerical control system technology standardization committee; consultant of the fourth expert group on technology to China Aerospace Science &amp; Industry Corporation; member of professional and technical committee under AVIC aviation special equipment R &amp; D Engineering Center; member of academic committee of Mathematics and Advanced Manufacturing Cross Research Department under Mathematics and Interdisciplinary Science Center; editor of Journal of Mechanical Engineering etc.. His main research direction: CNC machining process simulation and optimization; CNC machine dynamics and control; CNC machine dynamics and control; Highperformance motion control etc.. He has hosted more than 30 various kinds of important research projects; gained a second prize of National Defense Science and Technology Award, two second prize of China Aviation Industry Corporation (ministerial level) Technology Progress Award, a first prize of Aeronautical Science and Technology Award, and China Instrument Invention Award/National Invention Exhibition Gold Award; published more than 100 academic papers; granted more than 20 patents and software copyrights; also won the title of outstanding teacher in Beijing, outstanding young backbone teacher in Beijing, won American UTC Rong Hong Science and Technology Education Award and the top ten best teachers of Beihang University etc. From 15 May 2014, he had been appointed as an independent non-executive director of the Company. His tenure of appointment expired on 31st October 2017.</p>
<b>Shao Li</b>	<p>male, Han nationality, born in 1958, holding a master degree and is a deputy researcher. He is currently the deputy secretary to the Committee of CPC of the Company and chairman of the Supervisory Committee. Mr. Shao joined the Second Light Industry Bureau of Kunming City in March 1982 as a deputy office manager. In May 1987, he worked for Publicity Department under the Committee of CPC in Kunming City as the office manager, and subsequently the assistant to the director of the department. In December 1992, he worked for Research Center of Kunming City Government as a deputy director. In June 2000, he worked for the Enterprises Union Department under the Committee of CPC in Yunnan Province as the deputy office manager and subsequently the director of the research center. In February 2003, he worked for Yunnan State-owned Assets Supervision and Administration Commission as the director of Policy and Statute Department. Since October 2007, Mr. Shao has been the deputy secretary to the Committee of CPC of the Company. From 31st October 2008, he had been a supervisor of the Company. His tenure of appointment expired on 31st October 2017.</p>

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

Name	Working Experience
<b>Fan Hong</b>	male, born in June 1963, holding a bachelor degree and is an economics. Mr. Fan graduated from Jiangxi University of Finance & Economics majoring in finance in 1987. During July 1987 to September 1992, he worked for the Provincial Department of Finance of Yunnan. During August 1992 to February 2005, he worked as the department manager for Yunnan International Trust and Investment Company. Since February 2005, he has held the positions of trust department manager, risk control department manager and policy and statute department manager and general manager assistant of Yunnan State-owned Assets Operation Co., Ltd. In August 2011, he was appointed as chairman of Yunnan Equity Exchange Co. Ltd.. From 31st October 2008, he had been a supervisor of the Company. His tenure of appointment expired on 31st October 2017.
<b>Wang Xing</b>	male, born in 1965. He graduated from Harbin University of Science and Technology majoring in auditing in 1989. He is currently an undergraduate of the MPACC at Dongbei University of Finance and Economics. In 1989, he worked for the Auditing Department of Shenyang First Machine Tool Factory. In early 1996, he worked for the Finance Department of Shenyang Machine Tool (Group) Co., Ltd. Later that year he joined the liquidation team of Shenyang Third Machine Tool Factory. In January 2001, he acted as the vice general manager and the head of Finance Department of Zhong Jie Machine Tool Co., Ltd. At the end of 2003, he worked as the vice general manager and the head of Finance Department of Shenyang CNC Machine Tool Co., Ltd. From 2006, he was the director and the head of Finance Department of Shenyang Machine Tool (Group) Kunming Co., Ltd. Since March 2007, he has held the positions of vice general manager and the head of Finance Department of Yunnan CY (Group) Co., Ltd. On 23rd March 2007, he was appointed as the director of the Company. On 28th July 2011, he was appointed as the chairman of the Company. His tenure of appointment expired on 18 Jan 2017 and he has already resigned.
<b>Chang Baoqiang</b>	male, born in 1966, graduated at Harbin University of Science of Technology with major in equipment and process of precision machinery manufacturing, holding master degree, senior engineer. Currently, he is the general manager of the Company. Mr. Chang started his career in 1988. He was a designer of Shenyang Third Machine Tool Plant; chief designer of Shenyang Machine Tool Center; deputy chief engineer of Shenyang CNC Machine Tool Plant; head of development department, manufacturing department, and deputy general manager of Shenyang CNC Machine Tool Co., Ltd.; head of engineering department of Shenyang Machine Tool (Group) Co., Ltd.; head of manufacturing coordinating department, manufacturing and supply department of Shenyang Machine Tool Co., Ltd.; Deputy general manager of Shenyang First Machine Tool Plant; general manager and party secretary of Shenyang Machine Tool Co., Ltd. Shen Yi Lathe Factory. From March 2013, he has been the general manager of the Company. He has already resigned.

### Explanation on other information

Applicable Not applicable

### (II) Equity incentives granted to directors, supervisors and senior management officers of the Company during the reporting period

Applicable Not applicable

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## II. POSITIONS HELD BY EACH OF EXISTING AND RESIGNED DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT DURING THE REPORTING PERIOD

### (I) Positions in shareholder's entities

Applicable Not applicable

Name	Shareholder's entities	Position
Liu Yan	Shenyang Machine Tool (Group) Co., Ltd	Senior vice president and COO, vice general manager
Liu Haijie	Shenyang Machine Tool (Group) Co., Ltd	Senior vice president, CLO, general counsel, secretary to the Board, head of legal affairs department
Zhang Tao Cai Zheming	Yunnan Industrial Investment Holding Group Co., Ltd. Shenyang Machine Tool (Group) Co., Ltd	Director, general manager Director of strategy planning headquarter
Fan Hong Xia Changtao Liu Chunshi	Yunnan Industrial Investment Holding Group Co., Ltd. Shenji Group Kunming Co., Ltd. Shenyang Machine Tool (Group) Co., Ltd	Vice president Chairman of board of director Senior vice president, vice general manager
Kang Jun	Yunnan Industrial Investment Holding Group Co., Ltd.	General manager of Equity Operation Department
Wu Yu	Yunnan Industrial Investment Holding Group Co., Ltd.	General manager of financial management department
Su Jiao Wei Aixue Zhang Zeshun Lv Jianbo	Shenyang Machine Tool (Group) Co., Ltd Yunnan Industrial Investment Holding Group Co., Ltd. Yunnan Industrial Investment Holding Group Co., Ltd. Yunnan Industrial Investment Holding Group Co., Ltd.	Head of the audit department Director of risk control department
Explanation on the position in shareholder's entities	None	Serve in the audit position of discipline inspection audit department

### (II) Positions in other entities

Applicable Not applicable

Name	Other entities	Position
Wang Xing Zhang Xiaoyi	Shenyang Machine Tool (Group) Co., Ltd Xi'an Ser Turbo Machinery Manufacturing Co., Ltd. Kunming TOS Machine Tool Manufacturing Co., Ltd. Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd	Director Vice chairman Vice chairman Director
Yang Xiongsheng	the accounting department of the school of business of Nanjing University	Department head
Chen Fusheng	the Faculty of Business at the Hong Kong University of Science and Technology	Associate professor
Tang Chunsheng Liu Qiang	ZhongHe Appraisal Co., Ltd. School of Mechanical Engineering and Automation BUAA	General manager Professor, PhD tutor
Na Chaohong	school accountancy of Yunnan University of Finance and Economics Walvar Biotechnology Co., Ltd. Yunnan Investment Ecology and Environment Technology Co., Ltd. YCIH Concrete Group Co., Ltd.	Professor, director of the institute of corporate finance Independent non-executive director Independent non-executive director
Chi Yilin Jin Mei	Kunming University of Science and Technology Yunnan Zhong He Hong Rui Certified Public Accountants Co., Ltd.	Independent non-executive director Professor, PhD tutor General manager
Tian Ruihua Zhou Guoxing Ye Nong Zhu Xiang	Faculty of Law, Yunnan University Kunming TOS Machine Tool Manufacturing Co., Ltd Kunming TOS Machine Tool Manufacturing Co., Ltd Xi'an Ser Turbo Machinery Manufacturing Co., Ltd.	Associate professor Member of controlling committee Director Director
Explanation on the position in other entities	None	

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## III. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Applicable   Not applicable

The procedures for the determination of directors, supervisors and senior management's Emoluments

The emoluments of directors and supervisors of the Company will be considered and approved at the shareholders meeting; the emoluments of senior management officers are determined based on the terms of reference of the senior management officers in accordance with the remuneration policies formulated by the Remuneration and Assessment Committee of the Company, and assessed with reference to the profit indicators, operating indicators and business development indicators accomplished by the senior management officers for the year, and the improvement in quality of the assets of the Company. The performance assessment results for the year, together with rewards and penalties proposed by the Remuneration and Assessment Committee, will be implemented with the approval from the Board.

Basis for emoluments of directors, supervisors and senior management officers

- (1) general information of the emoluments of domestic directors and supervisors;
- (2) general information of the emoluments of Hong Kong directors and supervisors;
- (3) emoluments of senior management officers are based on the domestic industry practice and emoluments of the comparable listed companies in the region;

Information of emoluments payable to directors, supervisors and senior management officers

During the reporting period, the received amount of emoluments payable to directors, supervisors and senior management officers was consisting with the disclosed amount

Total actual emoluments received by directors, supervisors and senior management officers of the Company at the end of the reporting period

During the reporting period, the received amount of emoluments payable to directors, supervisors and senior management was RMB3,310,000 in total.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## IV. CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS

✓Applicable    □Not applicable

Name	Position	Change	Reasons for change
Wang Xing	Director, chairman, member of strategic and development committee	Resignation	Job transfer
Chang Baoqiang	Director, general manager	Resignation	Job transfer
Wang He	Director, chairman, member of strategic and development committee	Election	Election and appointment
Peng Liangfeng	Director, general manager and member of strategic and development committee	Election	Job transfer
Jin Xiaofeng	CFO, director, secretary to the Board	Resignation	Job transfer
Zhang Zeshun	Director	Resignation	expiration of the term of office
Liu Qiang	Independent non-executive director, member of strategic and development committee	Resignation	expiration of the term of office
Yang Xiongsheng	Independent non-executive director, chairman of audit committee, chairman of nomination committee	Resignation	expiration of the term of office
Chen Fusheng	Independent non-executive director, chairman of remuneration and assessment committee, member of audit committee	Resignation	expiration of the term of office
Tang Chunsheng	Independent non-executive director, chairman of remuneration and assessment committee, member of nomination committee	Resignation	expiration of the term of office
Liu Yan	Director, member of strategic and development committee and remuneration and assessment committee	Resignation	expiration of the term of office
Liu Haijie	Director, member of audit committee	Resignation	expiration of the term of office
Shao Li	supervisor	Resignation	expiration of the term of office
Fan Hong	supervisor	Resignation	expiration of the term of office
Zhang Tao	Director, member of strategic and development committee and remuneration and assessment committee	Resignation	expiration of the term of office
Xia Changtao	Director, member of nomination committee	Election	Election and appointment
Tian Ruihua	Independent non-executive director	Election	Election and appointment
Chi Yilin	Independent non-executive director, member of nomination committee and strategic and development committee	Election	Election and appointment
Na Chaohong	Independent non-executive director, chairman of audit committee	Election	Election and appointment
Jin Mei	Independent non-executive director, member of audit committee, nomination committee and strategic and development committee	Election	Election and appointment
Wu Yu	Director	Election	Election and appointment
Kang Jun	Director, member of strategic and development committee	Election	Election and appointment
Liu Chunshi	Director, member of audit committee, Strategic and development Committee	Election	Election and appointment
Su Jiao	supervisor	Election	Election and appointment
Wei Aixue	supervisor	Election	Election and appointment
Lv Jianbo	supervisor	Election	Election and appointment
He Xi	Secretary to the Board	Appointment	Election and appointment
Xu Juan	CFO	Appointment	Election and appointment

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## V. EXPLANATION ON SANCTIONS BY SECURITIES REGULATORY AUTHORITIES IN THE PAST THREE YEARS

Applicable Not applicable

- (I) On 22 September 2016, the Company published the announcement of receiving Prior Notification of Administrative Penalty issued by China Securities Regulatory Commission (“CSRC”) in China Securities Journal, Shanghai Securities News and Securities Times and on the following websites: <http://www.sse.com.cn>, <http://www.hkex.com.hk>, and <http://www.kmtcl.com.cn>.

On 16 February 2017, the Company, the then chairman of the Board of the Company and the then secretary to the Board received the Written Decision of Administrative Penalty from CSRC (Chufa Zi [2017] no. 18). According to article 193.1 of the Securities Law of the People’s Republic of China (the “Securities Law”), CSRC decided to:

1. Give a warning to the Company, and impose a fine of RMB400,000;
2. Give a warning to relevant personnel, and impose a fine of RMB150,000 respectively.

- (II) On 23 March 2017, the Company received the Notification of Investigation of CSRC (2017-029) as the information disclosure of the Company breach of securities laws and regulations. On 16 November 2017, the Company published the Prior Notice of Administrative Penalties and Prohibition of Entering the Market issued by CSRC (Chu Fa Zi [2017] no. 122) in China Securities Journal, Shanghai Securities News and Securities Times and on the following websites: <http://www.sse.com.cn>, <http://www.hkex.com.hk>, and <http://www.kmtcl.com.cn>.

In February 2018, the then chairman, the then general manager and the then CFO of the Company received the Decision of Prohibition of Entering the Market (Wang Xing, Chang Baoqiang and Jin Xiaofeng) by CSRC. According to article 233 of Securities Law and article 3.1 and article 5 of Provisions on Prohibition of Entering into Securities Market, the CSRC decided:

1. To take lifelong prohibition of entering into the securities market measure to Wang Xing;
2. To take five years prohibition of entering the securities market measure to Chang Baoqiang and Jin Xiaofeng.

On the same day, the Company and relevant persons received the Decision of Administrative Penalties issued by CSRC (the Company and Wang Xing and Chang Baoqiang etc. 23 Responsible Persons) (2018-09). According to the facts, nature, circumstances and the degree of social harm of the parties’ violations, pursuant to the requirements of article 193.1 of the Securities Law, CSRC decided to:

1. Order the Company to correct, give a warning and impose a fine of RMB600,000 to the Company;
2. Give a warning to Wang Xing, Chang Baoqiang and Jin Xiaofeng, and impose a fine of RMB300,000 to the parties respectively;
3. Give a warning to Li Hongning and impose a fine of RMB100,000
4. Give a warning to Zhang Zeshun, Zhang Xiaoyi, Zhu Xiang, Ye Nong and Shao Li, and impose a fine of RMB70,000 to the parties respectively;
5. Give a warning to Peng Liangfeng, Luo Tao, Zhang Tao, Chen Fusheng, Tang Chunsheng, Fan Hong, Cai Zhemin and Zhou Guoxing, and impose a fine of RMB50,000 to the parties respectively;
6. Give a warning to Yang Xiongsheng, Liu Yan, Liu Haijie, Jiang Jingying and Liu Qiang and impose a fine of RMB30,000 to the parties respectively;

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## VI. STAFF OF THE PARENT AND MAJOR SUBSIDIARIES

### (I) Staff

Number of existing staff of the parent company	945
Number of existing staff of the main subsidiaries of the Company	338
Total existing staff	1,283
Number of retired staff whose retirement expenses undertaken by the parent and its major subsidiaries	472

#### Areas of specialization

Areas of specialization	Number of employees
Production	698
Sales and marketing	53
Technology	192
Finance	42
Administration General services	289
Early retirement	383
Staff pending for duties	89
Other staff	9
Total	1,755

#### Education level

Education level	Number of employees
Postgraduate or above	20
University graduate	349
College diploma	326
Diploma	246
High school or vocational school	523
Junior high school or below	291
Total	1,755

### (II) Remuneration Policy

Applicable Not applicable

In June 2013, the Company issued the Remuneration Management Measures of Shenji Group Kunming Machine Tool Co., Ltd., pursuant to which a sound remuneration management system has been established, with clearly defined constituents of total remuneration, post-specific and performance-based salaries, remuneration management and distribution, settings of post-specific salaries, and the principles and measures for assessment and adjustments. In 2015 the Company further enhanced salary control and management and continued to carry out two performance appraisals. The first performance appraisal is conducted monthly by the Company according to the breakdown indexes and main duties of various units; the second performance appraisal, which is specific to every post and every employee, is made by various units based on the scheme of the first performance appraisal. There is no change in the remuneration policy during the reporting period.

# DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF

## (III) Training Programme

Applicable   Not applicable

### 1. *Training at company level*

Under the two-level training system, we organize common, major and key management training at company level, as well as post-specific skill training at department level. Annual training plans for both levels are developed at the year beginning, to govern the training activities during the year, subject to centralized management, monitoring and assessment by the human resources department of the Company.

### 2. *Training at department level*

There were approximately 1,227 personnel participated in training courses held by various departments in 2017.

# CORPORATE GOVERNANCE

## I. EXPLANATION ON CORPORATE GOVERNANCE RELATED SITUATION

Applicable Not applicable

The Company strictly complies with the Company Law, the Securities Law and relevant regulations issued by the CSRC and the Shanghai Stock Exchange to establish a modern enterprise system, continuously improve its corporate governance and regulate the operations of the Company. Various systems of the Company are substantially in compliance with the requirements of the "Corporate Governance Standards of Listed Company" promulgated by the CSRC and the State Economic and Trade Commission. The Company will continue to improve and strengthen the internal control system in the ordinary course of operation so as to strive for the highest standards of corporate governance.

## II. BRIEFS OF GENERAL MEETINGS

Meeting session	Meeting Date	Designated websites for publishing	Disclosure date of the resolution published
The first extraordinary general meeting of 2017	15 Feb 2017	www.sse.com.cn, www.hkex.com.hk, kmtcl.com.cn	16 Feb 2017
The second extraordinary general meeting of 2017	6 April 2017	www.sse.com.cn, www.hkex.com.hk, kmtcl.com.cn	7 April 2017
The third extraordinary general meeting of 2017	31 Oct 2017	www.sse.com.cn, www.hkex.com.hk, kmtcl.com.cn	1 Nov 2017

# CORPORATE GOVERNANCE

## III. PERFORMANCE OF DUTIES BY DIRECTORS

### 1. Attendance of Board meetings and general meetings by Directors

Name of director	Whether independent non-executive director	Required attendance	Attendance at board meeting				Attendance at general meeting	
			Attended in person	Attended via electronic communication	Attended by representative	Absence	Failed to be present at two meetings in a row	Number of attendance at general meeting
Wang He		17	17	14	0	0	No	1
Zhang Xiaoyi	No	23	23	20	0	0	No	3
Wang Xing	No	2	2	2	0	0	No	
Peng Liangfeng	No	17	17	14	0	0	No	1
Zhang Tao	No	20	20	18	0	0	No	
Chang Baoqiang	No	2	2	2	0	0	No	
Jin Xiaofeng	No	21	21	19	0	0	No	2
Zhang Zeshun	No	20	20	18	0	0	No	1
Liu Yan	No	20	20	18	0	0	No	
Liu Haijie	No	20	20	18	0	0	No	
Yang Xiongsheng	Yes	20	18	18	2	0	No	
Chen Fusheng	Yes	20	20	18	0	0	No	
Tang Chunsheng	Yes	20	20	18	0	0	No	
Liu Qiang	Yes	20	20	18	0	0	No	
Xia Changtao	No	3	3	2	0	0	No	
Liu Chunshi	No	3	2	2	1	0	No	
Wu Yu	No	3	3	2	0	0	No	
Kang Jun	No	3	3	2	0	0	No	
Na Chaohong	Yes	3	2	2	1	0	No	
Tian Ruihua	Yes	3	3	2	0	0	No	
Chi Yilin	Yes	3	3	2	0	0	No	
Jin Mei	Yes	3	3	2	0	0	No	

#### Explanation on failed to be present at two meetings in a row

Applicable  Not applicable

Number of board meetings held during 2017	23
Including: number of meetings held on-site	3
Number of meetings held via electronic communication	20
Number of meetings held on-site with electronic communication	0

## CORPORATE GOVERNANCE

### (II) Objections raised by Independent Directors to relevant matters of the Company

✓Applicable    □Not applicable

Name	Contents of relevant matters that INED raised objections	Contents of objections	Whether or not the objections were adopted	Remark
Liu Qiang Yang Xiongsheng	reply to the enquiry letter of Hong Kong Stock Exchange; the record of directors' opinions on the impact of the Listing Rules(Rule 2.13(2)); directors' review on the first reply to the Explanation on the Company's cooperating with the investigation by CSRC	disclaimer of opinions		
Tang Chunsheng	the record of directors' opinions on the impact of the Listing Rules(Rule 2.13(2)); directors' review on the first reply to the Explanation on the Company's cooperating with the investigation by CSRC	disclaimer of opinions		
Yang Xiongsheng	The first quarterly report of 2017 of the Company	disclaimer of opinions		
Tang Chunsheng	The first quarterly report of 2017 of the Company	disclaimer of opinions		
Tang Chunsheng	At the 58th meeting of the 8th Board, suggested that the total investment of the phase III construction of Yanlin Base should not exceed RMB256 million	Based on feasibility of the fundraising plan under the Company's financial status analysis, will negotiate with the substantial shareholder before making a decision.		

#### Explanation on objections raised by independent non-executive director to relevant matters of the Company

At the 40th meeting of the 8th Board of the Company, Mr. Liu Qiang expressed: "as a non-executive director of the Company, I did not participate in the main process of "share transfer", could not master actual process, therefore, I could not make specific comments on the proposal and vote on it." Director Yang Xiongsheng expressed: "regarding the matters on the reply letter, as an independent non-executive director of the Company, I did not know about the matter from the beginning, not even expressed opinions at any part of the process, therefore, I did not have any opinions in favour or disapproval to the matters on the letter." Director Tang Chunsheng express: "I did not participate in the discussion of share transfer of the Company and did not review the relevant documents before they published. I could not judge the objectivity of the response to the enquiry 'explain in detail what the Company and its Directors have done after the Announcement' in the enquiry letter. Therefore, I could not comment on the motion 2, the record of directors' opinions on the impact of the Listing Rules (Rule 2.13(2)), and the motion 3, directors' review on the first reply to the Explanation on the Company's cooperating with the investigation by CSRC."

## CORPORATE GOVERNANCE

At the 52nd meeting of the 8th Board of the Company, Yang Xiongsheng expressed: "given that the Company's cost calculation has not really met the basic requirements for perpetual inventory system, I cannot express the opinions on agreeing or disagreeing on the Company's public financial statements and related matters." Tang Chunsheng expressed: "the auditor of the Company issued Audit Report on Internal Control on 24 April 2017(Ruihua zhuan Shen Zi [2017] 21040002). The report disclosed the two material defects in internal control resulting in adverse opinion. The first quarterly report of the Company was not audited. I could not judge whether or not such material defects in internal control would be improved in the quarterly report or led to major misstatement or omission in the quarterly report. Therefore, I cannot express the opinions on agreeing or disagreeing."

At the 58th meeting of 8th Board, independent non-executive director Tang Chunsheng expressed his opinions. Based on feasibility of the fundraising plan under the Company's financial status analysis, the total investment of the phase III construction of Yanlin Base should not exceed RMB256 million and the Company should negotiate with the substantial shareholder before making a decision.

### **IV. SHOULD IMPORTANT OPINIONS AND SUGGESTIONS PROVIDED BY SPECIALIZED COMMITTEES UNDER THE BOARD IN THE PERFORMANCE OF THEIR DUTIES DURING THE REPORTING PERIOD HAVE DISAGREEMENT, THE SPECIFIC CIRCUMSTANCES SHOULD BEEN DISCLOSED**

Applicable Not applicable

### **V. EXPLANATION ON DISCOVERY OF COMPANY'S RISKS BY THE SUPERVISORY COMMITTEE**

Applicable Not applicable

### **VI. EXPLANATION ON THE COMPANY EXISTING NOT ENSURING THE INDEPENDENCE AND NOT MAINTAINING THE ABILITY TO OPERATE INDEPENDENTLY WITH THE CONTROLLING SHAREHOLDER IN RESPECT OF BUSINESS, PERSONNEL, ASSETS, ORGANIZATION AND FINANCE ETC. ASPECTS**

Applicable Not applicable

#### **The Company's measures, progress and follow-up plan for horizontal competition**

Applicable Not applicable

As Shenyang Group is the controlling shareholder of both Kunming Machine Tool Co., Ltd. and Shenyang Machine Tool Co., Ltd., some of their products are similar, giving rise to intra-industry competition between Kunming Machine Tool and Shenyang Machine Tool.

Limitation on equity financing of the two listed companies brought by horizontal competition to some extent affected their development. In 2012, Shenyang Machine Tool Group announced through Shenyang Machine Tool that it would eliminate horizontal competition by appropriate means within a specified time limit according to the laws and regulations of the state and relevant regions as well as the approval by competent authority in the industry.

On 28 October 2017, Shenyang Group through Shenyang Machine Tool Co., Ltd. published the Announcement on the Commitment of Change of Controlling Shareholder to Avoid Horizontal Competition. Shenyang Group committed that within 36 months from the effective date of the commitment, according to national and relevant regional laws and regulations and the approval of industry authorities, it will eliminate the industry competition through appropriate methods. For details, please refer to the provision announcement (2017-099) published by Shenyang Machine Tool Co., Ltd.

# CORPORATE GOVERNANCE

## VII. THE ESTABLISHMENT AND IMPLEMENTATION OF APPRAISAL AND INCENTIVES SYSTEM TO THE SENIOR MANAGEMENT OFFICER DURING THE REPORTING PERIOD

Applicable Not applicable

## VIII. WHETHER DISCLOSING THE REPORT OF SELF-ASSESSMENT ON INTERNAL CONTROL

Applicable Not applicable

The board of directors of the Company has conducted self-assessment for internal control system in 2016. For details, please refer to 2016 self-assessment report for internal control which published as appendix to the annual report on the company's website [www.kmtcl.com.cn](http://www.kmtcl.com.cn) and the website of Shanghai Stock Exchange [www.sse.com.cn](http://www.sse.com.cn) on 30th March 2017.

### Explanation on material defects identified in the Company's internal controls

Applicable Not applicable

The Company has carried out self-inspection on the aforesaid defects in 2016, actively cooperate with the relevant supervisory authorities to carry out the investigation, and proactively provided information on matters involved got by the Company in a timely manner. The Company has completed the investigations and identified the matters involved in 2017, and accepted the possible punishment by relevant supervisory authorities.

At the same time, the Company also corrected the accounting errors of 2013-2016 in the 2017 Annual Report and Financial Report according to the result of investigations.

According to the identification of the matters involved and requirements of Basic Standards for Enterprise Internal Control and its application guidelines and regulatory rules, targeting defects in the internal control over financial reports and the defects in internal control over non-financial reports, combined with the actual situation of business management to review and adjust the process design and implementation of the internal control of the Company to improve the standards of the Company's internal control and risk prevention. The Company will appoint a professional institution to assess its effectiveness.

The Company will take measures to improve the stability of the staff, especially the stability of the core staff. Meanwhile, the Company will strictly implement the handover and takeover system for position staff change work, to avoid personnel flow resulting in the defect in the implementation of the process. At the same time, the Company will organize financial and internal control staff on a quarterly basis to conduct professional training to improve the professional competence of the aforementioned staff, strengthen the implementation of the internal control system to improve the accuracy of preparation of financial reports.

The Company will strengthen the publicity of the internal compliance culture and internal control culture to promote compliance awareness and risk prevention awareness deeply rooted, to create a good internal environment and operational basis for the Company's internal control and standard operation.

## IX. RELEVANT INFORMATION ABOUT AUDIT REPORT ON INTERNAL CONTROL

Applicable Not applicable

The auditors' opinion on internal control is consistent with the company's evaluation to the effectiveness of internal control over financial report.

Whether disclosing the internal control audit report: Yes.

# CORPORATE GOVERNANCE

## X. OTHERS

Applicable Not applicable

### Relevant contents disclosed in 2017 in accordance with the related rules of Hong Kong

#### 1. Corporate Governance Practice

The Company complies with the relevant provisions as set out in the "Code on Corporate Governance Practices" ("Code") of the Appendix 14 to the Listing Rules of the Stock Exchange of Hong Kong Limited and strives to improve its level of corporate governance. The implementation of the provisions as set out in the Code is as follow:

##### A. Directors

###### A.1 Board Meetings

The Company holds at least one board meeting each quarter. 23 board meetings were held during 2017 and 20 of them were in written resolutions. Please refer to section of CORPORATE GOVERNANCE III 1 for details of attendance of Board meeting by directors. The secretary to the Board would consult each director for discussion issues and include them in the agenda for every board meeting to be held. During the reporting period, the notice and preliminary agenda were distributed to the directors at least 14 days before the date of meeting.

All directors keep close contact with the Company Secretary. The Company Secretary is responsible for ensuring that the compliance of the operations of Board with the procedures and advising on the corporate governance and compliance issues. The minutes of the board meetings are compiled and kept by the Company Secretary. Minutes are passed to each director for reference within a reasonable period after the meeting. Directors may seek for independent professional advice at the cost of the Company.

If a substantial shareholder or a director has a conflict of interest in respect of any material matters, a board meeting shall be held. The subject director shall abstain from voting and be excluded from the quorum of the meeting.

###### A.2 Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Office were held by Mr. Wang He and Mr. Peng Liangfeng respectively.

###### A.3 Composition of the Board

The Company discloses the composition of members of Board in its communications by the director category including Chairman, Executive Directors, Independent Non-Executive Directors and Non-Executive Directors. The Board currently comprises 4 independent non-executive directors, representing 1/3 of the total number of directors. During 2017, 4 directors took up the role of management, representing 1/3 of the total number of directors. This enabled the Board to strictly review and monitor the management procedures of the Company. In order to enrich the shareholders' understanding of the directors and the composition of the Board of the Company, the Company has published the role of directors and their responsibilities in related media.

###### A.4 Appointment, Election and Removal

The directors of the Company (including non-executive directors) have specific term of appointment. According to the Articles of Association, directors are elected at shareholders' meeting for a term of three years, subject to re-election upon expiry. However, the term of appointment for independent directors shall not exceed 6 years. The appointment of all directors of the Company shall be approved by the shareholders.

# CORPORATE GOVERNANCE

## A.5 Directors' Responsibilities

In order to ensure the directors' sufficient understanding of the operations and businesses of the Company, each newly appointed director is given a comprehensive induction materials kit upon appointment. This kit sets out the business profile of the Company, responsibilities and obligations of directors and other legal requirements. Apart from that, each non-executive director will receive strategic proposals, business reports, and economics activities analysis from the management regularly in order to execute their functions effectively (including making independent recommendations at board meetings). The non-executive directors shall give directions in the event of any potential interest conflicts; act as members of the committees under the Board; and carefully assess the performance of the issuer.

The Company Secretary is responsible for ensuring that all directors receive the latest updates on the Listing Rules and other statutory requirements.

## A.6 Provision and Usage of Information

In order to ensure that obligations are duly performed and informed decision are made by the directors of the Company, the agenda and relevant documents of the board meetings are distributed to all directors within ten days before the date of the meeting. The directors may meet the senior management officers formally or informally before the board meetings. The directors and committee members may review the relevant documents and minutes of the board meetings.

## B. Remuneration of Directors and Senior Management Officers

Since the establishment of Remuneration and Assessment Committee of the Company, the remuneration and assessment of directors, supervisors and senior management officers are based on the rules of procedure of such committee. Independent professional advice may be sought if necessary in accordance with the stated procedures at the cost of the Company.

## C. Accountability and Auditing

### C.1 Financial Reporting

The directors would regularly receive integrated reports including strategic proposals, latest updates on various operations, financial objectives, plans and measures from the management. In the annual or interim report, or other announcements regarding price sensitive information and other discloseable financial information, the Board would make a balanced, clear and reasonable review on the Company's state of affairs and prospects.

### C.2 Internal Control

The Supervisory Committee of the Company exercises its supervisory rights independently in accordance with laws and regulations to safeguard the legal rights of shareholders, the Company and employees. The number of members and composition of the Supervisory Committee shall comply with the laws and regulations. During 2017, 2 meetings were held, except for Mr. Fan Hong and Mr. Cai Zhemin not attending the meeting due to office duties, other supervisors attended the meetings, where the supervisors supervised on behalf of the shareholders the financial conditions of the Company and the performance of obligations of directors and senior management officers and their compliance, and sat in on the board meetings to perform the duties of the Supervisory Committee in a diligent manner.

The Board is responsible for the establishment and maintenance the internal control system of the Company for reviewing the financial, operational and supervisory control procedures so as to safeguard the interests of the shareholders and the assets of the Company. The Board may delegate the authority to the management for implementation of the internal control system. The Audit Committee is responsible for reviewing its effectiveness.

# CORPORATE GOVERNANCE

The Internal Audit Department conducts inspection, supervision and assessment on the risks relating to and the importance of various businesses and procedures regularly and when necessary. In addition, corresponding internal management system and procedures are established for monitoring, operation, construction, finance and administration. Inspection will be carried out on a random basis.

## C.3 Audit Committee

Since its establishment, the Audit Committee has functioned its important role of improving the financial reporting and the transparency of financial arrangement. The Company attaches great attention to the documentation of minutes of the Audit Committee meetings. The minutes draft is prepared by a designated person and will be delivered to the members of the committee within a reasonable period after the meetings. The draft is prepared for collecting the comments from the members and will be kept as minutes once finalized.

## D. Transfer of Right of the Board

### D.1 Management Function

The Board and the management of the Company both have clearly defined terms of reference and their respective functions are set out in the Articles of Association.

### D.2 Committees under the Board

The Strategic Committee, Audit Committee, Nomination Committee, Remuneration and Assessment Committee of the Company are established under the board of directors with respective terms of reference. Each committee performed its duties separately during the reporting period.

## E. Communication with Shareholders

### E.1 Effective Communication

The Board endeavors to maintain communications with its shareholders. During the 2015 Annual General Meeting and the first, second and third extraordinary general meetings of 2016 and 2017, part of Executive Directors and senior management officers attended the meetings to communicate with its shareholders.

### E.2 Voting by poll

Shareholders are informed regularly of the procedures of voting by poll. The procedures of voting by poll are set out in the notice of annual general meeting and circular. Relevant procedures will be also explained at the annual general meeting.

## 2. *Securities Transaction of Directors*

During the reporting period, the Company adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" ("Model Code") of the Appendix 10 to the Listing Rules of the Stock Exchange of Hong Kong Limited as regulation for securities transaction of directors. The directors and supervisors of the Company complied with the Model Code and standards on securities transaction of directors as stated in its code of conduct during the reporting period.

## 3. *Board of Directors*

### (1) Composition of the Board

There were 12 directors in the 8th board of directors of the Company and 4 of them were independent directors. The term of directors was from 31 October 2014 to 31 October 2017. On 31 October 2017, the 9th board of directors of the Company was elected by the shareholders at general meeting. There are 12 directors in the 9th board of directors and 4 of them are independent non-executive directors. The term of directors will expire on 31 October 2020.

23 board meetings were held during 2017 and 20 of them were in written resolutions. Please refer to section of CORPORATE GOVERNANCE III 1 for details of attendance of Board meeting and general meeting by directors.

## CORPORATE GOVERNANCE

During the reporting period, the directors attended substantially all the board meetings. Representatives were appointed to attend the board meetings and express opinions on the behalf of directors if the directors were unable to attend the board meetings due to office duties.

In addition, according to the Article of Association, notice of a regular board meeting shall be given to all directors at least 10 days before the board meeting. In the course of practical operations, the Company complied with the requirements under Appendix 14A.1.3 to the Listing Rules of the Stock Exchange of Hong Kong Limited where all notices of regular board meetings were despatched 14 days before the board meetings.

The secretary to the Board is responsible for distributing the details of the regular board meetings (including the information on the issues to be considered at the meetings of the specialized committees under the Board) to the directors no later than 5 days before the date of meetings to ensure that all directors understand the issues to be considered at the meetings.

Details of any temporary board meetings held based on the needs of the management of the Company in the form of electronic communication shall be despatched to all directors by means of e-mail and facsimile, and shall allow sufficient time for directors' consideration. The secretary to the Board shall respond to the directors' queries in a timely manner and take proper actions to assist the directors to ensure compliance with the requirements such as the Company Law, Articles of Association and Listing Rules.

Minutes of the board meetings shall be signed by the directors attending the meetings and the minutes-taker and maintained over a long period of time for inspection by the directors if necessary.

Where the directors consider that material conflicts of interests arise in respect of the connected transactions discussed, the directors involved shall take measures of side-stepping and abstain from voting in respect of such matters.

- (2) **Appointment and removal of Directors**  
Each director of the Company is elected for a term of three years, subject to re-election upon expiry. The term of appointment of the independent non-executive directors shall not exceed six years. The Company shall enter into a Directors' Service Contract with the directors for a term of three years where the term of appointment of any additional directors during the term is less than three years. The appointment or removal of directors shall be approved at the shareholders' meeting. please refer to the section of DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND STAFF set out in this report for details of the appointment and resignation of directors during 2017.
- (3) **Duties of the Board**  
The duties and responsibilities of the Board are clearly defined and set out in the Articles of Association of the Company.  
  
Details of the work of the board and its board committees are set out in section of CORPORATE GOVERNANCE III 1 of attendance of Board meeting and general meeting by directors.
- (4) **Qualifications and Independence of Independent Non-executive Directors**  
Independent board members have different professional backgrounds. They have professional expertise, sound qualifications and extensive experience in the areas of corporate management, financial accounting and manufacturing of machine tools.

Independence of the independent non-executive directors complies with the guidelines on independence as set out in Rule 3.13 of the Listing Rules.

## CORPORATE GOVERNANCE

(5) **Implementation of Measures for Ensuring the Performance of Directors' Responsibilities**  
The secretary to the Board shall give all the directors relevant materials and updates on the statutory, regulatory and other ongoing responsibilities that the directors of the listed companies shall comply in a timely manner to ensure thorough understanding of their responsibilities, consistent execution of the procedures of the Board and proper compliance with applicable laws and regulations. The Board of the Company is entitled to engage independent professional bodies for such duties based on its power of authority for the performance of its responsibilities or business needs at the reasonable expense of the Company.

(6) **Relationship between the Members of the Board**  
There is no relationship between the members of the Board, particularly between the chairman and the general manager, in terms of finance, business, family and others.

#### 4. *Chairman and General Manager*

The chairman and general manager are taken by different persons with clearly segregated duties. The chairman is responsible for the management of the affairs of the Board such as inspecting the implementation progress of the issues approved by the Board. The general manager is responsible for management of operations of the Company and implementation of strategies formulated by the Board. The duties and responsibilities of the general manager are clearly defined and set out in the Articles of Association of the Company.

5. **TERM OF NON-EXECUTIVE DIRECTORS:** According to the Articles of Association, Rules of Procedure for the General Meetings of the Shareholders, and Rules of Procedure for the Meetings of the Board of Directors, the term of the non-executive directors under the 8th Board expired on 31st October 2017. The term of the non-executive directors under the 9th Board is from 31 October 2017 to 31 October 2020.

6. **STRATEGIC COMMITTEE, AUDIT COMMITTEE, NOMINATION COMMITTEE AND REMUNERATION AND ASSESSMENT COMMITTEE ARE UNDER THE BOARD OF DIRECTORS. DETAILS ARE AS FOLLOWS:**

No.	Committee under the board of director	Major responsibilities	Chairman	Committee members	Annual meeting and work details
1	Strategic Committee	Conducting research and providing suggestions on the Company's strategic planning, significant investment and financing issues, significant usage of capital and asset utilization	Chi Yilin	Wang He Kang Jun Liu Chunshi Chi Yilin Jin Mei Peng Liangfeng	Conducted research and analysis on the changes in the machine tool market and on the product mix adjustment of the Company
2	Audit Committee	Issuing work reports on regular reports, annual performance results and implementation of the internal control system	Na Chaohong	Na Chaohong Jin Mei Liu Chunshi	Conducted audit on annual report and interim report and Convened special meetings on the construction of internal control system
3	Nomination Committee	Formulating policies for directors' nomination including nomination procedures, handling steps and criteria for selection of director candidates	Chi Yilin	Chi Yilin Xia Changtao Jin Mei	Reviewed and nominated senior management officers for appointment or removal for the year
4	Remuneration and Assessment Committee	Formulating remuneration policy for executive directors, assessing performance of executive directors and approving terms of the executive directors' service contract	Tian Ruihua	Tian Ruihua Chi Yilin Xia Changtao	Formulated assessment and appraisal system based on operational objectives.

# CORPORATE GOVERNANCE

## *Notes:*

The chairman of the Company's Strategic Committee is Mr. Chi Yilin, the independent non-executive director;

The chairman of the Company's Audit Committee is Mr. Na Chaohong, the independent non-executive director;

The chairman of the Company's Nomination Committee is Mr. Chi Yilin, independent non-executive director;

The chairman of the Company's Remuneration and Assessment Committee is Ms. Tian Ruihua, independent non-executive director.

## 7. *Directors' and Supervisors' Service Contracts*

None of the Directors or Supervisors has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

## 8. *Directors' and Supervisors' Interests in Contracts*

In 2017, none of the Directors or Supervisors had a material interest in the contracts entered into by the Company, its controlling company or subsidiaries of its controlling company.

## 9. *Auditor's Fee*

The auditor's fee for 2017

Name of the accounting firm: Da Hua Certified Public Accountants (Special General Partnership)  
Amount: RMB1,700,000.

The major factors for the basis of determination of the auditor's fee paid by the Company are as follows:

General remuneration offered for auditing service;

General work load on audit work for the previous accounting period;

General work load on audit work for the previous engagement

## 10. *Company Secretary*

The Company complied with the Rule 3.29 under the Listing Rules and has appointed suitable person to serve as company secretary. At the same time, the company also appointed external service agencies to assist the company secretary in performing duties. The primary internal contacts of the Company are the Company's executive directors and company secretary.

## 11. *Rights of Shareholders*

The Company maintains good communication with its shareholders. The major communication channels include the general meetings, website and email of the Company, facsimile and telephone of the office of secretary to the Board to enable shareholders to express their opinions or exercise their rights.

- (1) According to Article 45 of the "Articles of Association" of the Company, when shareholder(s) solely or jointly holding 10 percent or more of the Company's voting shares (the "proposal shareholder(s)") or supervisory committee require(s) the Board to convene an extraordinary general meeting, a proposal for a full agenda and contents of the meeting should be submitted in writing to the Board. The written proposal(s) should be submitted to the local CSRC authority and stock exchange for filing. The proposal shareholder(s) or supervisory committee should ensure that the contents of the proposal comply with laws, regulations and the articles of association of the Company.

## CORPORATE GOVERNANCE

- (2) the procedures by which enquiries may be put to the board and sufficient contact details to enable these enquiries to be properly directed; and
- (3) the procedures and sufficient contact details for putting forward proposals at shareholders' meetings.

### 12. *Investor Relations*

No significant changes in the Articles of Association of the Company during the year.

### 13. *Risk Management and Internal Control*

Pursuant to Code Provision C.2.1, the Company has included the statement of the board of directors in the annual report, which illustrated that the board of directors has made a review on the risk management and internal control system.

- (1) The Company has internal audit function in place;
- (2) The review on the risk management and internal control system was irregular, with samples selecting and covering the period of the year;
- (3) During the year, the Company has made a statement on the effectiveness of the risk management and internal control system. For details of the part, please refer to the Assessment Report on 2017 Internal Control of the Company published at the website of the Company at [www.kmtcl.com.cn](http://www.kmtcl.com.cn) and the website of the Shanghai Stock Exchange at [www.sse.com.cn](http://www.sse.com.cn) on 28 April 2018.

### 14. *Responsibilities for Financial Statements*

The Directors are responsible for supervising the preparation of accounts for each financial period which shall present a true and fair view of the, results and cash flow of the Group during such period.

The duties of the external auditor of the Company, Da Hua Certified Public Accountants (Special General Partnership), are set out in the annual report.

15. The Company confirmed that it has received from each of the independent non-executive directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Listing Rules and the Company still considers the independent non-executive directors to be independent.

For details of the part, please refer to the Independent Directors' Work Report for the Year 2017 of the Company published at the website of the Company at [www.kmtcl.com.cn](http://www.kmtcl.com.cn) and the website of the Shanghai Stock Exchange at [www.sse.com.cn](http://www.sse.com.cn) on 28 April 2018.

16. There was no director of the Company intends to re-elect at the next annual general meeting, the period on expiration of directors has been stated in the annual report of the Company. There was no such service contracts being entered by the Company and the directors.
17. The listed issuer is required to include details of any service contracts that are exempt from relevant rules in accordance with the Rule 13.69 of the Listing Rules.

The directors' service contracts entered into by the issuer or any of its subsidiaries in accordance with the Listing Rules on or before 31 January 2004 are exempt from the shareholders' approval requirement under Rule 13.68 of the Listing Rules. Upon any variation as to duration or payment on termination or any other material terms of the directors' service contracts or renewal of any such directors' service contracts, the issuer must comply in full with the requirements set out in Rule 13.68 in respect of the service contracts effected after such variation or renewal. Pursuant to paragraph 14A of Appendix 16 of the Listing Rules, the issuer must include particulars of any service contracts that are exempt under this rule in its annual reports during the term of any such service contracts.

## CORPORATE GOVERNANCE

18. The Company is required to include the particulars (nature and scope) of transaction, arrangement or contract of significance subsisting during or at the end of the financial year in which the Directors or an entity connected with him/she is or was materially interested, either directly or indirectly. For details of the part, please refer to "XIX. Related Party Transactions of the Company during the Reporting Period", the related chapter – SIGNIFICANT EVENTS in the annual report.
19. There was no pre-emptive rights exist in the jurisdiction in which the Company is incorporated or otherwise established.
20. The Company will include the information necessary to enable holders of the its listed securities to obtain any relief from taxation to which they are entitled, and such relief from taxation are entitled for their status as the holder of such securities.
21. The Company is required to state the sufficiency of its public float.
22. The details of change in auditors of the Company in any of the past three years.

On 10 August 2015, the second extraordinary general meeting of 2015 approved the appointment of Ruihua Certified Public Accountants (Special General Partnership) as the auditor of the Company in 2015. On 31 October 2017, the third extraordinary general meeting of 2017 approved Da Hua Certified Public Accountants (Special General Partnership) to re-audit the annual report of the Company for 2016, and to be the auditor of the Company in 2017.

23. *Listing Rules 14A.71(6) – Disclosures Related to Continuing Connected Transactions (Information) in Annual Reports*

(14A.71 The listed issuer's annual report must contain details of the connected transactions during the financial year (including continuing connected transactions under agreements signed in previous years): (6) for continuing connected transactions, (a) a confirmation from the listed issuer's independent non-executive directors on the matters set out in Rule 14A.55 of the Listing Rules; and (b) a statement from the listed issuer's board of directors whether the auditors have confirmed the matters set out in Rule 14A.56 of the Listing Rules.

## RELEVANT INFORMATION ON CORPORATE BONDS

The Company had no relevant information on corporate bonds during the reporting period.

# 2017 ENVIRONMENTAL, SOCIAL AND GOVERNANCE

## INTRODUCTION

This report reviewed the work and performance of Shenji Group Kunming Machine Tool Co., Ltd (the “Company”), and revealed the Company’s ideal, implementation and results on fulfilling the economic, environmental and social responsibility.

## BASIS OF PREPARATION

This report is written according to the Environmental, Social and Governance Reporting Guide (“ESG Reporting Guide”) in Appendix 27 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company has complied with the disclosure requirement of “comply or explain” provisions under the ESG Reporting Guide.

## TIME RANGE

From 1 January 2017 to 31 December 2017

## SOURCE OF INFORMATION

All the information contained in this report is the summary and statistic figures of the performance of the Company in fulfilling our duties and the contents of all information have been reviewed by the management of the Company or competent departments.

## DISCLAIMER

This report includes forward-looking statements. Except for historical facts, all events or expression of events which may happen or will happen in the future (including but not limit to premises, targets, estimations and business plan) belong to forward-looking statements. Due to the influence of external variable factors, the results of future developments or trends of the facts may be different from the statements. The forward-looking statements in this report were made in March 2018. The Company has no obligation or responsibility to amend the statements.

### I. Overview of The Company

Shenji Group Kunming Machine Tool Co., Ltd is one of the key enterprises in China manufacturing large high-precision machine tools. The Company has developed more than 140 machine tools as “First of its kind in China” The predecessor of the Company was the Central Machine Factory (Zhongyang Jiqi Chang) established in 1936, and was renamed Kunming Machine Tool Factory in 1953. The company was officially established on 19th October 1993 in the name of Kunming Machine Tool Co. Ltd. The Company became one of the first batch of standardized share-holding pilot enterprises listed in Hong Kong, and became the only A+H Shares listed company listed on the domestic and overseas markets in Yunnan Province and the domestic equipment industry.

On 5th June 2001, as shares of the Company being transferred to Xi’an Jiaotong University Industrial (Group) Incorporation (“Jiaotong Group”), Jiaotong Group became the largest shareholder of the Company. Following the share transference, the Company was renamed “Jiaoda Kunji High-Tech Company Limited” and the name was officially registered on 29th March 2002.

On 1st December 2006, Jiaotong Group transferred the shares to Shenyang Machine Tool (Group) Co., Ltd. (“Shenyang Group”) and made it the largest shareholder of the Company. On 23rd March 2007, following the decision made on the General Meeting of Shareholders of Jiaoda Kunji High-Tech Company Limited, the Company was named Shenji Group Kunming Machine Tool Co., Ltd.

# 2017 ENVIRONMENTAL, SOCIAL AND GOVERNANCE

## II. Core Values of the Company

To take innovation as the priority, to take quality as the foundation and to take precision as the soul.

## III. Environmental Impact

### 3.1 Emission

The Company strictly complied with the environmental protection laws and regulations such as Environmental Protection Law of the People's Republic of China, Law of the People's Republic of China on the Prevention and Control of Atmospheric Pollution and Law of the People's Republic of China on Prevention and Control of Water Pollution.

The Company has made its own water control procedure. A sewage collection and treatment system was built in the manufacturing area, waste water generated during the manufacturing process will be reused after treatment.

### 3.2 Use of resources

The Company makes use of different measures to utilize resources more efficiently, such as enhancements on designs with advanced technologies, improvement on management, pooling of resources and recycling of waste water.

Other than implementing management measures to save energy and water, the Company also provides environmental safety trainings to employees to raise their awareness and promote the idea of conserving electricity and water.

## IV. Social Impact

### 4.1 Employment

The Company complied with the Labour Protection Law of the PRC etc. laws and regulations strictly and the internal policy on human resources management of the Company to select employees on a fair, open, and equitable basis.

The Company issued the Remuneration Management Measures of Shenji Group Kunming Machine Tool Co., Ltd., pursuant to which a sound remuneration management system has been established, with clearly defined constituents of total remuneration, post-specific and performance based salaries, remuneration management and distribution, settings of post-specific salaries, and the principles and measures for assessment and adjustments. The remuneration consists of basic salary, job position salary, performance salary, special bonus, transportation fee and meal expenses. The Company further enhanced salary control and management and continued to carry out two performance appraisals. The first performance appraisal is conducted monthly by the Company according to the breakdown indexes and main duties of various units; the second performance appraisal, which is specific to every post and every employee, is made by various units based on the scheme of the first performance appraisal. Moreover, the Company also complies with the laws and regulations and provides well-developed welfare services, including pensions, medical insurance, work-related injury insurance, maternity insurance, unemployment insurance and housing funds. In addition, apart from statutory holidays, the Company also provides arrangements on marital leave, maternity leave, annual vacation, personal leave with a suitable reason and sick leave.

## 2017 ENVIRONMENTAL, SOCIAL AND GOVERNANCE

### 4.2 *Trainings and motivation mechanism*

There are two levels of trainings in the Company. The training on the company level includes the enhancement of cohesion and trainings for key individuals and managers, while the trainings on department level focus more on skill training according to the need of each department. The training plan of both levels are decided at the beginning of every year and trainings are implemented accordingly, while the human resources department is responsible for the management, monitoring and assessment of the trainings.

The Company respects and recognizes the contribution of every employees and have an effective appraisal system to conduct comprehensive assessment and evaluation on the performance of employees. The evaluation result will be an important reference for the promotion and selection of managers.

### 4.3 *Health and Safety of Employees*

We attribute great importance to the health and safety of employees, and provide guidance on safety protection in the work process through promotions and trainings.

We exercise safety management based on the Law on Safety in Production. Responsibilities are delegated to each level with a high demand on the management of work procedure, we protect the safety and health of employees with a high sense of responsibility. In order to 'standardize the procedure and operation', we develop a Technical Operation Safety Standard to clarify the responsibilities, obligations and rights of employees to the safety of production to improve their safety awareness and strengthen their knowledge in identifying source of danger. Apart from safety operation certificates, our special operation personnel must also undergo professional trainings and pass the examination, only after obtaining the "Special Operation Certificate" issued by the higher safety supervision and management department can they take the post.

We arrange regular body check-ups and screenings of occupational illness of special operations for employees over 30, in order to ensure the health of employees.

### 4.4 *Management of Supply Chain*

Suppliers are important business partners for the enterprises. In order to achieve the long-term and stable development of the Company, we pay close attention to the operation of the suppliers and their continuous development.

We select our suppliers on a fair, open and equitable basis and evaluate the product's qualities, prices and cooperation abilities of suppliers, and even investigate through field studies to the suppliers that provide important raw materials, to ensure that the materials supplied follow the standards on quality, environmental impact and safety. In addition, we also select suppliers through public biddings to ensure that the purchased materials can satisfy the needs of the Company's production, reduce procurement costs and improve supply chain management.

## 2017 ENVIRONMENTAL, SOCIAL AND GOVERNANCE

### 4.5 *Product responsibility*

The Company attached great importance to the product quality. In accordance with GB/T 19001-2016 idt ISO 9001:2015 the Requirements for Quality Management System and GB/T 24001-2016 idt ISO 14001:2015 the Requirements and User Guide for Environmental Management Systems and combining the actual and development needs of the Company, the Company stipulates the quality and environmental responsibilities of each units and put forward the operational requirements for quality and environmental management system. Such documents are the programmatic documents and action guide for quality and environmental management system of the Company. With the lead of the leaders of the Company, we dedicate ourselves to meet the demands of our clients and improve the procedures base on the data and information of feedbacks. Our goals on product quality are 100% of qualified products, 80% of customers satisfaction, 100% of qualified machine parts, 100% of response rate to complains and 100% of Improvement measures completion.

The implementation of quality monitoring management of the Company covers every step of production. The process of production and services are monitored and assessed, which allows us to discover and solve product quality problems in time.

### 4.6 *Anti-corruption*

We comply strictly to laws and regulations in order to completely eliminate illegal acts like bribing, blackmailing, fraud and money laundering.

We have developed and implemented an anti-corruption system which sets requirements for the ethics and conducts of high-level managers and general staff and expresses a zero tolerance towards corruption. Moreover, by having a reasonable separation in duties and the procedure of cross-approval, the possibility of corruption is lowered.

The Company has disciplinary inspection and supervision office, and petition reception room. We support and encourage our employees, suppliers and customers to make complains and supervise the business integrity operation of the Company.

## V. **Major Achievements and Certificates**

The Company's main business includes R&D, design, manufacture and sale of horizontal boring machine, large NC floor-type milling and boring machine, NC gantry-type boring and milling machine, NC planer-type boring and milling machine, jig boring machine, horizontal boring and milling machining center, precision rotary table and other products. The Company has long been the first choice of various key industries like machining, automotive manufacturing, plane manufacturing and aerospace industry. Our clients include various wholly foreign-owned enterprises and large-scale private enterprises, who are generally very satisfied of our products. Most of our key products are considered as top-quality products in China, and our market share in China is over 30%. We have developed over 200 types of products, and 148 of them are the first of its kind in China. We have also received over 80 awards in scientific research from the national, provincial and municipal departments, and 18 awards of product qualities from ministry level or above, with 2 National Quality Gold Awards and 3 National Quality Silver Awards. We have been awarded the 'Top 100 National Enterprises with Excellent Qualities' and the brand of "Kunji" is well-known in China.

In September 2011, the Company's technology center became the national certification level enterprise technology center. In addition, the Company also owns the "National Local Joint Large Precision CNC Machine Engineering Research Center" and "Yunnan Precision Machine Tool Engineering Technology Research Center" etc. technology innovation platform, which provide us the opportunities to undertake 6 national technology projects and participate in 14 national technology projects. The Company also participated in 3 provincial technology projects and received 1 first award, 3 second awards and 2 third awards from provincial government on technology improvements.

# 2017 ENVIRONMENTAL, SOCIAL AND GOVERNANCE

## VI. Corporate Governance

The Company is committed to compliance with regulatory requirements and according to the international recommended practice to continuously improve the corporate governance practices.

We have adopted the Appendix 14, Corporate Governance Code the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and use it as an principle of governance.

For a more detailed report on our governance policy and other data, please refer to the governance report in the 2017 annual report of the Company.

## VII. Future Prospects

To focus on finance to create value for shareholders; focus on the market to create value for customers and focus on products to create value for the industry, while maintaining the management on conventional products, the Company will have three strategic transition in the market in the next three years, firstly, transition from universal machine tools to industrial specialized machine tools. Aim at national strategic focuses and emerging industries such as aviation industry, military equipment, railway, wind power and automotive market to conduct market layout, and re-divide the market by region and industry, secondly, transition from single-machine manufacturing to intelligent solutions, implementing Machine tool + Internet and transition to industry service provider, and thirdly, transition from domestic market to international market. Based on international market special demand, continue to develop export products, with emphasis on products required for industrialization of developing countries. The proportion of export goods should reach over 10% within the next 3 years.

## VIII. Content Index of the Environmental, Social and Governance Reporting Guide of the Hong Kong Stock Exchange

Main scope Aspects	General Disclosures and key performance indicators ("Comply or explain" Provisions)	Page
<b>A. Environment</b>		
Aspect A1:	General Disclosure:	
Emissions	(a) the policies; and  (b) compliance with relevant laws and regulations that have a significant impact on the issuer  relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	74
Aspect A2:	General Disclosure:	
Use of Resources	Policies on the efficient use of resources, including energy, water and other raw materials.	74
Aspect A3:	General Disclosure:	
The Environment and Natural Resources	Policies on minimising the issuer's significant impact on the environment and natural resources	74

## 2017 ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Main scope Aspects	General Disclosures and key performance indicators ("Comply or explain" Provisions)	Page
<b>B. Society</b>		
<i>Employment and Labour Standards</i>		
Aspect B1: Employment	General Disclosure: (a) the policies; and  (b) compliance with relevant laws and regulations that have a significant impact on the issuer  relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	74
Aspect B2: Health and Safety	General Disclosure: (a) the policies; and  (b) compliance with relevant laws and regulations that have a significant impact on the issuer  relating to providing a safe working environment and protecting employees from occupational hazards.	75
Aspect B3: Development and Training	General Disclosure: Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	75
Aspect B4: Labour Standards	General Disclosure: (a) compliance with relevant laws and regulations that have a significant impact on the issuer; and  (b) operation practice  relating to preventing child and forced labour.	74-75
Aspect B5: Supply Chain Management	General Disclosure: Policies on managing environmental and social risks of the supply chain.	75

## 2017 ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Main scope Aspects	General Disclosures and key performance indicators ("Comply or explain" Provisions)	Page
Aspect B6: Product Responsibility	<p>General Disclosure:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.</p>	76
Aspect B7: Anticorruption	<p>General Disclosure:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to bribery, extortion, fraud and money laundering.</p>	76
KPI B 7.2	Describe preventive measures and reporting procedures, and related implementation and monitoring methods	76

# FINANCIAL REPORT

## I. AUDITORS' REPORT

Applicable Not applicable

### AUDITORS' REPORT

Da Hua Shen Zi [2018] No. 001105

#### All Shareholders of Shenji Group Kunming Machine Tool Company Limited:

##### I. Opinion

We have audited the financial statements of Shenji Group Kunming Machine Tool Company Limited ("the Company"), which comprise the consolidated balance sheet and balance sheet of parent as at 31 December 2017, the consolidated income statement and income statement of parent, the consolidated cash flow statement and cash flow statement of parent, the consolidated statement of changes in shareholders' equity and statement of changes in shareholders' equity of parent for the year then ended 2017, and related notes to the financial statements.

In our opinion, the accompanying Financial Statements prepared in accordance with the requirements of Accounting Standards for Business Enterprises, give a fair view of the Company's consolidated financial position and consolidated financial position of parent as at 31 December 2017, and of its consolidated financial performance and cash flows of parent for the year then ended 2017.

##### II. Basis For Opinion

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

##### III. Material Uncertainty Related to Going Concern

We draw the attention from users of financial statement to that, the Company incurred a net loss of RMB352,133,461.54 in 2017, and as at 31 December 2017, the current liabilities of the Company exceeded its total current assets by RMB438,320,716.82. The matters indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our audit opinion made was not affected by the matter.

##### IV. Emphasis of Matter

1. As stated in note XV to the financial statement, the Company was subject to the penalty by the China Securities Regulatory Commission (the "CSRC") for financial frauds, which will likely be subject to the penalty by Hong Kong Stock Exchange and claims from investors in future. Up to the date of the auditors' report, we are unable to predict the effects of these matters on the future financial statements of the Company.
2. Xi'an Ser Turbo Machinery Manufacturing Co., Ltd. and Changsha Ser Turbine Machinery Co., Ltd, the important subsidiaries of the Company, have suffered continuous losses, insolvency, suit brought by the debtor, frozen bank accounts and business stagnation due to mismanagement, these two important subsidiaries may liquidate in the future.

We draw the attention from users of financial statement to that, this explanatory paragraph does not affect the audit opinion made.

# FINANCIAL REPORT

## I. AUDITORS' REPORT *(Continued)*

### V. Key Audit Matters

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

We determine that the following are key audit matters that need to be communicated in the auditors' report:

1. Correction of accounting errors of prior periods;
2. Revenue recognition and costs carrying forward;
3. Impairment of inventories.

### (I) Correction of Accounting Errors of Prior Periods

#### 1. *Penalty by the CSRC*

##### (1) Description of the key audit matter

As stated in note XV(I) to the financial statement, according to the inspection results of "Announcement on the Decision of Administrative Penalties Issued by CSRC (the Company and Wang Xing and Chang Baoqiang etc. 23 Responsible Persons)" issued by the CSRC on 12 February 2018, regarding the false increase of the cost of revenue, the inter-period revenue and falsely increased revenue of the Company from 2013 to 2015 of RMB483,080,163.99 should be reduced; business taxes and surcharges of RMB9,867,912.30, impairment losses of assets of RMB36,857,915.08 and sales expenses of RMB2,589,621.35 should be reduced, and reduced operating costs of RMB235,272,252.56 simultaneously. Regarding understatement of termination benefits and senior management remuneration, increased general and administrative expenses of RMB29,608,616.03 from 2013 to 2015. After adjustment, at the beginning of 2016, the undistributed profits decreased by RMB228,101,078.73.

The Company conducted the errors correction to the above three previous accounting errors based on the results of the self-inspection in the 2016 annual report which published on 24 April 2017. After the CSRC published the inspection results, the Company made additional adjustments according to the inspection results. After adjustments, decreased the profit of RMB29,027,658.95 in the period of 2016, increased undistributed profit of RMB4,597,923.08 at the beginning of 2017, increased accounts receivable of RMB5,801,738.62 at the beginning of the year, increased advances from customers of RMB946,819.48 at the beginning of the year and increased taxes payable at the beginning of the year of RMB256,996.06.

##### (2) How our audit addressed the key audit matter

- ① We checked the accounting treatment on correction of accounting errors of the Company and verified whether the Company's correction of accounting errors was accurate;
- ② We verified the existence of accounting errors of prior periods based on the implementation results of inspection procedures of revenue, cost and inventory;
- ③ We verified the accuracy of the correction of accounting errors of prior periods based on the confirmation results of customers and suppliers in 2016 and 2017;
- ④ We recalculated termination benefits and senior management bonus based on the Company's remuneration policy of employee to verify the accuracy of correction of accounting errors.

# FINANCIAL REPORT

## I. AUDITORS' REPORT *(Continued)*

### 2. *Correction of Other Accounting Errors*

- (1) Description of the key audit matter  
As stated in note XV(I) to the financial statement, the problems including assets not being transferred in fixed assets in time led to less depreciation and more capitalized loan interest, understatement of the freight and warranty in selling and distribution expenses, understatement of termination benefits in general and administrative expenses (2016) and understatement of inventory impairment at the end of the period (2016) were found in the Company in the previous years. The Company corrected the accounting errors for the matter, and the undistributed profits at the beginning of 2017 was totally reduced by RMB128,269,104.64.
- (2) How our audit addressed the key audit matter
  - ① We checked the appropriateness of the relevant accounting policies implemented by the Company and whether they have been implemented effectively;
  - ② We verified the existence of accounting errors of prior periods based on the implementation results of audit procedures of opening data;
  - ③ We verified the accuracy of the correction of accounting errors of prior periods based on the implementation results of audit procedures of related items at the end of 2016 and 2017;
  - ④ We checked the sufficiency and appropriateness of the presentation and disclosure of the above related items in the financial statements.

Based on the audit evidence obtained, we believe that the accounting treatment, presentation and disclosure of data for 2017 by the management of the Company are appropriate.

## (II) Revenue Recognition and Costs Carrying Forward

### 1. *Description of the key audit matter*

As stated in note IV, (XXIII) and note VI, note 37 to the financial statement, the time of revenue recognition of sales of machine tool, the Company's principal activity, is the delivery of the product to the customer's designated delivery place and the revenue recognition after acceptance. As the operating revenue recognition and the costs carrying forward have had a significant impact on the Company, accordingly, we have determined that as a key audit matter.

### 2. *How our audit addressed the key audit matter*

The major auditing procedures we implemented for the matter include:

- (1) We understood, tested and evaluated the internal control systems related to revenue recognition and costs carrying forward;
- (2) We reviewed the appropriateness of accounting policies for revenue recognition and costs carrying forward of the Company and whether they have been implemented effectively;
- (3) We selected the majority of sample size in the annual income for testing;
- (4) We checked the sales contracts, delivery invoices, transportation contracts, insurance policies and acceptance certificates of the each single sales against the sample selected item by item based on the sales process, and comprehensively evaluated the realization of revenue based on the evidence obtained;
- (5) We further recognized the realization of revenue by combining the accounts receivable, advances from customers and revenue confirmations, as well as post-payment test of sales;

# FINANCIAL REPORT

## I. AUDITORS' REPORT *(Continued)*

- (6) We conducted on-site verification of important customers, related parties and abnormal customers;
- (7) We implemented analytical procedures on a monthly, yearly basis, matched the sales volume of all machine tool with quantity and amount of costs carrying forward based on the standard cost of the whole machine and the result of opening and closing physical stock-take, to confirm whether the calculation for cost of principal activities of the current period is accurate;
- (8) We included the partial inventory loss into the cost of principal activities according to the Company's cost reverse accounting policy based on the result of physical stock-take;
- (9) We checked the sufficiency and appropriateness of the presentation and disclosure of the revenue and cost of the Company in the financial statements.

Based on the audit evidence obtained, we believe that the accounting treatment, presentation and disclosure of revenue recognition and costs carrying forward for 2017 by the management of the Company are appropriate.

## (III) Provision for Diminution in Value of Inventories

### 1. *Description of the key audit matter*

As stated in note VI, note 6 to the financial statement, the closing balance of inventory of the Company accounted for a larger proportion of total assets, the value of closing inventory has a significant impact on the financial statements. With the continuous updating of technology and the change of market demand orientation, longer aged inventories may result in a greater impairment risk. Provision for diminution in value of inventories has a significant impact on the financial statements of the Company and involves significant judgments of the management. Accordingly, we have determined that as a key audit matter.

### 2. *How our audit addressed the key audit matter*

The major auditing procedures we implemented for the matter include:

- (1) We understood, tested and evaluated the internal control systems related to provision for diminution in value of inventories;
- (2) We conducted supervision of inventory count for all inventories and pay attention to the appearance, quality and age of the inventory;
- (3) We checked the long aged obsolete products, defective products and other inventories that are exposed to diminution in value based on the result of physical stock-take, carried out the diminution in value of inventories tests, and make corresponding adjustments to the inventory gain and inventory loss;
- (4) We engaged an independent evaluating institution with securities qualification to evaluate the opening and closing inventory, and made provision for diminution in value of the closing inventories based on the evaluation result;
- (5) We checked the sufficiency and appropriateness of the presentation and disclosure related with the provision for diminution in value of inventories of the Company.

Based on the audit evidence obtained, we believe that the presentation and disclosure of provision for diminution in value of inventories by the management of the Company are appropriate.

# FINANCIAL REPORT

## I. AUDITORS' REPORT *(Continued)*

### VI. Other Information

The management of the Company is responsible for the other information. The other information comprises the information included in the 2017 annual report, but does not include the financial statements and our auditors' report thereon.

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

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

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

### VII. Responsibilities of Management and Governance Layer for the Financial Statements

The management of the Company is responsible for preparing financial statements in accordance with Accounting Standards for Business Enterprises, and fairly presenting them; designing, implementing and maintaining internal control which is necessary to enable that the financial statements are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the management of the Company is responsible for assessing the Company's ability to continue as a going concern, disclosing matters in relation to going concern and applying the going-concern assumption unless the management intends to liquidate the Company, cease operations, or have no realistic alternative but to do so.

The governance layer is responsible for overseeing the financial reporting process of the Company.

### VIII. Auditors' Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with the auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

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

# FINANCIAL REPORT

## I. AUDITORS' REPORT *(Continued)*

3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management' use of the going-concern assumption and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw the attention from users of the report in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the information obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Da Hua Certified Public Accountants  
(Special General Partnership)

Chinese Certified Public Accountant  
(project partner): Ao Du Ji Ya

Beijing, China

Chinese Certified Public Accountant: Xu Ping

27 April 2018

# FINANCIAL REPORT

## II. FINANCIAL STATEMENTS

### Consolidated Balance Sheet

As at 31st December 2017

Item	Note	2017	Unit: RMB 2016
<b>Current assets:</b>			
Cash at bank and on hand		91,148,044.38	343,677,662.66
Bills receivable		29,684,093.00	39,373,107.19
Accounts receivable		254,544,796.00	278,873,873.56
Prepayments		38,114,906.00	59,323,830.30
Other receivables		19,794,921.53	16,723,929.54
Inventories		561,821,346.40	752,464,775.39
Other current assets		18,165,469.49	47,844,664.26
<b>Total current assets</b>		<b>1,013,273,576.80</b>	<b>1,538,281,842.90</b>
<b>Non-current assets:</b>			
Available-for-sale financial assets		612,000.00	612,000.00
Long-term equity investments		10,039,220.02	13,146,238.82
Investment properties		14,826,693.00	15,265,292.10
Fixed assets		409,396,449.93	461,611,632.46
Construction in progress		54,044,868.15	41,937,441.52
Intangible assets		178,785,639.52	186,819,053.82
Development expenditure		4,150,415.13	-
Deferred tax assets		2,393,247.69	2,435,115.38
Other non-current assets		4,116,091.08	4,116,091.08
<b>Total non-current assets</b>		<b>678,364,624.52</b>	<b>725,942,865.18</b>
<b>Total assets</b>		<b>1,691,638,201.32</b>	<b>2,264,224,708.08</b>
<b>Current liabilities:</b>			
Short-term loans		363,683,036.94	560,672,720.00
Bills payable		-	15,273,453.50
Accounts payable		320,626,464.70	406,765,144.78
Advances from customers		282,852,805.07	257,040,805.89
Employee benefits payable		39,039,042.73	44,829,997.01
Taxes payable		11,643,532.84	15,083,482.35
Interests payable		390,593.75	344,375.00
Dividends payable		135,898.49	135,898.49
Other payables		388,757,750.80	285,856,014.96
Non-current liabilities due within one year		45,000,000.00	85,000,000.00
<b>Total current liabilities</b>		<b>1,452,129,125.32</b>	<b>1,671,001,891.98</b>

# FINANCIAL REPORT

## II. FINANCIAL STATEMENTS (Continued)

Item	Note	2017	Unit: RMB 2016
<b>Non-current liabilities:</b>			
Long-term loans		1,665,275.66	46,665,275.66
Long-term employee benefits payable		41,689,562.44	49,142,395.32
Special payables		20,947,539.29	20,947,539.29
Provisions		10,513,913.91	11,241,782.51
Deferred income		195,202,914.02	141,102,491.10
<b>Total non-current liabilities</b>		<b>270,019,205.32</b>	<b>269,099,483.88</b>
<b>Total liabilities</b>		<b>1,722,148,330.64</b>	<b>1,940,101,375.86</b>
<b>Shareholders' equity:</b>			
Share capital		531,081,103.00	531,081,103.00
Capital reserve		19,765,031.17	19,765,031.17
Surplus reserve		117,077,019.33	117,077,019.33
Retained earnings		-706,144,182.57	-356,450,991.71
Total equity attributable to shareholders of the Company		-38,221,029.07	311,472,161.79
Non-controlling interests		7,710,899.75	12,651,170.43
<b>Total shareholders' equity</b>		<b>-30,510,129.32</b>	<b>324,123,332.22</b>
<b>Total liabilities and shareholders' equity</b>		<b>1,691,638,201.32</b>	<b>2,264,224,708.08</b>

Legal representative of the Company:  
Wang He

The person in charge of accounting affairs:  
Xu Juan

The head of the accounting department:  
Xu Juan

# FINANCIAL REPORT

## II. FINANCIAL STATEMENTS (Continued)

### Balance Sheet

As at 31st December 2017

Item	Note	2017	2016
<i>Unit: RMB</i>			
<b>CURRENT ASSETS:</b>			
Cash at bank and on hand		53,738,819.88	298,043,233.13
Bills receivable		10,552,823.00	6,525,750.00
Accounts receivable		308,723,821.26	324,115,591.45
Prepayments		22,473,939.73	15,572,683.58
Dividends receivable		11,000,000.00	11,000,000.00
Other receivables		53,709,323.75	41,032,216.72
Inventories		395,361,175.05	558,862,837.41
Other current assets		17,386,311.22	47,625,577.91
<b>TOTAL CURRENT ASSETS</b>		<b>872,946,213.89</b>	<b>1,302,777,890.20</b>
<b>NON-CURRENT ASSETS:</b>			
Long-term equity investments		56,472,191.03	59,579,209.83
Investment properties		14,826,693.00	15,265,292.10
Fixed assets		369,864,949.39	415,981,935.24
Construction in progress		54,044,868.15	41,937,441.52
Intangible assets		168,324,633.19	175,776,465.41
Development expenditure		4,150,415.13	-
Other non-current assets		4,116,091.08	4,116,091.08
<b>TOTAL NON-CURRENT ASSETS</b>		<b>671,799,840.97</b>	<b>712,656,435.18</b>
<b>TOTAL ASSETS</b>		<b>1,544,746,054.86</b>	<b>2,015,434,325.38</b>
<b>CURRENT LIABILITIES:</b>			
Short-term loans		340,000,000.00	501,300,000.00
Bills payable		-	33,690,000.00
Accounts payable		250,156,983.11	277,343,117.18
Advances from customers		185,644,384.34	164,236,104.47
Employee benefits payable		37,892,556.89	42,487,825.94
Taxes payable		8,535,984.19	8,576,726.70
Interests payable		390,593.75	344,375.00
Other payables		383,363,172.19	285,060,914.44
Non-current liabilities due within one year		45,000,000.00	85,000,000.00
<b>TOTAL CURRENT LIABILITIES</b>		<b>1,250,983,674.47</b>	<b>1,398,039,063.73</b>

# FINANCIAL REPORT

## II. FINANCIAL STATEMENTS (Continued)

Item	Note	2017	Unit: RMB 2016
<b>NON-CURRENT LIABILITIES:</b>			
Long-term borrowings		1,665,275.66	46,665,275.66
Long-term employee benefits payables		41,689,562.44	49,142,395.32
Special payables		20,947,539.29	20,947,539.29
Provisions		9,286,536.28	10,325,106.79
Deferred income		193,562,914.02	139,462,491.10
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>267,151,827.69</b>	<b>266,542,808.16</b>
<b>TOTAL LIABILITIES</b>		<b>1,518,135,502.16</b>	<b>1,664,581,871.89</b>
<b>Shareholders' equity:</b>			
Share capital		531,081,103.00	531,081,103.00
Capital reserve		27,303,321.72	27,303,321.72
Surplus reserve		117,077,019.33	117,077,019.33
Retained earnings		-648,850,891.35	-324,608,990.56
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>26,610,552.70</b>	<b>350,852,453.49</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>1,544,746,054.86</b>	<b>2,015,434,325.38</b>

Legal representative of the Company:  
Wang He

The person in charge of accounting affairs:  
Xu Juan

The head of the accounting department:  
Xu Juan

# FINANCIAL REPORT

## II. FINANCIAL STATEMENTS (Continued)

### Consolidated Income Statement

For the year 2017

Item	Note	2017	2016
<i>Unit: RMB</i>			
<b>1. Operating income</b>		<b>560,399,237.36</b>	<b>645,877,233.13</b>
<b>2. Operating costs</b>		<b>919,141,058.64</b>	<b>1,203,289,676.94</b>
Including: Operating costs		582,290,174.33	664,781,791.69
Business taxes and surcharges		7,115,290.08	13,465,325.20
Selling and distribution expenses		85,193,796.00	84,248,636.53
General and administrative expenses		170,013,131.66	207,779,711.41
Financial expenses		56,469,493.05	55,433,277.60
Provision of impairment losses		18,059,173.52	177,580,934.51
Investment income ("-" for loss)		-3,107,018.80	-625,304.03
Including: income from investments in associates and joint ventures		-3,107,018.80	-625,304.03
Income from disposal of assets ("-" for loss)		802,737.87	216,268,375.86
Other income		8,883,770.03	-
<b>3. Operating profit ("-" for loss)</b>		<b>-352,162,332.18</b>	<b>-341,769,371.98</b>
Add: Non-operating income		1,828,974.47	29,573,279.10
Less: Non-operating expenses		1,052,847.51	5,307,853.33
<b>4. Profit before income tax ("-" for loss)</b>		<b>-351,386,205.22</b>	<b>-317,503,946.21</b>
Less: Income tax expenses		747,256.32	23,748,933.95
<b>5. Net profit for the year ("-" for loss)</b>		<b>-352,133,461.54</b>	<b>-341,252,880.16</b>
(1) Classification according to the continuity of operation			
Continuous operating net profit ("-" for net loss)		-352,133,461.54	-341,252,880.16
(2) Classification of ownership according to ownership			
Non-controlling interest		-2,440,270.68	-44,039,971.18
Net profit attributable to shareholders of the parent company		-349,693,190.86	-297,212,908.98
<b>6. Total comprehensive loss for the year</b>		<b>-352,133,461.54</b>	<b>-341,252,880.16</b>
Attributable to: Shareholders of the Company		-349,693,190.86	-297,212,908.98
Non-controlling interests		-2,440,270.68	-44,039,971.18
<b>7. Earnings per share:</b>			
(1) Basic earnings per share (dollar/share)		-0.67	-0.64
(2) Diluted earnings per share (dollar/share)		-0.67	-0.64

Legal representative of the Company:  
Wang He

The person in charge of accounting affairs:  
Xu Juan

The head of the accounting department:  
Xu Juan

# FINANCIAL REPORT

## II. FINANCIAL STATEMENTS (Continued)

### Income Statement

For the year 2017

Item	Note	Unit: RMB	
		2017	2016
<b>1. Operating income</b>		<b>464,213,170.74</b>	<b>591,982,951.64</b>
Less: Operating costs		505,302,115.68	625,530,463.86
Business taxes and surcharges		5,803,350.73	11,041,976.53
Selling and distribution expenses		74,021,485.97	72,796,936.99
General and administrative expenses		146,888,313.52	182,659,079.77
Financial expenses		54,077,111.93	49,816,884.16
Provision of impairment losses		10,372,787.96	120,291,653.80
Investment income ("-“ for loss)		-607,018.80	-625,304.03
Including: Income from investments in associates and joint ventures		-3,107,018.80	-625,304.03
Income from disposal of assets ("-“ for loss)		727,818.03	208,278,453.04
Other income		8,522,770.03	-
<b>2. Operating profit ("-“ for loss)</b>		<b>-323,608,425.79</b>	<b>-262,500,894.46</b>
Add: Non-operating income		371,722.70	21,551,442.26
Less: Non-operating expenses		1,005,197.70	3,650,628.50
<b>3. Loss before income tax ("-“ for loss)</b>		<b>-324,241,900.79</b>	<b>-244,600,080.70</b>
Less: Income tax expenses		-	23,655,654.95
<b>4. Net profit for the year ("-“ for loss)</b>		<b>-324,241,900.79</b>	<b>-268,255,735.65</b>
(1) Continuous operating net profit ("-“ for net loss)		-324,241,900.79	-268,255,735.65
<b>5. Total comprehensive profit for the year</b>		<b>-324,241,900.79</b>	<b>-268,255,735.65</b>

Legal representative of the Company:  
Wang He

The person in charge of accounting affairs:  
Xu Juan

The head of the accounting department:  
Xu Juan

# FINANCIAL REPORT

## II. FINANCIAL STATEMENTS (Continued)

### Consolidated Cash Flow Statement

For the year 2017

Item	Note	2017	Unit: RMB 2016
<b>1. Cash flows from operating activities:</b>			
Cash from sale of goods and rendering of services		692,430,529.00	308,139,160.06
Cash relating to other operating activities		<u>172,208,301.67</u>	<u>206,912,083.29</u>
Sub-total of cash inflows from operating activities		<u>864,638,830.67</u>	<u>515,051,243.35</u>
Payment for goods and services		486,972,040.24	283,646,341.61
Payment to and for employees		173,076,092.29	219,534,128.37
Payment for all types of taxes		19,943,111.63	30,074,784.65
Payment relating to other operating activities		<u>185,468,567.32</u>	<u>56,468,618.52</u>
Sub-total of cash outflows from operating activities		<u>865,459,811.48</u>	<u>589,723,873.15</u>
Net cash flows from operating activities		<u>-820,980.81</u>	<u>-74,672,629.80</u>
<b>2. Cash flows from investing activities:</b>			
Cash received from withdrawal of investment		-	-
Cash received from returns on investments		-	357,460.29
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		3,585,434.39	424,543,052.10
Net cash received from disposals of subsidiaries and other business units		-	-
Other cash received relating to investing activities		<u>-</u>	<u>80,196,621.21</u>
Sub-total of cash inflows from investing activities		<u>3,585,434.39</u>	<u>505,097,133.60</u>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		22,898,832.93	22,559,088.35
Cash paid for investment		-	-
Net increase in pledged loans		-	-
Net cash paid for acquisition of a subsidiary or other business unit		-	-
Other cash paid relating to investing activities		<u>-</u>	<u>50,951,127.12</u>
Sub-total of cash outflows from investing activities		<u>22,898,832.93</u>	<u>73,510,215.47</u>
Net cash flows from investing activities		<u>-19,313,398.54</u>	<u>431,586,918.13</u>

# FINANCIAL REPORT

## II. FINANCIAL STATEMENTS (Continued)

Item	Note	2017	Unit: RMB 2016
<b>3. Cash flows from financing activities:</b>			
Cash received from borrowings		410,024,100.00	594,659,703.21
Other cash received relating to financing activities		<u>82,717,500.00</u>	<u>412,010,000.00</u>
Sub-total of cash inflows from financing activities		<u>492,741,600.00</u>	<u>1,006,669,703.21</u>
Cash repayments of borrowings		607,013,783.06	657,089,911.61
Cash paid for distribution of dividends, profit or repayment of interest		45,818,853.85	40,029,418.46
Incl. dividends or profit paid to non-controlling interests by subsidiaries		-	-
Other cash paid relating to financing activities		<u>55,000,000</u>	<u>412,010,000.00</u>
Sub-total of cash outflows from financing activities		<u>707,832,636.91</u>	<u>1,109,129,330.07</u>
Net cash flows from financing activities		<u>-215,091,036.91</u>	<u>-102,459,626.86</u>
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>-111,118.04</b>	<b>-142,817.45</b>
<b>5. Net increase in cash and cash equivalents</b>		<b>-235,336,534.30</b>	<b>254,311,844.02</b>
Add: Cash and cash equivalents at the beginning of the period		<u>325,599,849.77</u>	<u>71,288,005.75</u>
<b>6. Cash and cash equivalents at the end of the period</b>		<b><u>90,263,315.47</u></b>	<b><u>325,599,849.77</u></b>

Legal representative of the Company:  
Wang He

The person in charge of accounting affairs:  
Xu Juan

The head of the accounting department:  
Xu Juan

# FINANCIAL REPORT

## II. FINANCIAL STATEMENTS (Continued)

### Cash Flow Statement

For the year 2017

Item	Note	2017	Unit: RMB 2016
<b>1. Cash flows from operating activities:</b>			
Cash from sale of goods and rendering of services		539,658,021.01	363,976,487.27
Refund of tax and levies		-	-
Cash relating to other operating activities		<u>196,185,518.42</u>	<u>163,590,336.00</u>
Sub-total of cash inflows from operating activities		<u>735,843,539.43</u>	<u>527,566,823.27</u>
Payment for goods and services		354,908,819.79	359,612,647.61
Payment to and for employees		166,092,378.43	186,128,937.88
Payment for all types of taxes		11,054,273.26	14,985,222.12
Payment relating to other operating activities		<u>177,410,245.87</u>	<u>43,480,875.99</u>
Sub-total of cash outflows from operating activities		<u>709,465,717.35</u>	<u>604,207,683.60</u>
Net cash flows from operating activities		<u>26,377,822.08</u>	<u>-76,640,860.33</u>
<b>2. Cash flows from investing activities:</b>			
Cash received from withdrawal of investment		-	-
Cash received from returns on investments		-	-
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		4,262,347.03	410,486,606.46
Net cash received from disposals of subsidiaries and other business units		-	-
Other cash received relating to investing activities		<u>-</u>	<u>75,196,322.83</u>
Sub-total of cash inflows from investing activities		<u>4,262,347.03</u>	<u>485,682,929.29</u>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets		23,549,995.22	27,071,139.84
Cash paid for investment		-	-
Net cash paid for acquisition of a subsidiary or other business unit		-	-
Other cash paid relating to investing activities		<u>-</u>	<u>41,292,188.13</u>
Sub-total of cash outflows from investing activities		<u>23,549,995.22</u>	<u>68,363,327.97</u>
Net cash flows from investing activities		<u>-19,287,648.19</u>	<u>417,319,601.32</u>

# FINANCIAL REPORT

## II. FINANCIAL STATEMENTS (Continued)

Item	Note	2017	Unit: RMB 2016
<b>3. Cash flows from financing activities:</b>			
Cash received from absorbing investment		-	-
Cash received from borrowings		170,000,000.00	554,743,703.21
Cash received from issuance of bonds		-	-
Other cash received relating to financing activities		82,717,500.00	361,010,000.00
Sub-total of cash inflows from financing activities		<u>252,717,500.00</u>	<u>915,753,703.21</u>
Cash repayments of borrowings		416,300,000.00	618,339,911.61
Cash paid for distribution of dividends, profit or repayment of interest		15,504,757.54	37,505,611.27
Other cash paid relating to financing activities		55,000,000.00	357,844,700.00
Sub-total of cash outflows from financing activities		<u>486,804,757.54</u>	<u>1,013,690,222.88</u>
Net cash flows from financing activities		<u>-234,087,257.54</u>	<u>-97,936,519.67</u>
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<u>-114,245.62</u>	<u>-140,436.28</u>
<b>5. Net increase in cash and cash equivalents</b>		<b>-227,111,329.27</b>	<b>242,601,785.04</b>
Add: Cash and cash equivalents at the beginning of the period		<u>279,965,420.24</u>	<u>37,363,635.20</u>
<b>6. Cash and cash equivalents at the end of the period</b>		<u><b>52,854,090.97</b></u>	<u><b>279,965,420.24</b></u>

Legal representative of the Company:  
Wang He

The person in charge of accounting affairs:  
Xu Juan

The head of the accounting department:  
Xu Juan

# FINANCIAL REPORT

## II. FINANCIAL STATEMENTS (Continued)

### Consolidated Statement of Changes in Shareholders' Equity

For the year 2017

Unit: RMB

Item	2017										Total shareholders' equity
	Attributable to shareholders of the Company										
	Share capital	Other equity instrument	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserve	General risk reserves	Retained earnings	Non-controlling interest	
I. Closing balance as at the end of the prior year	531,081,103.00	-	19,765,031.17	-	-	-	117,077,019.33	-	-356,450,991.71	12,651,170.43	324,123,332.22
II. Balance at the beginning of the current year	531,081,103.00	-	19,765,031.17	-	-	-	117,077,019.33	-	-356,450,991.71	12,651,170.43	324,123,332.22
III. Changes in the period ("-" for decrease)	-	-	-	-	-	-	-	-	-349,693,190.86	-4,940,270.68	-354,633,461.54
1. Total comprehensive income	-	-	-	-	-	-	-	-	-349,693,190.86	-2,440,270.68	-352,133,461.54
2. Appropriation of profits	-	-	-	-	-	-	-	-	-	-2,500,000.00	-2,500,000.00
3. Distribution to shareholders	-	-	-	-	-	-	-	-	-	-2,500,000.00	-2,500,000.00
IV. Balance at the end of the year	531,081,103.00	-	19,765,031.17	-	-	-	117,077,019.33	-	-706,144,182.57	7,710,899.75	-30,510,129.32
	2016										
	Attributable to shareholders of the Company										
	Share capital	Other equity instrument	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserve	General risk reserves	Retained earnings	Non-controlling interest	Total shareholders' equity
I. Closing balance as at the end of the prior year	531,081,103.00	-	19,765,031.17	-	-	-	117,077,019.33	-	221,249,204.66	60,628,266.18	949,800,624.34
Corrections of prior period errors	-	-	-	-	-	-	-	-	-280,487,287.39	-3,937,124.57	-284,424,411.96
II. Balance at the beginning of the current year	531,081,103.00	-	19,765,031.17	-	-	-	117,077,019.33	-	-59,238,082.73	56,691,141.61	665,376,212.38
III. Changes in the period ("-" for decrease)	-	-	-	-	-	-	-	-	-297,212,908.98	-44,039,971.18	-341,252,880.16
1. Total comprehensive income	-	-	-	-	-	-	-	-	-297,212,908.98	-44,039,971.18	-341,252,880.16
IV. Balance at the end of the year	531,081,103.00	-	19,765,031.17	-	-	-	117,077,019.33	-	-356,450,991.71	12,651,170.43	324,123,332.22

Legal representative of the Company:  
Wang He

The person in charge of accounting affairs:  
Xu Juan

The head of the accounting department:  
Xu Juan

# FINANCIAL REPORT

## II. FINANCIAL STATEMENTS (Continued)

### Statement of Changes in Shareholders' Equity

For the year 2017

Unit: RMB

Item	2017									
	Share capital	Other equity instrument	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserve	Retained earnings	Total shareholders' equity	
I. Closing balance as at the end of the prior year	531,081,103.00	-	27,303,321.72	-	-	-	117,077,019.33	-324,608,990.56	350,852,453.49	
II. Balance at the beginning of the current year	531,081,103.00	-	27,303,321.72	-	-	-	117,077,019.33	-324,608,990.56	350,852,453.49	
III. Changes in the period ("-" for decrease)	-	-	-	-	-	-	-	-324,241,900.79	-324,241,900.79	
1. Total comprehensive income	-	-	-	-	-	-	-	-324,241,900.79	-324,241,900.79	
IV. Balance at the end of the year	<u>531,081,103.00</u>	<u>-</u>	<u>27,303,321.72</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,077,019.33</u>	<u>-648,850,891.35</u>	<u>26,610,552.70</u>	
	2016									
Item	Share capital	Other equity instrument	Capital reserve	Less: treasury stock	Other comprehensive income	Special reserves	Surplus reserve	Retained earnings	Total shareholders' equity	
I. Closing balance as at the end of the prior year	531,081,103.00	-	27,303,321.72	-	-	-	117,077,019.33	221,351,368.06	896,812,812.11	
Corrections of prior period errors	-	-	-	-	-	-	-	-277,704,622.97	-277,704,622.97	
II. Balance at the beginning of the current year	531,081,103.00	-	27,303,321.72	-	-	-	117,077,019.33	-56,353,254.91	619,108,189.14	
III. Changes in the period ("-" for decrease)	-	-	-	-	-	-	-	-268,255,735.65	-268,255,735.65	
1. Total comprehensive income	-	-	-	-	-	-	-	-268,255,735.65	-268,255,735.65	
IV. Balance at the end of the year	<u>531,081,103.00</u>	<u>-</u>	<u>27,303,321.72</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>117,077,019.33</u>	<u>-324,608,990.56</u>	<u>350,852,453.49</u>	

Legal representative of the Company:  
Wang He

The person in charge of accounting affairs:  
Xu Juan

The head of the accounting department:  
Xu Juan

# FINANCIAL REPORT

## III. CORPORATE INFORMATION

### (I) Overview of the Company

Applicable Not applicable

1. *The registered address of the Company, the type of organization, and the address of headquarters*

Shenji Group Kunming Machine Tool Company Limited (the “Company”) was established in the People’s Republic of China (“the PRC”) with limited liability on 19th October 1993. The place of registration of the Company is 23 Ciba Road, Kunming City, Yunnan Province, the PRC.

The Company is a stock company limited by restructuring from Kunming Machine Tool Plant approved by [1993] no. 173 Ti Gai Sheng issued by the State Economic Reform Commission. The name at establishment was Kunming Machine Tool Company Limited (“Kunji”). Kunming Machine Tool Plant used its assets and liabilities at 30th June 1993 to invest in the Company. The above assets and liabilities were assessed by Shanghai Accounting Firm. The assessed net assets were RMB179,258,700. The assessment was approved by [1993] no. 420 Guo Zi Ping issued by the National State-owned assets Administration Commission. According to [1993] no. 114 Guo Zi Qi Han Fa issued by the National State-owned assets Administration Commission, the assessed state-owned land use rights included in the above net assets should be reduced by RMB34,217,100, meanwhile, 82.74% of the adjusted net assets (assessment value was RMB145,041,600) was discounted to 120,007,400 shares with par value RMB1.00 per share. The original investors of Kunming Machine Tool Plant, Yunnan Provincial People’s Government and Kunming Jinghua Company Ltd., held 102,397,700 and 17,609,700 shares respectively.

Approved by [1993] no. 50 Zheng Wei Fa issued by the Security Commission of the State Council, Kunji issued and listed 65,000,000 H shares with par value RMB1.00 per share in the Stock Exchange of Hong Kong Limited in December 1993. Then, it issued and listed 60,000,000 A shares with par value RMB1.00 per share in Shanghai Stock Exchange in January 1994.

On 25th December 2000, Xi’an Jiaotong University Industrial (Group) Incorporation (“Jiaotong Group”) entered into Shares Transfer Agreement of Jiaoda Kunji High-Tech Company Limited with the People’s Government of Yunnan Province (“Yunnan Government”) whereby Yunnan Government would transfer 71,052,146 state-owned shares of the Company to Jiaotong Group. The transaction was approved by [2001] no. 283 Cai Qi – the Approval of State-owned Shares Transfer of Jiaoda Kunji High-tech Company Limited issued by the Ministry of Finance of the PRC. Upon completion of share transfer procedure on 5th June 2001, Jiaotong Group became the largest shareholder of the Company.

With effective from 29th March 2002, the Company used the name “Jiaoda Kunji High Tech Company Limited” (“Jiaoda Kunji”) jointly approved by the State Administration for Industry and Commerce of the PRC and the Ministry of Foreign Trade and Economic Cooperation of the PRC after completing the business registration for change of company name in Yunnan Commercial and Industrial Administration Bureau. On 15th September 2005, Jiaotong Group and Shenyang Machine Tool (Group) Co., Ltd. (“Shenji Group”) entered into a Share Transfer Agreement. Shenji Group agreed to purchase 71,052,146 shares of Jiaoda Kunji held by Jiaotong Group. The share transfer was approved pursuant to the “Written Reply Regarding the Transfer of State-owned Shares of Jiaoda Kunji High-tech Co., Ltd.” (Guo Zi Chan Quan [2006] No. 628) issued by State-owned Assets Supervision and Administration Committee of the State Council and the Opinion on Information Disclosure of the Acquisition of Jiaoda Kunji High-tech Co., Ltd. by Shenyang Machine Tool (Group) Co., Ltd. (Zheng Jian Gong Si [2006] No. 255) by China Securities Regulation Committee. On 1st December 2006, the register of equity transfer was completed and Shenji Group became the largest shareholder of the Company.

# FINANCIAL REPORT

## III. CORPORATE INFORMATION *(Continued)*

### (I) Overview of the Company *(Continued)*

1. *The registered address of the Company, the type of organization, and the address of headquarters (Continued)*

On 4th April 2006, pursuant to the "Written Reply of the People's Government of Yunnan Province Regarding the Transfer of Title of Jiaoda Kunji High-Tech Co., Ltd." issued by the People's Government of Yunnan Province and the "Written Reply of Yunnan State-owned Assets Supervision and Administration Committee regarding the Grant of Authorization to Yunnan State-owned Assets Operation Co., Ltd. to Exercise the Shareholders' Right of Jiaoda Kunji High-tech Co., Ltd." issued by Yunnan State-owned Assets Supervision and Administration Committee, 31,345,554 state-owned shares held by the People's Government of Yunnan were transferred to Yunnan State-owned Assets Operation Co., Ltd. ("Yunnan State-owned Assets Operation Co., Ltd.") at nil consideration on 31st December 2005. The share transfer was approved by the State-owned Assets Supervision and Administration Committee of the State Council pursuant to the "Written Reply regarding the Transfer of Part of the State-owned Shares of Jiaoda Kunji High-Tech Co., Ltd." (Guo Zi Chan Quan [2006] No. 1412). The transfer was completed on 19th January 2007.

On 25th January 2007, the "Written Reply regarding the Transfer of Shares and Increase in Share of Jiaoda Kunji High-Tech Co., Ltd." (Shang Zi Pi [2007] No. 133) was issued by the Ministry of Commerce of the PRC to approve the share reform proposal of the Company, pursuant to which a total of 38,235,855 shares (as to 28,091,955 A Shares and 10,143,900 H Shares respectively) were transferred from the capital reserve to all the shareholders whose names appeared on the Company's register of members on 26th February 2007 on the basis of 1.5606 shares for every 10 shares held. On 5th March 2007, the holders of non-circulating shares of the Company made the payment with a total of 18,728,355 shares held as consideration to the holders of circulating A Shares on the basis of 2.7 shares for every 10 shares held. The new A Shares were listed on 7th March 2007. Of 18,728,355 shares, Shenji Group, Yunnan State-owned Assets Operation Co., Ltd. and Jinghua Company contributed as to 11,088,398 shares, 4,891,787 shares and 2,748,170 shares respectively. After implementation of the consideration arrangement, non-circulating shares held by the holders of non-circulating shares of the Company became tradable and listed.

On 23rd March 2007, approved by the shareholders' meeting of Jiaoda Kunji, Jiaoda Kunji High-Tech Company changed its name to Shenji Group Kunming Machine Tool Company Limited.

Approved by the annual general meeting of the Company held on 29th June 2007, based on total share capital of 283,243,255 shares of the Company, increased shares on the basis of 5 shares for every 10 shares held to all the shareholders by capitalization of capital reserve, totally increased 141,621,628 shares. After share increase, total issued shares of the Company was 424,864,883 shares, and total registered capital of the Company was RMB424,864,883. The resolution was approved by the "Written Reply Regarding the Change of Name and Increase in Share Capital of Jiaoda Kunji High-Tech Co., Ltd." (Shang Zi Pi [2007] No. 1390) issued by the Ministry of Commerce of the PRC.

Pursuant to the "Written Reply on the Change in Shareholders of the Six Listed Companies including Yunnan Salt & Chemical Industry Co., Ltd." (Guo Zi Chan Quan [2009] No. 1182) issued by the State-owned Assets Supervision and Administration Commission of the State Council on 22nd October 2009, 47,018,331 shares of the Company held by Yunnan State Owned Assets Operation Co. Ltd. were transferred to Yunnan Industrial Investment Holding Group Co., Ltd. ("Yunnan Industrial Investment") to perform the obligations as the contributor of state-owned assets.

# FINANCIAL REPORT

## III. CORPORATE INFORMATION *(Continued)*

### (I) Overview of the Company *(Continued)*

1. *The registered address of the Company, the type of organization, and the address of headquarters (Continued)*

Approved by the shareholders' meetings held on 23rd June 2010, based on total share capital of 424,864,883 shares of the Company, increased shares on the basis of 2.5 shares for every 10 shares held to all the shareholders by capitalization of capital reserve, totally increased 106,216,220 shares. After share increase, total issued shares of the Company would be 531,081,103 shares, and total registered capital of the Company would be RMB531,081,103. The resolution was approved by the "Written Reply from the Department of Commerce of Yunnan Province Concerning its Consent to the Increase in Share Capital by Capitalization of the Capital Reserve by Shenji Group Kunming Machine Tool Company Limited" (Yun Shang Zi [2010] No. 130).

As at 31 December 2016, the number of the total issued shares of the Company is 531,081,103 shares, and the registered capital of the Company is RMB531,081,103.00.

The registered address of the Company is 23 Ciba Road, Kunming City, Yunnan Province, the PRC.

2. *The nature of the Company's business and its main business activities*

The Company is in machinery manufacturing industry, it engages in R&D, design, manufacture and sales of horizontal boring and milling machine tool, floor-type boring and milling tool etc. and provide service to such products.

3. *The approval of the financial statements*

The financial statements are reported after approval by the board of directors of the Company on 27 April 2018.

### (II) Scope of the Consolidated Financial Statements

Applicable Not applicable

The consolidated financial statements of the Company include 4 companies, which are:

The name of subsidiaries	The type of Subsidiaries	Rank	Percentage of shareholdings (%)	Percentage of voting rights (%)
Xi'an Ser	Limited liability company	2	45	57.14
Changsha Ser	Limited liability company	3	100	100
Kunming TOS	Limited liability company	2	50	57.14
General Machine	Limited liability company	2	100	100

*Note:* Both the percentage of voting rights of the Company in Xi'an Ser and Kunming TOS are 57.14% which determined based on the percentage of voting rights of the Company in the board of directors of the investee companies. The Company has control over the financial and operational decision-making of the investee companies, and is able to exercise its power over Xi'an Ser and Kunming TOS to influence the amount of its attributable variable returns. Therefore, the Company has treated the investee companies as its subsidiaries and adopted the cost method for accounting.

As compared with same period of last year, the entities included in the consolidated financial statements have no change.

# FINANCIAL REPORT

## IV. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

### (I) Basis of Preparation

The Company's financial statements are prepared on a going concern basis.

The Company prepared the financial statements based on actual transactions and events, in accordance with the Accounting Standards for Business Enterprises-Basic Standards promulgated by the Ministry and specific accounting standards, the application guidelines of the Accounting Standards for Business Enterprises, interpretations and other related rules of the Accounting Standards for Business Enterprises (hereinafter referred to as "ASBEs"), and the disclosure requirements of the "Regulation on the Preparation of Information Disclosures of Companies Issuing Public Shares, No. 15: General Requirements for Financial Reports" (revised in 2014) of China Securities Regulatory Commission.

### (II) Going concern

Applicable Not applicable

The sustainability of the 12 months of the report from the end of the period has been evaluated. No significant matters or situation has been found which could influence the ability to maintain its sustainability. Therefore, the financial statements are based on the assumption of going concern.

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

### 1. Statement of compliance with the accounting standards for business Enterprises

The financial statements have been prepared by the Company in conformity with the ASBEs, which truly and fully reflect the financial position of the Company and relevant information of operating results. change in shareholders' equity and cash flows.

### 2. Accounting period

The accounting year of the Company is from 1 January to 31 December of each calendar year.

### 3. Operating cycle

Applicable Not applicable

### 4. Recording currency

The recording currency of the Group is Renminbi (RMB).

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 5. Accounting method for business combination under the common control and not under the common control

Applicable Not applicable

(1) To take many transactions as a package transactions for accounting treatment, the terms, conditions, and economic effects of each transaction in a step by step process conform to one or more of the following cases:

- i. These transactions are occurred at the same time or have considered the impact of each other.
- ii. All these transactions together can achieve a complete business result.
- iii. The occurrence of a transaction depends on the occurrence of at least one other transaction.
- iv. A deal alone is not economical, but it is economic when considering together with other transactions.

(2) *Enterprise merger under common control*

The assets and liabilities acquired by our company during business combination shall be measured according to the book value of the assets and liabilities of the merged party, including the final controlling party's acquisition of the merged party, in the consolidated financial statements of the final controlling party. The difference between the net assets book value acquired in the merger and the book value of the combined consideration value (or the total value of the issued shares) should be adjusted by the equity premium in the capital surplus, if it is not enough, adjust retained earnings.

If there exist contingent consideration which need to confirm the estimated liabilities or assets, the difference between the estimated liabilities or the amount of assets and the price of subsequent contingent consideration, we should adjust the capital surplus (capital premium or equity premium). When the capital surplus is insufficient, adjust the retained earnings.

As enterprise merger realized by multiple transactions which belong to a package transaction, considering these transactions as a control transaction when carrying out accounting method. In the case of non-package transactions, on the day of gaining control day, the difference between the initial investment cost of long-term equity investment and the book value of the new payment consideration with the sum of the book value of the new share price before the merger should be adjusted by adjusting capital surplus. If the capital stock is not enough to be reduced, the retained earnings will be adjusted. Accounting treatment would not be carried out for equity investment which measured by equity method or identification and measurement criteria for financial instruments before merger until disposing of the investment based on the same assets or liabilities that are directly disposed of with the invested unit. Changes in the owner's equity exclude net profit and loss, other comprehensive income and profit distribution would not be processed until the changes is transferred into the current profits and losses.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 5. Accounting method for business combination under the common control and not under the common control *(Continued)*

#### *(3) Enterprise merger not under common control*

The purchase date refers to the date that the Company actually obtains the control right of the buyer, that is, the date of transfer of the net assets of the buyer or the control right of production and operation decision to the Company. The Company generally believes that the transfer of control is realized when the following conditions are met:

- i. An enterprise merger contract or agreement has been approved by the internal authority of the Company.
- ii. The merger of enterprises should be approved by the relevant competent authorities of the state and has been approved.
- iii. The necessary transfer procedures for property rights have been carried out.
- iv. The Company has paid most of the consolidated price and has the ability and plan to pay the surplus.
- v. The Company has actually controlled the financial and operating policies of the purchaser and has the corresponding interest and the corresponding risk.

The difference between the fair value and the book value when the assets, liabilities incurred or incurred on the purchase date is included in the profits and losses of the current period.

When the cost of the merger is larger than the fair value share of the recognizable net assets obtained by the purchaser, the difference between these two is confirmed as the goodwill. When cost of the merger is less than the fair value of the recognizable net assets obtained by the purchase, the difference shall be counted into the profit and loss of the current period after the review.

In a business combination not under common control that is realized by a stage-up approach with multiple transactions, in case of a package of transactions, should be accounted with all transactions as the one to acquire the control; in case of not a package of transactions, should be accounted under equity method: the equity investment held before the date of combination, the sum of the carrying amount of the equity investment held by the acquiree before the date of acquisition and the cost of new investment on the date of acquisition are recognised as the initial investment cost of such investment; due to the other comprehensive income accounted and recognised under equity method, the equity investment held before the date of acquisition is accounted on the same basis as used for disposal of relevant assets or liabilities of the investee when disposal of such investment. Where the equity investment held before the date of combination is accounted according to the recognition and measurement criteria for financial instruments, the sum of the fair value of such equity investment on the date of combination and the new investment cost are accounted as the initial investment cost on the date of combination. The difference between the fair value of the original equity and its carrying amount and the accumulative changes originally included in the other comprehensive income are transferred to current investment income on the date of combination.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 5. Accounting method for business combination under the common control and not under the common control *(Continued)*

#### (4) *The costs of merger*

Intermediary costs and other direct related expenses, such as audit, legal service, evaluation and consultation, and other direct related expenses, are included in the current profit and loss at the time of occurrence. The transaction costs for the issue of equity securities for an enterprise which could be directly attributable to the rights and interests can deduct from rights and interests.

### 6. Preparation of consolidated financial statements

✓Applicable    Not applicable

#### (1) *Scope of the merger*

The consolidation scope of the Group's consolidated financial statements is determined by the basis of control. All subsidiaries (including the separate entity controlled by the parent company) are included in the consolidated financial statements.

#### (2) *Consolidated procedures*

Based on the financial statements of their own and each subsidiary, the Company prepare the consolidated financial statements refer to other relevant information. The Company consider the entire enterprise group as an accounting entity when preparing the consolidated financial statements. In accordance with the relevant accounting standards of measurement and reporting requirements, unified accounting policies reflect the enterprise overall financial status, operating results and cash flow.

All subsidiaries included in the consolidated financial statements are consistent with accounting polices. When the accounting policies adopted by the subsidiaries inconsistent with the Company, the necessary adjustment period according to the Company's accounting policies and accounting is needed.

The consolidated financial statements set off the internal transactions between the Company and its subsidiaries which affect the consolidated balance sheet, the consolidated income statement, the consolidated cash flow statement and the consolidated shareholders' equity change statement. When the opinion of group consolidated financial statements and the subsidiaries are different, the transitions should be adjusted from the perspective of enterprise group.

The share of minority shareholders in the owner's equity, current net profit and loss and current comprehensive income is separately shown under the owner's equity item of the consolidated balance sheet, the net profit item and the total income of the consolidated income statement and the total income item. The current share losses shared by minority shareholders exceed the balance formed by the minority shareholders' share in the initial owner's equity, then deduct the difference between these two from minority shareholders' rights and interests.

When the subsidiary which was under the same control acquired through business combination, the financial statements should be adjusted based on the book value of its assets and liabilities in the final control party's financial statements (including the goodwill caused by the final controlling party's acquisition of the subsidiary).

When the subsidiary which was not under the same control acquired through business combination, the financial statements should be adjusted which was based on fair value of the identifiable net assets at the acquisition date.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 6. Preparation of consolidated financial statements *(Continued)*

#### *(3) Addition of subsidiary or business*

During the reporting period, if there is an addition of subsidiary or business due to business combination under common control, the amount at the beginning of the period in the consolidated balance sheet will be adjusted; the income, expenses and profit of the subsidiary or business combination from the beginning of the period to the end of the reporting period will be included in the consolidated income statement; the cash flows of the subsidiary or business combination from the beginning of the period to the end of the reporting period will be included in the consolidated statement of cash flows, and relevant items in the comparative statements will also be adjusted as if the reporting entity after combination had been existing since the control of the ultimate controlling party started.

Where control over the investee under common control is obtained due to reasons such as increase in investments, adjustment is made as if the parties involved in the combination had been existing in the current condition since the control of the ultimate controlling party started. For equity investment held before the control over the acquiree is obtained, profit or loss, other comprehensive income and other changes in net assets recognised from the later of the acquisition of the original equity interest and the date when the acquirer and the acquiree were placed under common control until the date of combination are offset against retained earnings at the beginning of the period of the comparative statements or profit or loss of the period respectively.

During the reporting period, if there is an addition of subsidiary or business due to business combination not under common control, the amount at the beginning of the period in the consolidated balance sheet will not be adjusted; the income, expenses and profit of the subsidiary or business from the date of acquisition to the end of the reporting period will be included in the consolidated income statement; the cash flows of the subsidiary or business from the date of acquisition to the end of the reporting period will be included in the consolidated statement of cash flows.

Where control over the investee not under common control is obtained due to reasons such as increase in investments, for the equity interest of the acquiree held before the date of acquisition, the Company remeasures the equity interest at its fair value as at the date of acquisition, and any difference between the fair value and its carrying amount will be accounted for as investment gains of the period. Where equity interest of the acquiree held before the date of acquisition is related to other comprehensive income under equity accounting and other changes in owners' equity other than net profit or loss, other comprehensive income and profit distribution, other comprehensive income and other changes in owners' equity related thereto are transferred to investment gains of the period to which the date of acquisition belongs, except for other comprehensive income arising from the changes in net liabilities or net assets due to the re-measurement of defined beneficiary plans by the acquiree.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 6. Preparation of consolidated financial statements *(Continued)*

#### (4) *Disposal of Subsidiary or Business*

##### i. General treatment for disposal

During the reporting period, for the disposal of a subsidiary or business, the income, expenses and profit of the subsidiary or business from the beginning of the period to the date of disposal are included in the consolidated income statement; the cash flows of the subsidiary or business from the beginning of the period to the date of disposal are included in the consolidated statement of cash flows.

When control over the investee is lost due to the disposal of part of the equity investment or other reasons, the Company remeasures the remaining equity investment at fair value as at the date on which control is lost. The difference between the sum of the consideration received from equity disposal and the fair value of the remaining equity interest and the sum of the net assets of the subsidiary proportionate to the original shareholding accumulated from the date of acquisition or combination and goodwill is included in investment gains of the period during which the control is lost. Other comprehensive income related to the equity investment in the original subsidiary or other changes in owners' equity other than net profit or loss, other comprehensive income and profit distribution are transferred to investment gains of the period during which the control is lost, except for other comprehensive income arising from the changes in net liabilities or net assets due to the re-measurement of defined beneficiary plans by the investee.

##### ii. Stepwise Disposal of Subsidiary

In respect of stepwise disposal of equity investment in a subsidiary through multiple transactions until control is lost, if the terms, conditions and economic effects of the transactions of equity investment in the subsidiary satisfy one or more of the following conditions, the transactions are normally accounted for as a basket of transactions:

- (i) these transactions were entered into simultaneously or after considering the effects of each other;
- (ii) these transactions constituted a complete commercial result as a whole;
- (iii) one transaction was conditional upon at least one of the other transaction;
- (iv) one transaction was not economical on its own but was economical when considering together with other transactions.

Where the transactions of disposal of equity investment in a subsidiary until control is lost constitute a basket of transactions, the Company accounts for the transactions as a transaction of disposal of a subsidiary until control is lost; however, the difference between the amount received each time for disposal before control is lost and the net assets of such subsidiary corresponding to the disposal of investment is recognised as other comprehensive income in the consolidated financial statements, and is transferred to profit or loss of the period during which control is lost upon loss of control.

Where the transactions of disposal of equity investment in a subsidiary until control is lost do not constitute a package of transactions, before the loss of control, the transactions are accounted for using the policies related to partial disposal of equity investment in a subsidiary where no control is lost; when control is lost, they are accounted for using the general method for disposal of subsidiaries.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 6. Preparation of consolidated financial statements *(Continued)*

#### (5) *Purchase of Minority Interests in Subsidiary*

For the difference between the long-term equity investment newly acquired due to the purchase of minority interests by the Company and the share of net assets of the subsidiary calculated according to the new shareholding accumulated from the date of acquisition (or date of combination), share premium of the capital reserve in the consolidated balance sheet will be adjusted; where share premium of the capital reserve is insufficient for the write-down, retained earnings will be adjusted.

#### (6) *Partial Disposal of Equity Investment in Subsidiary without Loss of Control*

For the difference between the consideration received from partial disposal of long-term equity investment in a subsidiary without loss of control and the net assets of the subsidiary corresponding to the disposal of long-term equity investment accumulated from the date of acquisition or date of combination, share premium of the capital reserve in the consolidated balance sheet will be adjusted; where share premium of the capital reserve is insufficient for the write-down, retained earnings will be adjusted.

### 7. Category on joint arrangement and accounting treatment on joint operations

Applicable   Not applicable

#### (1) *Classification of joint venture arrangements*

The Company classifies the joint venture arrangements into joint operation and joint venture according to the structure, legal form of joint venture arrangement, the terms agreed in the joint venture arrangement, other relevant matters and situations.

Any joint venture arrangement that is not achieved by a separate entity shall be classified as a joint operation. Any joint venture arrangement that is achieved by a separate entity shall be generally classified as a joint venture. But if a joint venture arrangement is conclusively proved to meet any of the following conditions and meets the provisions of relevant laws and regulations, it shall be classified as joint operation:

- i. its legal form shows the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement.
- ii. contract terms of the joint venture arrangement stipulate that the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement.
- iii. other relevant facts and situations show that the joint ventures enjoy rights to and assume obligations for relevant assets and liabilities respectively in the arrangement. For example, the joint ventures enjoy almost all output related to the arrangement and repayment of liabilities in the arrangement consecutively relies on the joint ventures' supports.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 7. Category on joint arrangement and accounting treatment on joint operations *(Continued)*

#### *(2) Accounting method for joint operation*

The Company recognises the following items related to its share of benefits in the joint operation and conducts accounting treatment in accordance with relevant accounting standards for business enterprises:

- i. assets it solely holds and its share of jointly-held assets based on its percentage;
- ii. liabilities it solely assumes and its share of jointly-assumed liabilities based on its percentage;
- iii. incomes from sale of output enjoyed by it from the joint operation;
- iv. incomes from sale of output from the joint operation based on its percentage;
- v. separate costs and costs for the joint operation based on its percentage.

When the Company invests or sells assets and others in or to the joint operation (except for assets that constitute business), only that part of profits or losses from the transaction attributable to other participants to the joint operation shall be recognised before such assets and others are sold by the joint operation to a third party. If the invested or sold assets are of impairment loss subject to the Accounting Standards for Business Enterprises No.8 – Assets Impairment and other provisions, the Company shall recognise such loss in full.

When the Company purchases assets and others from the joint operation (except for assets that constitute business), only that part of profits or losses from the transaction attributable to other participants to the joint operation shall be recognised before such assets and others are sold to a third party. If the purchased assets are of impairment loss subject to the Accounting Standards for Business Enterprises No.8 – Assets Impairment and other provisions, the Company shall recognise its part of such loss based on its percentage.

If the Company has no joint control over a joint operation enjoys and assumes relevant assets and liabilities of the joint operation, it shall conduct accounting treatment in accordance with aforesaid principle; or it shall do the same in accordance with relevant accounting standards for business enterprises.

### 8. Cash and cash equivalents

Cash in the cash flow statement of the Group indicates both cash on hand and the deposit held in bank which are available for payment at any time. Cash equivalents are held less than 3 months, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of value change.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 9. Foreign exchange translation for financial statements

Applicable Not applicable

#### (1) *Transactions involving foreign currencies*

Foreign currency transactions of the Group are translated into RMB at the spot exchange rate on the date of the transaction.

The monetary items in foreign currency are translated into RMB at the spot exchange rate of the balance date. Except for the exchange difference caused by specific foreign currency loans made to purchase or manufacture assets which will be capitalized, the exchange difference is accounted into current profit or loss. For non-monetary items measured in foreign currency under historical cost method, the exchange rate on the date when the cost is recognised is applied and the amount in RMB is consistent.

When convert non-monetary items into foreign currency by the fair value of the spot exchange rate, the exchange difference is counted as the profits and losses of the current period as the profit and loss of the fair value change. If non-monetary item used for sale of foreign currency, the balance of exchange formed into other comprehensive benefits.

#### (2) *Foreign currency translation of financial statements*

The asset and liability items in the foreign currency balance sheets are translated at a spot exchange rate as at the balance sheet date. The owner's equity items, except for retained earnings, are translated at the spot exchange rate at the time when they are incurred. The income and expense items in the profit or loss statements are translated at the average exchange rate during the accounting period. The difference caused by above translation are separately presented under other comprehensive income.

When dealing with overseas operations, the difference between other comprehensive income items in the balance sheet and equivalent items of overseas operations in the foreign currency financial statements shall be transferred from other comprehensive income items to the current profits and losses. When disposing part of equity investment or other situation which leads to a reduction in the proportion of overseas business rights and interests but not lose control of overseas business, the difference between the foreign currency statements related to the overseas operation and disposal will be attributable to minority shareholders' rights and interests which means it will not be transferred into current profits or losses. When dealing with partial shares of overseas operation as a joint venture or a joint venture, the difference between the foreign currency statements related to the overseas operation is transferred to the current profit or loss according to the proportion of the overseas operation.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 10. Financial instruments

Applicable   Not applicable

Financial instruments include financial assets, financial liabilities, and equity instrument.

#### (1) *Category of financial instruments*

According to the terms of the contract issuing financial instruments which not only reflected in the form of law but economic essence with the purpose of holding financial assets and financial liabilities, the financial assets and financial liabilities are divided into different categories in the initial recognition: financial assets or financial liabilities at fair value through profit or loss, held-to-maturity investment, accounts receivable, financial assets available for sale, other financial liabilities.

#### (2) *The recognition and measurement of financial instruments*

- 1) Financial assets (financial liabilities) are measured in the fair value whose changes are recorded in the profit and loss of the current period  
Financial assets or financial liabilities are measured at fair value whose changes are included in the profits and losses of the current period, including trading financial assets or financial liabilities, and directly designated as financial assets or financial liabilities that are measured at fair value and whose changes are included in the profits and losses of the current period.

Trading financial assets or financial liabilities are financial assets or financial liabilities that meet one of the following conditions:

- i. The purpose of obtaining the financial assets or financial liabilities is to sell, buy back or redemption in the short term.
- ii. It is part of a portfolio of recognizable financial instruments for centralized management, and there is objective evidence that our company is managing short-term portfolios in short time.
- iii. Except: the derivatives which are belong to the financial derivatives but are designated as effective hedging instruments of derivatives, or the derivatives which are belong to financial guarantee contracts derivatives, or the derivatives which is linked to investment in equity instruments that are not quoted in active market and whose fair value cannot be measured reliably, meanwhile, those derivatives must be settled through the delivery of the equity instruments.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 10. Financial instruments *(Continued)*

#### (2) *The recognition and measurement of financial instruments (Continued)*

- 1) Financial assets (financial liabilities) are measured in the fair value whose changes are recorded in the profit and loss of the current period *(Continued)*  
A financial asset or financial liability can be designated as a financial asset or financial liability that is measured at fair value and is included in profit or loss at the initial measurement only when it met one of the following conditions:
  - i. The designation can eliminate or significantly reduce the relative gains or losses caused by different measurement basis of financial assets or liabilities.
  - ii. A formal written document on risk management or investment strategy has been stated that the financial asset portfolio, the financial liability portfolio, or the combination of the financial assets and financial liabilities shall be managed, evaluated and reported to key management personnel which based on fair value.
  - iii. A mixed tool containing one or more embedded derivatives, unless the embedded derivatives have no significant change in the cash flow of the mixed tools, or the embedded derivatives should not be separated from the related hybrid tools.
  - iv. A hybrid tool containing an embedded derivative that needs to be separated but cannot be measured separately on the balance sheet date of the time or subsequent balance sheet.

When acquire the financial assets or financial liabilities which based on fair value through profit or loss, take fair value as the initial confirmation amount (deducting announced but not cash dividends or have to pay interest on the bonds but not yet received), related transaction costs included in the current profits and losses. Interest or cash dividend obtained during the period of holding is recognized as the income of investment and at the end of the term, the changes in the fair value are included in the profit and loss of the current period. At the time of disposal, the difference between the fair value and the initial amount of account is confirmed as the income of the investment, while adjusting the profit and loss of the fair value change.

- 2) Accounts receivable  
Accounts receivable are non-derivative financial assets in active markets with no quotations, fixed amounts of recoveries or non-derivative financial assets.

Receivable creditor's rights which gain from external sales of goods or the provision of services of the Company and the holdings of debt, including accounts receivable and other receivables, notes receivable of other companies use the price of the contract or agreement to the buyer as the initial confirmation amount receivable; those which has financing nature determine the price by present value of initial recognition.

When retracted or disposed of, the difference between the price obtained and the book value of the receivable is included in the profit and loss of the current period.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 10. Financial instruments *(Continued)*

#### (2) *The recognition and measurement of financial instruments (Continued)*

##### 3) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments for which management has both positive intention and ability to hold to maturity.

When at the time of acquisition, the Company makes the sum of value of holding-to-maturity investments at fair value and the related transaction costs as these initial recognition amount of the holding to maturity investment (excluding the interest on bonds that has been paid to the interest rate but not yet received). During the period of holding, the interest income is confirmed in accordance with the cost of the balance and the actual interest rate which consider as gains on investments. The actual interest rate is determined at the time of acquisition and remains unchanged during the expected duration or within the shorter period of application. At the time of disposal, the difference between the cost of the price and the book value of the investment is counted into the income of the investment.

If held-to-maturity investment disposal or re-classified as other financial assets amount, the rest of the held-to-maturity investments after disposal or re-classified should be classified as available for sale financial assets when previous held-to-maturity take a big proportion in all held-to-maturity. On the date of reclassification, the difference between the book value of the investment and its fair value is included in other comprehensive income, and it is transferred to the current profit and loss when the sale of the financial asset is impaired or terminated. However, it can be excluded from the following circumstances:

- i. The date of sale or reclassification is closer to the maturity date or the redemption date of the investment, such as within three months before the expiration date. Meanwhile, the change of market interest rate has no significant influence on the fair value of the investment.
- ii. In accordance with the terms of payment agreed in the contract, the enterprise has withdrawn almost all the initial principal.
- iii. The sale or reclassification is caused by an independent event that is uncontrolled by the enterprise and is not expected to be repeated and is unreasonably expected.

##### 4) Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified as financial assets of any other class at initial recognition.

When at the time of acquisition, the Company makes the sum of value of available-for-sale financial assets and the related transaction costs as the initial confirmation amount of available-for-sale financial assets (deducting the cash dividends declared but not yet paid, or the interest on the bonds that have been paid to the interest rate but not yet received). Interest or cash dividends obtained during holding are recognized as investment returns. Gains or losses arising from the change of fair value of available-for-sale financial assets shall be directly included in other comprehensive income after deducting the impairment loss and the difference between the foreign currency and the monetary assets. The disposal of financial assets available for sale, the difference between the price obtained and the book value of financial assets, included in investment profits and losses, at the same time, the cumulative amount from the corresponding disposal amount of change in fair value will be directly included in other comprehensive income, investment income included.

The derivatives are measured as cost which is linked to investment in equity instruments that are not quoted in active market and whose fair value can not be measured reliably. Meanwhile, those derivatives must be settled through the delivery of the equity instruments.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 10. Financial instruments *(Continued)*

#### (2) *The recognition and measurement of financial instruments (Continued)*

##### 5) Other financial liabilities

In accordance with the sum of its fair value and the related transaction costs as the initial confirmation amount. Using amortized cost for follow-up measurement.

#### (3) *Recognition and measurement of financial assets transfer*

When the Company transfer financial assets, if the ownership of the financial asset transferred nearly all risks and rewards to the transferee, then confirm the termination of the financial assets. If such as retained nearly all risks and rewards of ownership of the financial asset, not derecognise the financial asset.

When judging whether the transfer of financial assets meets the conditions for the termination of the above financial assets, the principle of substance outweighs the form is used. The Company distinguishes the transfer of financial assets into the overall transfer and partial transfer of financial assets. The overall transfer of financial assets meets the conditions for termination of confirmation, then the difference between the following two amounts of money is included in the profit and loss of the current period:

- i. The book value of the transfer of financial assets.
- ii. The sum of the consideration received from the transfer and the total amount of the fair value change that is directly charged to the owner's equity (the case involving the transfer of the financial assets for the sale of the financial assets).

When part of the transfer of financial assets meet the conditions of termination of recognition, the entire book value of the transferred financial assets in derecognise part and confirm the termination part are allocated according to the fair value. The difference between the amount of the two items included in the current profits and losses:

- i. The book value of the termination part that is confirmed.
- ii. The sum of the corresponding amount of the termination confirmation part and the total amount of the fair value change of the termination confirmation part that was directly charged to the owner's equity (the case involving the transfer of the financial assets for the sale of the financial assets).

If the transfer of a financial asset does not meet the conditions for the termination of the confirmation, the financial asset is continued to be confirmed and the price received is recognized as a financial liability.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 10. Financial instruments *(Continued)*

#### (4) *Conditions for the confirmation of termination of financial liabilities*

If the current obligation of a financial liability has been completely or partially cancelled, the financial liability or part of the financial liability is terminated. If an agreement is signed with the creditor to replace the existing financial liabilities in the form of new financial liabilities and the new financial liabilities are substantially different from the terms of the existing financial liabilities, the existing financial liabilities shall be terminated and the new financial liabilities shall be recognized at the same time.

If a substantial modification is made to all or part of the contractual terms of the existing financial liabilities, the existing financial liabilities or part thereof shall be terminated. Meanwhile, the financial liabilities after the modified clauses shall be recognized as a new financial liability.

When the financial liabilities are completely or partially terminated, the difference between the book value of the financial liabilities that are terminated and the payment consideration will be included in the current profits and losses (including the transferred non-cash assets or the new financial liabilities).

If a company repurchases some of its financial liabilities, the total book value of the financial liability shall be allocated according to the relative fair value of the continued confirmation part and the termination confirmation part on the repurchase date. The difference between the book value assigned to the final confirmation part and the paid consideration is included in the current profit and loss (including the transferred non-cash assets or the new financial liabilities).

#### (5) *The method of determining the fair value of financial assets and financial liabilities*

When the financial assets or financial liabilities are in an active market, the quoted prices in active markets to determine these fair values. Active market quotation includes those related assets or liabilities which can be easy and regular to get from the exchange, traders, brokers, industry group, pricing mechanism or regulatory agencies and can represent the actual and often occur in even bargain basis market transactions.

The fair value of the initial or derived financial assets or financial liabilities are determined are based on the market price.

Valuation techniques are used to determine the fair value of the financial assets or financial liabilities that do not exist in an active market. In the valuation, valuation techniques are chosen which are available in the current circumstances and are supported by enough available data and other information. The input value is chosen that is consistent with the selection of market participants considering in the relevant assets or liabilities in the transaction of assets or liabilities and choose the relevant observable input as far as possible. Unobservable input values are used when the relevant observable input values are unavailable or unpracticable.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 10. Financial instruments *(Continued)*

#### (6) *Provision for impairment of financial assets (excluding receivables)*

The book value of the financial assets other than those of the financial assets that are measured at fair value and whose changes are included in the profits and losses of the current period are checked on the balance sheet date. If there is any objective evidence that the financial assets are impaired, the provision for impairment shall be made.

The objective evidence of the impairment of financial assets, including but not limited to:

- i. The issuer or debtor has serious financial difficulties.
- ii. The debtor violates the terms of the contract, such as the payment of interest or principal in default or overdue.
- iii. The creditor makes a concession to the debtor who has a financial difficulty, considering the economic or legal factors.
- iv. The debtor is likely to fail or carry out other financial restructuring.
- v. The financial assets cannot continue to be traded in the active market because the issuer has major financial difficulties.
- vi. The cash flow of an asset cannot identify a set of financial assets in the already reduced, but according to the published data for the overall evaluation found that the group of financial assets since its initial recognition of the expected future cash flow has been reduced and the measurement, such as the group of financial assets of the debtor to pay the ability to gradually deteriorate, the price of the debtor or the country or region where the unemployment rate increased, the collateral in the area decreased significantly, which the industry downturn.
- vii. There are significant adverse changes in the technology, market, economic or legal environment of the issuer of equity instruments, which may make it impossible for equity and tool investors to recover the cost of investment.
- viii. A serious or non-temporary decline in the fair value of an equity instrument investment.

Specific method for impairment of financial assets:

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 10. Financial instruments *(Continued)*

#### (6) Provision for impairment of financial assets (excluding receivables) *(Continued)*

##### 1) Provision for impairment of available-for-sale financial assets

The Company adopts specific identification to evaluate the equity instrument investment if the fair value of the equity instrument investment on the balance sheet date is less than 50% (inclusive) of the cost or is lower than the cost for more than one year (inclusive), impairment is indicated. If the fair value is less than 20% (inclusive) but not reached 50%, the Company will consider other relevant elements such as price fluctuations to determine whether impairment existed.

The costs stated in the preceding paragraph are based on the initial acquisition cost of the available-for-sale equity instrument less any recovered amount and amortized amount and previously recognised impairment losses. The "fair value" is determined at the closing price of the stock exchange at the end of the period, unless that available-for-sale equity instrument investment is subject to a lockup period. For the sale of the available-for-sale equity instrument investment subject to a lockup period, the fair value shall be determined at the closing price of the stock exchange at the end of the period after deducting the amount of compensation required by the market participant for the risk of not being able to sell the equity instrument in the open market for a specified period.

When an available-for-sale financial asset is impaired, even if the financial asset is not terminated, the accumulated loss resulting from the decrease of the fair value which will directly take part in other comprehensive will be transferred from the other comprehensive income to the current profit and loss. The total loss from the transfer is equal to the cost of the initial acquisition cost of the sale of financial assets after deducting the sum of the recovered principal and the remaining amount, the current fair value and the impairment loss that has been included in the profit and loss.

For available-for-sale debt instruments that have been identified for impairment loss and its fair value has increased which objectively related to the matter of confirmation of the original impairment loss during the subsequent accounting period, its original recognized impairment loss is to be transferred back to the current profit and loss. The loss of impairment of available-for-sale equity instruments which are in the investment for sale is turned back through equity when the value of the equity tool rebounded. However, the investment of an equity instrument whose the fair value is not reliably measured and not quoted in an active market or the impairment loss of a derivative financial asset which is associated with equity instrument and has to be settled through the equity tool shall not reversed.

##### 2) Provision for impairment of held-to maturity investment

There is evidence that prove the depreciation of held-to-maturity investment. The impairment loss provision is determined by the difference between its book value and the present value of expected future cash flow margin. If the evidence shows that its value has been restored, the original recognized impairment loss can be transferred back to the current profit or loss. However, the carrying value of the returned asset will not exceed the amortized cost of the financial asset on the return date when the value is not prepared.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 10. Financial instruments *(Continued)*

#### (7) *Offset of financial assets and financial liabilities*

Financial assets and financial liabilities are presented in the balance sheet respectively and are not offset with each other. However, the net value after offset is presented in the balance sheet when the following conditions are satisfied:

- i. The Company has the legal right to offset the recognised amount and such right is exercisable;
- ii. The Company plans to settle by net amount or realize the financial assets and repay the financial liabilities at the same time.

### 11. Accounts receivable

#### (1) *Individually significant and provided for bad debts on individual basis*

Applicable   Not applicable

Basis or amount standard for individually significant:

Type of trade receivable (trade receivables): criteria: RMB7,000,000 for single accounts receivable;

Type of other receivable (other receivables): criteria: RMB3,500,000 for single accounts receivable;

Type of personal accounts receivable (other receivables): criteria: RMB100,000 for single accounts receivable.

The bad debt provision made for individually significant accounts receivable adopted both on individual basis and on collective combination basis. First by individual impairment test, if the present value of estimated future cash flows (exclusive of future credit losses that have not been incurred) discounted at the original effective interest rate is less than its carrying value, the difference should be recognized as impairment loss and should make provision. If the impairment not being incurred after the individual test, should the credit risk characteristics are consistent with other receivables, the accounts receivable should combine with other receivables to provide bad debt provision by credit risk characteristic combination. If the impairment not being incurred after the individual test, should the credit risk characteristics are not consistent with other receivables, then no additional impairment test will be carried out.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 11. Accounts receivable *(Continued)*

(2) *Receivables that are accrued for bad debts on credit risk combination basis*

Applicable Not applicable

**Method for making bad debt provision by credit risk combination (Ageing analysis, percentage of balance, other methods)**

Name of combination	Method for making provision
Receivables from third parties	Ageing analysis
Receivables from related parties	Individual assessment

Use of ageing analysis for making bad debt provision in the combination

Applicable Not applicable

Ageing	Ratio of accounts receivable provision (%)	Ratio of other accounts receivable provision (%)
Within 1 year (including 1 year)	5.00	5.00
1-2 years	30.00	50.00
2-3 years	60.00	100.00
Over 3 years	95.00	100.00

Use of other methods for making bad debt provision in the combination

Applicable Not applicable

In group of receivables from related parties, individual impairment test will be conducted to accounts receivable of related parties at the end of the year. Should objective evidence shows that it incurred impairment, according to the difference between the present value of future estimated cash flow and the book value, assets impairment should be recognized. Should no objective evidence shows that it has impairment, no bad debt provision should be made.

(3) *Accounts receivable individually insignificant but provided for bad debt separately*

Applicable Not applicable

Individual impairment test will be conducted to insignificant single receivables if there is any objective evidence which shows that such receivables incur impairment or there is any change in their credit risk characteristics which makes them different from those of other receivables in the same group, and provision for bad debts will be made according to the difference between the present value of future cash flow and the book value.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 12. Inventories

Applicable Not applicable

#### (1) *Classification*

Inventories are products that the Company holds for sale in daily activities, materials consumed in the production process, materials in the process of providing services in the production process. Inventories include raw material, work in process, semi-finished goods, finished goods and reusable materials. Reusable materials include low-value consumables, packaging materials and other materials, which can be used repeatedly but do not meet the definition of fixed assets.

#### (2) *Method of valuation of inventory*

Inventories are measured at their actual cost when obtained. Cost of an inventory consists of purchase costs, processing costs and other costs. When used and dispatched, inventories will be calculated with weighted average method.

#### (3) *The basis for determining the net realizable value of inventory and method for provision for diminution in value of inventories*

At the end of the reporting period, according to the inventories at the lower of cost and net realizable value to make or adjust the provision for inventory impairment. The estimated sales price of the inventories, such as finished products, inventory commodities and materials directly used for sale is deducted from the estimated sales cost and the amount after the relevant taxes and fees, and the net realizable value is determined. The net realizable value of inventory which require processes is determined by the estimated selling price of finished products deducting the estimated cost, estimated sales cost and related taxes and fees after completion. To execute sales contracts or labour contracts, the net realizable value is measured by the contract price. If the quantity of stock held is more than that of the sales contract, the net realizable value of the excess part will be measured by the general selling price.

Inventories provision accrues individually at the end of term. If a large stock has a lower unit price, provision for decline in inventory is prepared in accordance with the inventory category. If the inventory is related to a series of products that are produced which sold in the same area and have the same or similar end uses or purposes and it is difficult to separate the items from other items, the provision for decline in inventory will be combined.

If the previous reduction factors of inventory value have disappeared, the reduced amount shall be recovered. Meanwhile, reserving the original provision for inventory, reversal of the amount should be included in the current profits and losses.

#### (4) *Inventory system*

The Company maintains a perpetual inventory system for raw material and finished goods and a periodic inventory system for semi-finished goods.

#### (5) *Amortization method of low-value consumables and packaging material*

- i. low-value consumables adopt one-time writing-off method.
- ii. Packaging material adopt one-time writing-off method.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 13. Assets held for Sale

Applicable Not applicable

#### (1) *Criteria for recognition of assets classified as held for sale*

The Company recognises non-current assets or disposal groups as held for sale that meet both of the following conditions:

- i. According to the practice of selling of such assets or disposal groups in similar transactions, they can be sold immediately under current conditions;
- ii. The sale is very likely to occur, that is, the Company has already made a resolution on a sales plan and has obtained a certain purchase commitment. It is expected that the sale will be completed within one year.

The confirmed acquisition commitment refers to the legally binding purchase agreement signed between the Company and other parties. The agreement contains important terms such as transaction price, time, and severe and severe penalties for breach of contract, making the possibility to make major adjustments or cancellations of the agreement is small.

#### (2) *Accounting method for assets held for sale*

If the Company does not make depreciation or amortization for the non-current assets or disposal group held for sale, if the carrying amount is higher than the net amount after the fair value less the selling expenses, the carrying amount shall be written down to the net amount after the fair value less the selling expenses, and the amount written down shall be recognised as impairment loss of assets, included in the current profit or loss, as provision for impairment of assets held for sale at the same time.

For the non-current assets or disposal group classified as held for sale at the date of acquisition, they are measured at the lower of their initial measurement amount and the net amount after the fair value less the selling expenses based on the assumption that such non-current assets or disposal group are not classified as held for sale at the time of initial measurement.

The above principle applies to all non-current assets, but does not include investment property that are subsequently measured using the fair value model, biological assets measured using fair value less net selling expenses, assets formed from employee compensation, and deferred income tax assets, the rights arising from financial assets regulated by the relevant accounting standards of financial instruments and insurance contracts regulated by the relevant accounting standards of insurance contracts.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 14. Long-term Equity Investments

Applicable Not applicable

#### (1) *Determination of initial investment cost*

- i. For long-term equity investments formed by business combination, details of accounting policies are set out in "Accounting treatments of business combination under common control and not under common control" of notes IV/(IV).
- ii. Long-term equity investments obtained through other means  
Initial investment costs of long-term equity investment obtained through cash payment is determined by the actual consideration paid. The initial investment cost consists of the expenses directly relevant to the obtainment of the long-term equity investment, taxes and other necessary expenses.

Initial investment costs of long-term equity investment obtained through issuance of equity securities is determined by the fair value of the equity securities issued; trading expenses incurred during insurance or acquisition of equity instrument that may be directly attributable to equity trade can be deducted from the equity.

The initial investment costs of long-term equity investment obtained in an exchange of non-monetary assets is determined using the fair value of the asset surrendered, provided that the asset received in exchange for non-monetary asset has a commercial substance and the fair value of both the asset received and the asset surrendered can be reliably measured, except there is definite evidence that the fair value of the asset received is more reliable; the initial investment costs of a long-term equity investment in a non-monetary asset exchange that cannot satisfy the above conditions is determined by the carrying amount of the asset surrendered and the amount of relevant taxation payable.

The initial investment costs of a long-term equity investment obtained through debt restructuring is determined based on the fair value.

#### (2) *Subsequent measurement and profit or loss recognition*

- 1) Cost method  
The Company may adopt the cost method for accounting of the long-term equity investment controlled by the investee, and measure the investment at the initial investment cost. The cost for long-term equity investment is adjusted in the event of additional investment or investment recovery.

Except receiving the actual consideration paid for the investment or the declared but not yet distributed cash dividends or profits which is included in the consideration, the Company recognises cash dividends or profits declared by the investee as current investment gains.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 14. Long-term Equity Investments *(Continued)*

#### (2) *Subsequent measurement and profit or loss recognition (Continued)*

##### 2) Equity method

The Company adopts the equity method for accounting of long-term equity investment in associates and joint ventures; where part of the equity investment of the associates is indirectly held by venture capital institutions, mutual funds, trust companies or similar subjects including unit-linked insurance fund, the investment is measured at fair value, the changes in which are included in the profit and loss.

Where the initial investment cost of a long-term equity investment exceeds the investor's interest in the fair value of the investee's identifiable net assets at the date of acquisition, no adjustment shall be made to the initial investment cost. Where the initial investment cost is less than the investor's interest in the fair value of the investee's identifiable net assets at the date of acquisition, the difference shall be charged to profit or loss for the current period.

After the Company acquires a long-term equity investment, investment gain and other comprehensive income shall be recognised based on the Company's share of the net profits or losses and other comprehensive income made by the investee, respectively. Meanwhile, the carrying amount of long-term equity investment shall be adjusted. The carrying amount of long-term equity investment shall be reduced based on the Company's share of profit or cash dividend distributed by the investee. In respect of the other movement in owners' equity other than the net profit or loss, other comprehensive income and profit distribution of investee, the carrying value of long-term equity investment shall be adjusted and included in the owners' equity.

The Company shall recognise its share of the investee's net profits or losses based on the fair values of the investee's individual separately identifiable assets at the time of acquisition, after making appropriate adjustments thereto. The profit or loss of the unrealised internal transaction between the Company and the associates, joint ventures be deducted with the part attributable to the Company according to the proportion the Company is entitled to, and the gains or losses on investment shall be recognised on such basis.

Recognition of loss in the investee by the Company shall follow this order: firstly, reduce the carrying amount of the long-term equity investments; secondly, if the carrying amount of long-term equity investments is insufficient for such reduction, continue to recognise such investment loss to the extent of the carrying amount of the long-term equity net investment in the investee and reduce the carrying amount of long-term receivables. Finally, after the above treatment, if the Company still bears additional obligations stipulated under the investment contract or agreement, the estimated obligations assumed are recognised as estimated obligations and recognised in the current investment loss.

If the investee records a profit subsequently, after reducing the attributable loss that is not yet recognised, the treatment by the Company shall be the reverse of the above order: reverse the carrying balance of estimated obligations already recognised, restore the carrying amount that physically constitute the long-term interests and long-term equity investment in the investee, and recognise investment gain.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 14. Long-term Equity Investments *(Continued)*

#### (3) *Change of the accounting methods for long-term equity investments*

- 1) Change of measurement at fair value to accounting under equity method  
Where the equity investment held by the Company have no control, joint control or significant impact on the investee and that are accounted according to the financial instrument recognition and measurement criteria can place significant impact or carry out common control but cannot control the investee due to addition of investment, the sum of the fair value of the equity investment originally held determined subject to the Accounting Standards for Enterprises No.22 – Recognition and Measurement of Financial Instruments and the new investment cost are determined to be the initial investment cost accounted under equity method.

Where the equity investment originally held is classified into available-for-sale financial assets, the difference between the fair value and the carrying amount and the accumulative changes in fair value that are originally included in other comprehensive income are included in current profit or loss under equity method.

The carrying amount of the long-term equity investment is adjusted by the difference between the fair value shares of the identifiable net assets of the investee on the date of additional investment determined by calculation of the new shareholding proportion after such additional investment and the initial investment cost under equity cost and is included in current non-operating income.

- 2) Change of measurement at fair value or accounting under equity method to cost method  
The equity investment of the investee held by the Company with no control, joint control or significant impact and accounted according to the financial instrument recognition and measurement criteria, or the long-term equity investment in associates or joint venture originally held that can be controlled due to addition of investment, the sum of the carrying amount of the original equity investment and the cost of new investment is changed to be accounted under cost method and recognised as the initial investment cost in preparing separate financial statements.

The other comprehensive income recognised due to the adoption of equity method for the equity investment held before the date of acquisition shall be accounted on the same basis for the disposal of relevant assets or liabilities of the investee during the disposal of such investment.

Equity investment held before the date of acquisition shall be subject to Accounting Standards for Enterprises No.22 – Recognition and Measurement of Financial Instruments and the accumulated fair value changes that were originally included in other comprehensive income shall be included in current profit or loss under cost method.

- 3) Change of accounting under equity method to measurement at fair value  
Where the Company losses common control or significant impact over the investee due to partial disposal of the equity investment, the remaining equity after disposal shall be subject to accounting under Accounting Standards for Enterprises No.22 – Recognition and Measurement of Financial Instruments, and the difference between the fair value on the date when the common control or significant impact is lost and the carrying amount is included in current profit or loss.

Other comprehensive income of original equity investment that is recognised due to adoption of the equity method shall be subject to accounting on the same basis for direct disposal of relevant assets or liabilities of the investee at the time when the equity method is ceased.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 14. Long-term Equity Investments *(Continued)*

#### (3) *Change of the accounting methods for long-term equity investments (Continued)*

- 4) Change of cost method to equity method  
Where the Company loses the control over the investee due to partial disposal of the equity investment, and the remaining equity after disposal can place common control or significant impact over investee, it should be changed to equity method in preparing separate financial statements and the remaining equity shall be adjusted as if the equity method is adopted at the acquisition.
- 5) Change of cost method into measurement at fair value  
Where the Company loses the control over the investee due to partial disposal of the equity investment, and the remaining equity after disposal cannot place common control or significant impact over investee, the accounting should be changed and become subject to Accounting Standards for Enterprises No.22 – Recognition and Measurement of Financial Instruments, and the difference between the fair value on the date when the control is lost and the carrying amount is included in current profit or loss in preparing separate financial statements.

#### (4) *Disposal of long-term equity investment*

For disposal of long-term equity investment, the difference between its carrying amount and the payment actually acquired shall be included in the current profit or loss. For the long-term equity investment calculated under the equity method, when disposing of such investment, part of amounts that shall be originally included in other comprehensive income shall be accounted for in proportion by using the same basis as the investee used for direct disposal of relevant assets or liabilities.

If the terms, conditions and economic effects of the transactions of equity investment in the subsidiary satisfy one or more of the following conditions, the transactions are accounted for as a basket of transactions:

- i. these transactions were entered into simultaneously or after considering the effects of each other;
- ii. these transactions constituted a complete commercial result as a whole;
- iii. one transaction was conditional upon at least one of the other transaction;
- iv. one transaction was not economical on its own but was economical when considering together with other transactions.

When the controls over the original subsidiary is lost due to partial disposal of equity investment or other reasons not constitute a basket of transactions, they are accounted for in separate financial statements and consolidated financial statements:

- 1) In separate financial statements, for equity disposed, the accounting treatment for disposal of equity, the difference between the carrying amount and the actual payment is included in current profit or loss. Where the remaining equity after disposal can implement common control or place significant impact over the investee, the equity method is adopted for accounting treatment, and the remaining equity is adjusted as if the equity is adopted at the time of acquisition; where the remaining equity after disposal cannot implement common control or place significant impact over the investee, relevant provisions of Accounting Standards for Enterprises No.22 – Recognition and Measurement of Financial Instruments shall be adopted for accounting, and the difference between the fair value on the date when the control is lost and the carrying amount is included in current profit or loss.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 14. Long-term Equity Investments *(Continued)*

#### (4) Disposal of long-term equity investment *(Continued)*

- 2) In consolidated financial statements, for the transactions before the loss of control over subsidiaries, the capital reserve (share premium) is adjusted by the difference between the price of disposal and the net asset shares of subsidiaries continuously calculated since the date of acquisition or combination corresponding to the long-term equity investment; where the capital reserve is insufficient, retained earnings are adjusted; at the time of loss of control over subsidiaries, the remaining equity are re-measured according to the fair value at the date of loss of control. The difference between the sum of the price acquired for disposal of equity and the fair value of the remaining equity less shares of net assets constantly calculated since the date of acquisition based on the original shareholding proportion is included in the investment income in the period when the control is lost and is written down to good will. Relevant other comprehensive income related to original equity investment in the subsidiaries is transferred to current investment income at the time of loss of control.

Where the transactions of disposal of equity investment in a subsidiary until control is lost constitute a basket of transactions, the Company accounts for the transactions as a transaction of disposal of a subsidiary until control is lost, they are accounted for in separate financial statements and consolidated financial statements:

- i. In the separate financial statements, the difference between the amount received each time for disposal before control is lost and the carrying amount of long-term equity investment corresponding to the equity is recognised as other comprehensive income, and is transferred to profit or loss of the period during which control is lost upon loss of control.
- ii. In the consolidated financial statements, the difference between the amount received each time for disposal before control is lost and the net assets of such subsidiary corresponding to the disposal of investment is recognised as other comprehensive income, and is transferred to profit or loss of the period during which control is lost upon loss of control.

#### (5) *Criteria for determination of common control and significant impact*

If the Company collectively control certain arrangement with the other participants as agreed, and the decisions on the activities that may have significant impact on the return of arrangement exit with consistent agreement from participants sharing the control power, then the Company and the other participants are deemed to have common control over certain arrangement, which is joint venture arrangement.

Where the joint venture arrangement is realized through individual entity, it is judged according to relevant agreement that, when the Company is entitled to rights over the net assets of such entity, the entity is a joint venture and adopts equity method for accounting treatment. If judged according to relevant agreement that, the Company has no rights over the net assets of such entity, such entity is joint operation, and the Company recognise the items in relation to the shares in the joint operation and adopts provisions of relevant accounting standards for accounting treatment.

Significant impact refers to the power of an investing party to participate in making decisions on the financial and operating policies of an investee, but not to control or jointly control together with other parties over the formulation of these policies. The Company determines, the significant impact is placed on investee in one or more situations as follows after a comprehensive consideration of all facts and situations: (1) dispatching representatives in the board of directors or similar power organ of the investee; (2) participating in the formulation of the financial and operation policies of the investee; (3) having significant deals with the investee; (4) dispatching management personnel to the investee; and (5) providing key technical data to investee.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 15. Investment Properties

(1) *If measured at cost model:*

#### Methods of Depreciation and Amortization

Investment property refers to real estate held to earn rentals or for capital appreciation, or both, including land-use rights that have been leased, land use rights that are held and prepared for transfer after appreciation, and buildings that have been leased. In addition, for the vacant buildings that the Company holds for operating leases, if the board of directors makes a written decision that it is explicitly used for operating leases and that the holdings do not change in the short term, they are also presented as investment property.

The Company's investment property is recorded at its cost, and the cost of an purchased investment property includes the purchase price, related taxes, and other expenses directly attributable to the asset; the cost of self-constructed investment property is included all necessary expenditures incurred during the construction and before the asset reaches its intended usable condition constitute.

The Company adopts a cost model for subsequent measurement of investment property, and depreciates or amortizes buildings and land use rights according to their estimated useful life and net residual value. The estimated useful life, net residual value rate and annual depreciation (amortization) rate of investment property are listed as follows:

<b>Category</b>	<b>Estimated useful life (years)</b>	<b>Expected net residual rate</b>	<b>Annual depreciation (amortization) rate (%)</b>
Land use rights	50	–	2.00
Buildings and structures	40	5	2.38

In the event that an investment property is converted to an owner-occupied property, such property shall become fixed assets or intangible assets since the date of its conversion. In the event that an owneroccupied property is converted to real estate held to earn rentals or for capital appreciation, such fixed assets or intangible assets shall become an investment property since the date of its conversion. Upon the conversion, the property shall be stated at the carrying amount prior to the conversion.

If an investment property is disposed of or if it withdraws permanently from use and no economic benefit will be obtained from the disposal, the recognition of it as an investment property shall be terminated. When an investment property is sold, transferred, retired or damaged, the amount of proceeds on disposal of the property net of the carrying amount and related tax and surcharges is recognised in profit or loss for the current period.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 16. Fixed assets

(1) *Conditions for confirmation of fixed assets*

Applicable Not applicable

Fixed assets are tangible assets, having useful life over one accounting year, which are held to produce goods and/or the rendering of services, leasing to others, or for operating purposes. Fixed assets are confirmed when the following conditions are met at the same time:

- i. Fixed asset is recognised when it is probable that future economic benefits associated with the item will flow to the Group;
- ii. The cost of the item can be measured reliably.

(2) *Depreciation method*

Applicable Not applicable

Category	Depreciation method	Useful life of depreciation (Year)	Estimated residual value rate (%)	Annual depreciation rate (%)
Buildings and structures	straight-line method	40	5.00	2.38
Machinery equipment	straight-line method	5-20	5.00	4.75-19.00
Electronic equipment	straight-line method	5-14	5.00	6.79-19.00
Transportation equipment	straight-line method	5-14	5.00	6.79-19.00

(3) *Determination basis, measurement and depreciation method of fixed assets acquired under financial lease*

Applicable Not applicable

The fixed asset leased by the Company will be recognised as fixed asset acquired under finance leases when it complies with one or more of the following standards:

- i. The ownership of the leased asset will be transferred to the Company upon expiry of the lease term.
- ii. The Company has the option to acquire the leased asset, and the acquisition consideration is expected to be much lower than the fair value of the leased asset at the time when the right of option is exercised. Therefore, it can be reasonably confirmed from the commencement date of the lease term that Company will exercise the right of option.
- iii. Even if the ownership of the leased asset will not be transferred, the lease term accounts for the most of useful life of the leased asset.
- iv. The present value of the minimum lease payment made by the Company at the commencement date of the lease almost equals to the fair value of the leased asset at the commencement date of the lease.
- v. The leased asset is of a specialized nature that only the Company can use it without making major modifications.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 16. Fixed assets *(Continued)*

#### (3) *Determination basis, measurement and depreciation method of fixed assets acquired under financial lease (Continued)*

The entry value of the leased asset acquired under finance leases is recorded as the lower of the fair value of the leased asset and the present value of the minimum lease payment at the commencement date of the lease. The minimum lease payment is recognised as long-term payable, and the difference between them is recognised as unrecognised finance charge. Initial direct costs that are attributable to the leased item incurred during the process of negotiating and securing the lease agreement, such as handling fees, attorney fees, traveling expenses and stamp duty, are also credited to the value of the leased asset. Unrecognised finance charge is amortized using effective interest method over the lease term.

For fixed assets acquired under finance leases, the basis for provision of leased assets depreciation is the same as that of self-owned fixed assets. When it can be reasonably determined that the ownership of a leased asset will be transferred at the end of the lease term, it is depreciated over the period of expected use; otherwise, the lease asset is depreciated over the shorter period of the lease term and the period of expected use.

### 17. Construction in progress

Applicable   Not applicable

The actual construction cost of the construction in progress is determined by the actual expenses incurred before the construction of the asset reaches the intended usable condition, including the cost of engineering materials, labor costs and relevant taxes payable. Capitalized borrowing costs and indirect costs that should be apportioned.

The total expenditure incurred before the construction project is constructed to reach the intended usable condition shall be recorded as the value of the fixed assets. The construction of fixed assets under construction has reached the intended use of the state, but has not yet completed the final accounts, since the scheduled use of the date of use, according to the project budget, cost or actual project costs, according to the estimated value into fixed Assets and depreciation of fixed assets in accordance with the depreciation policy of the Company's fixed assets. After the completion of the final accounts, the original estimated value shall be adjusted according to the actual cost, but the original depreciation amount shall not be adjusted.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 18. Borrowing cost

Applicable Not applicable

#### (1) *Recognition principle of capitalization of borrowing costs*

The borrowing costs, the Company can directly attributable to the acquisition and construction or production of assets eligible for capitalization, in the case of eligible for capitalization start capitalization, included in the relevant asset costs; Other borrowing costs shall be recognized as expenses at the time of occurrence and shall be included in the current profits and losses.

Assets that are eligible for capitalization are assets that require a long period of time to purchase or produce activities to achieve fixed assets, investment real estate and inventory that are intended to be available or sold.

Borrowing costs begin to capitalize when the following conditions are met:

- i. Assets expenditure has occurred, including expenditure incurred in the form of cash, transfer of non-cash assets or interest-bearing debt for the acquisition or construction of assets eligible for capitalization.
- ii. Borrowing costs have already occurred.
- iii. The purchase and construction or production activities necessary for the asset to reach the intended use or saleable status.

#### (2) *Capitalization period of borrowing costs*

During the period of capitalization, the period during which the borrowing costs are suspended from capitalization is not included during the period from the point of time when the borrowing costs are capitalized to the point where the capitalization is stopped.

The borrowing costs shall cease to be capitalized when the assets acquired or produced meet the conditions for capitalization are ready for use or sold.

When part of the assets purchased or produced in accordance with the capitalization conditions are completed and can be used alone, the part of the asset borrowing costs to stop capitalization.

The parts of the assets purchased or produced are completed separately but must wait until the whole is completed or can be sold abroad. The capitalization of the borrowing costs shall be stopped when the asset is completed as a whole.

#### (3) *Suspension of capitalization period*

If the assets that meet the capitalization conditions are interrupted abnormally during the construction or production process and the interruption time lasts for more than 3 months, the borrowing costs shall be suspended; the borrowing costs continue to be capitalized if the acquisition or production of assets eligible for capitalization to meet the required usable status or the availability of sales. The borrowing costs incurred during the interruption are recognized as profit or loss for the current period and the borrowing costs continue to be capitalized until the asset is purchased or the activity is resumed.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 18. Borrowing cost *(Continued)*

#### (4) Calculation for capitalization of borrowing costs

Special loan interest charges (excluding unused borrowing money deposited in the bank interest income, or for a temporary investment return on investment) and its ancillary expenses and construction or production of assets eligible for capitalization, before to the expected conditions for use or sale shall be capitalized.

Based on the weighted average of the asset expenditures that exceed the special borrowing portion, the accumulative asset expenditure is calculated to determine the amount of interest that the general borrowing should be capitalized. The capitalization rate is determined based on the average borrowing weighted average interest rate.

Where there is a discount or premium in the loan, the interest amount shall be adjusted in accordance with the real interest rate method to determine the discount or premium amount that shall be amortized during each accounting period.

### 19. Biological assets

Applicable Not applicable

### 20. Oil and gas assets

Applicable Not applicable

### 21. Intangible assets

#### (1) Measurement, useful life, impairment test

Applicable Not applicable

##### 1) Initial measurement of intangible assets

The cost of outsourcing intangible assets, including purchase price, related taxes and other expenses directly attributable to the asset to the intended use. The purchase price of intangible assets exceeds the normal credit terms deferred payment, in essence, the nature of the financing, the cost of intangible assets to determine the value of the purchase price.

Debt restructuring to the debtor to owe, intangible assets, on the basis of the fair value of the intangible assets to determine its costs, and the book value of the debt restructuring and the to a debt is the difference between the fair value of intangible assets, included in the current profits and losses.

The entry value of intangible asset received in an exchange for non-monetary asset is based on the fair value of the asset surrendered, provided that the asset received in exchange for non-monetary asset has a commercial substance and the fair value of both the asset received and the asset surrendered can be reliably measured, except there is definite evidence that the fair value of the asset received is more reliable; for exchange of non-monetary asset that cannot satisfy the above conditions, the cost of the intangible asset received is based on the carrying amount of the asset surrendered and the amount of relevant taxation payable, and no profit or loss is recognised.

The intangible assets acquired under the same control are determined by the book value of the merged party. The intangible assets acquired by enterprises under the control of non-identical control shall determine their accounting value at fair value.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 21. Intangible assets *(Continued)*

#### (1) Measurement, useful life, impairment test *(Continued)*

- 1) Initial measurement of intangible assets *(Continued)*  
Internal self-developed intangible assets, and its cost includes: the development of the intangible assets, consumption of materials, labour costs, registration fees, used in the development process of the amortization of patents and other concessions and for capitalization of interest costs, as well as to make the intangible asset to the expected purpose of the other direct costs.
- 2) The subsequent measurement of intangible assets  
The Company analyses and determines its service life when acquiring intangible assets, which is divided into intangible assets with limited service life and uncertain service life.
  - i. Intangible assets with limited useful life  
For intangible assets with limited service life, they are amortized by straight-line method for the economic benefits of enterprises. The life expectancy of the intangible assets with limited life span is predicted as follows:

<b>Item</b>	<b>Expected useful life</b>	<b>Basis</b>
Land use rights	50	Expected useful life
Software	3-10	Expected useful life
Others	5-10	Expected useful life

At the end of each term, the service life and amortization method of the intangible assets with limited service life will be rechecked. If there are differences with the original estimates, corresponding adjustments will be made.

After reviewing, the life and amortization methods of intangible assets are not different from previous estimates.

- ii. Intangible assets with uncertain service life  
It is impossible to foresee that intangible assets will bring economic benefits to enterprises, which are regarded as intangible assets with uncertain service life. For intangible assets with uncertain service life, they will not be amortized during the holding period, and the life of intangible assets will be reviewed at the end of each term. If the final review remains uncertain, the impairment test will continue during each accounting period.

After reviewing, the service life of this kind of intangible assets is still uncertain.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 21. Intangible assets *(Continued)*

#### (2) Accounting policy of internal R&D expenses

Applicable   Not applicable

- 1) Division of the research and development stages of internal research in the Company and the specific standards for development projects  
The stage of research: a stage of original planning, research, and research for the acquisition and understanding of new scientific or technical knowledge.

Development stage: before the commercial production or use, the research results or other knowledge will be applied to a plan or design to produce new or substantial improvements in materials, devices, products and other activities.

The expenditure of the research stage of the internal research and development project is included in the current profit and loss at the time of occurrence.

- 2) Specific standard for capitalization of expenditure in the development stage  
Internal research and development projects in the development phase of the expenditure, while meeting the following conditions identified as intangible assets:
  - i. Complete the intangible asset so that it can be used or sold in technical feasibility.
  - ii. The intention to complete the intangible asset and to use or sell it.
  - iii. Intangible assets to generate economic benefits, including the ability to prove the existence of the products using the intangible assets market or the market of intangible assets, intangible assets will be used internally, to prove its usefulness.
  - iv. Having sufficient technical, financial resources and other resource support to complete the development of the intangible asset and have the ability to use or sell the intangible asset.
  - v. Expenditures attributable to the development stage of the intangible asset can be reliably measured.

Expenditures incurred in the development stage that do not meet the above conditions shall be included in the current profit and loss in the event of occurrence. The development expenditure which has been included in the profit and loss has not been reconfirmed as an asset in the future. Expenditures in the capitalized development phase are shown on the balance sheet as development expenditures and are converted into intangible assets from the date of the project's intended use.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 22. Impairment on long-term assets

Applicable Not applicable

On the balance sheet date, the Group determines whether there may be a sign of a reduction in long-term assets. If there are signs of impairment in long-term assets, the recoverable amount is estimated on the basis of a single asset. If it is difficult to estimate the recoverable amount of a single asset, then determine the recoverable amount of the asset group on the basis of the asset group belonging to the asset.

The estimation of assets recoverable amount is the larger amount between the fair value deducting net cost when disposal and the expected value of future cash flow of assets.

The measurement results show that when the long-term recoverable amount assets is lower than its book value, the book value of long-term assets is reduced to its recoverable amount. The reduced amount is recognized as impairment loss recognised, at the same time, make the corresponding assets depreciation preparation. As soon as the loss of assets is confirmed, it shall not be returned during the subsequent accounting period.

After the asset impairment loss is confirmed, the depreciation or amortization expenses of the impairment assets will be adjusted accordingly in the future period so that the assets' book value of adjusted assets will be allocated in the remaining useful life (deducting the estimated net residual value).

No matter whether there is any sign of impairment or not, the impairment test is carried out every year because of the goodwill and the intangible assets of the enterprise merger.

Conducting impairment test combines with good will and relevant assets or assets combination related the goodwill. When taking an impairment test on the relevant asset group containing goodwill or combination of group assets, such as goodwill and the related asset group or combination of asset groups signs of impairment, first calculate the recoverable amount but not test the impairment which does not contain an asset group or combination of asset groups. Then, compare it with the related book value and confirm the impairment the corresponding loss. Next, testing impairment of goodwill includes asset group or combination of asset groups and comparing book value of the related asset group or combination of asset groups (book value includes the share of goodwill) with the recoverable amount. If the recoverable amount of asset group or combination of asset groups is lower than the book value, confirm the impairment loss of goodwill.

### 23. Long-term Prepaid Expenses

Applicable Not applicable

Long-term prepaid expenses of the Company refer to expenses that already been spent and the benefit period is one year or more (excluding one year).

Long-term deferred expenses are amortized using the straight-line method in its useful life. In particular, the expenditure for the improvement of fixed assets leased by operating leases is amortized according to the best expected economic benefits.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 24. Employee benefits

(1) *Accounting method of short-term remuneration*

Applicable Not applicable

Short-term remuneration refers to the remuneration of the employees that needs to be fully paid within 12 months after the end of the annual reporting period in which the employees provide related services, except for post-employment benefits and termination benefits. Short-term remuneration shall be recognised as liabilities during the accounting period when the employee renders services to the Company and allocated to related cost of assets and current period profit or loss based on different beneficiaries.

(2) *Post-employment benefits*

Applicable Not applicable

Post-employment benefits refer to the compensation and benefits provided, after employees' retirement and termination of employment, by the Group in order to obtain services from employees, except for the short-term compensation and employee benefits. Post-employment benefits classified into defined contribution plan and defined benefit plan. Defined contribution plan of the Group refers to the basic endowment insurance, unemployment insurance paid for the employees according to relevant regulation by local governments. During the accounting period when employees render services to the Group, amount payable calculated by the base and ratio in conformity with local regulation is recognized as liability and accounted for profit and loss or related cost of assets.

After the Company regularly pays the above-mentioned funds in accordance with the standards and annuity plans stipulated by the state, it does not have other payment obligations.

(3) *Termination benefits*

Applicable Not applicable

Termination benefits refer to the compensation paid when the Company terminates the employment relationship with employee before the expiry of the employment contracts or provides compensation as an offer to encourage employee to accept voluntary redundancy. Where the Company provides termination benefits to employees, the Company recognizes the liabilities of employee benefits payable generated from the termination benefits at the earlier date of the following two dates: 1) when the Company cannot reverse the termination benefits due to the plan of cancelling the labour relationship or the termination benefits provided by the advice of reducing staff; and 2) the Group recognizes the cost or expense relative to the payment of termination benefits of restructuring into the current profit or loss.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 24. Employee benefits *(Continued)*

#### (3) *Termination benefits (Continued)*

The Company provides retirement benefits to employees who accept internal retirement arrangements. The internal retirement benefits refer to the remuneration and the social insurance premiums paid to the employees who have not reached the retirement age set by the state, and voluntarily withdrew from the job after approval of the Company's management. The Company pays internal retired benefits to internal retired employees from the day the internal retirement arrangement begins to the employee reaches the normal retirement age. For internal retirement benefits, the Company conducts accounting treatment in contrast to the termination benefits. When the related confirmation conditions of termination benefits are met, the Company will confirm the remuneration and the social insurance premiums of the internal retired employee to be paid during the period between the employee's termination of service and normal retirement date, confirm those as liabilities and included the amount in the current profit or loss in one time. Changes in actuarial assumptions of internal retirement benefits and differences arising from the adjustment of welfare standards are included in current profit or loss when incurred.

#### (4) *Other long-term employment benefit*

Applicable    Not applicable

Other long-term employment benefit refers to all employee benefit except for short-term benefit, post-employment benefit, and termination benefit.

For other long-term employee benefits that meet the conditions of the defined contribution plan, during the accounting period in which the employee provides services for the company, the amount that should be paid is recognized as a liability and is included in the current profit or loss or the cost of the relevant assets. In addition to the above situations, other long-term employee benefits are actuarially calculated by the independent actuary using the expected cumulative welfare unit method on the balance sheet date, and the welfare obligations arising from the defined benefit plans are attributed to the period during which the employees provide services and are included in the current profit and loss or related asset costs.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 25. Expected liabilities

Applicable Not applicable

#### (1) *Criteria for expected liabilities*

The Group shall recognize expected liabilities if the contingent matters meet the following requirements:

- i. The assumed responsibilities are current liability.
- ii. The fulfilment of obligations will cause the outflow of economic benefit from the Group.
- iii. The amount of liabilities can be measured reliably.

#### (2) *Measurement method of expected liabilities*

The initial measure of expected liabilities is the best estimate of the expenditure required for the performance of the current obligations.

When determining the best estimates, the Company consider the risks, uncertainties and time value of the currency. If the time value of money has a great influence, the Company determine the best estimate by discounting the related future cash outflows.

The best estimates are measured in different situation as follow:

If there is a continuous range (or interval) of the required expenditure and the probability of the occurrence of all the results in the range is the same, the best estimate is determined according to the median value of the range, which is the average of the upper and lower limit.

There is a necessary expense that does not exist a continuous range (or range) or exist a continuous range with a range of different possibility of a variety of results. If the contingencies of individual projects involving, the best estimate is most likely to occur in accordance with the amount determined. If contingencies involving a number of projects, the best estimate according to various possible results and related probability calculation.

The total or part of the expected expenses of the Company is expected to be compensated by the third party. When the amount of the compensation is determined, it is basically determined and it can be independently recognized as assets. The amount of compensation confirmed will not exceed the book value of the estimated liabilities.

### 26. Share-based payment

Applicable Not applicable

### 27. Preference shares, perpetual debt and other financial instruments

Applicable Not applicable

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 28. Revenue

Applicable Not applicable

#### (1) *The revenue from sales of goods*

Revenue from the sale of goods is recognized only when all of the following conditions are satisfied: The Company has transferred to the buyer the significant risks and rewards of ownership of the goods, the Company retains neither continuing managerial involvement nor effective control over the goods sold, and related income has been achieved or evidences of receivable have been obtained, and the associated costs can be measured reliably.

The machine tools' sales revenue of the Company's main business is recognized when the product is delivered to the customer's designated delivery site and accepted by the counter party.

#### (2) *Basis and methods for recognition of income from provision of services*

The results of the provision of labour transactions on the balance sheet date can be reliably estimated and the completion percentage method is used to confirm the provision of labour income. Provide the completion progress of labour transaction, according to the completed work of measurement and determination.

The results of the provision of service transactions can be reliably estimated, which means that the following conditions are met:

- i. The amount of income can be measured reliably.
- ii. The relevant economic interests are likely to flow into the enterprise.
- iii. The completion of the transaction can be reliably determined.
- iv. The costs incurred in the transaction and the costs incurred can be measured reliably.

To determine the total amount of labor income in accordance with the contract or agreement value receivable, except where the contract or agreement is not fair. The balance sheet date multiplied by the total amount of labor income multiplied by the completion of the transaction before deducting the previous accounting period has been confirmed the amount of income after the provision of labor services to confirm the current provision of labor income; at the same time, in accordance with the estimated total cost of labor services multiplied by the completion of the transaction before deducting the previous accounting period has been confirmed the amount of labor costs, carry forward the current labor costs.

If the results of the labor service transaction cannot be reliably estimated at the balance sheet date, the following cases shall be handled:

- i. If the cost of labor services incurred is expected to be compensated, the income of labor services shall be recognized in accordance with the amount of labor costs incurred and the labor costs shall be carried forward at the same amount.
- ii. If the labor costs incurred are not expected to be compensated, the cost of labor services incurred shall be recorded into the current profits and losses, and the income from providing labor services shall not be confirmed.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 28. Revenue *(Continued)*

#### (2) *Basis and methods for recognition of income from provision of services (Continued)*

The Company's contracts or agreements with other enterprises include the sale of goods and the provision of labor services, the sale of goods and the provision of labor services to distinguish and can be measured separately, the sale of goods as part of the sale of goods, the provision of labor services as part of the provision Labor service. The sale of goods and the provision of labor services cannot be part of the distinction, or can distinguish, but cannot be measured separately, the sales of goods and the provision of labor services as part of all sales of goods.

#### (3) *Income from transfer of the right to use assets*

If the economic benefits related to the transaction are likely to flow into the enterprise, the amount of income can be reliably measured, and the amount of income of transferring of the right to use assets shall be determined as follows:

- i. The amount of interest income shall be determined according to the time and real interest rate of the use of the money of the enterprise.
- ii. The amount of royalty income shall be determined according to the time and method agreed upon in the relevant contract or agreement.

### 29. Government grants

#### (1) *Basis and accounting treatment method of the government grants related to the assets*

Applicable   Not applicable

Funds related to assets are government grants obtained by the Company for the acquisition, construction or otherwise formation of long-term assets.

The government grants related to the assets are recognized as deferred income and are included in the expenses or losses according to the period of use of the assets used or purchased. (or reduce the book value of the related assets);

#### (2) *Basis and accounting treatment method of the government grants related to revenue*

Applicable   Not applicable

Revenue-related government grants refer to government grants other than government-related government grants.

Revenue related government grants are used to compensate the relevant expenses or losses in the subsequent period of the enterprise and are recognized as deferred income and are included in the expenses or losses during the period when the relevant expenses are recognized (or reduce related costs); Used to compensate for the relevant costs or losses incurred by the enterprise and are directly included in the current expenses or losses (or reduce related costs).

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 30. Deferred tax assets/deferred tax liabilities

Applicable   Not applicable

Deferred tax assets and deferred liabilities are recognised based on the differences (temporary differences) between tax bases of assets and liabilities and respective carrying amount. At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or liability is settled.

#### (1) *Basis of confirmation for deferred tax assets*

Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available to offset the deductible temporary difference and deduct loss and tax deduction for the year after the end of the year. However, deferred income tax assets resulting from the initial confirmation of assets or liabilities in a transaction with the following characteristics are not recognized: (1) The transaction is not an enterprise merger. (2) The transaction does not affect the accounting profit and the taxable income or the deductible loss as well.

As for deductible temporary differences related to the investment of the joint venture and meet the following conditions to confirm the corresponding deferred income tax assets: Temporary differences are likely to be turned back in the foreseeable future and it is likely to gain the amount of taxable income that is used to offset the temporary difference of deductible in the future.

#### (2) *Basis of confirmation for deferred tax liabilities*

The Company recognised the temporary tax difference between the current and the previous periods as deferred income tax liabilities. But it does not include:

- i. Temporary differences in the initial recognition of goodwill.
- ii. A transaction or event formed by a non-enterprise merger. Meanwhile, when the transaction or event occurs, it will neither affect the accounting profits nor affect the temporary difference formed by the taxable income (or deductible loss).
- iii. For temporary tax differences related to investment in subsidiaries and joint ventures, the time of temporary difference reversal can be controlled and the temporary difference is unlikely to turn back in the foreseeable future.

#### (3) *Deferred income tax assets and deferred income tax liabilities are offset and the net amount is presented if all of the following conditions are met*

- i. The enterprise has the statutory right to settle current income tax assets and current income tax liabilities in net amount;
- ii. Deferred income tax assets and deferred income tax liabilities are in relation to the income tax levied by the same tax collection authority on the same taxpayer or different taxpayers. However, in each future period during which significant reverse of deferred income tax assets and deferred income tax liabilities are made, the taxpayer involved intends to settle current income tax assets and current income tax liabilities in net amount, or intends to realize the asset and settle the liability simultaneously.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 31. Lease

#### (1) *Operating leases accounting treatment*

Applicable   Not applicable

##### 1) Operating leased assets

The lease fee paid by the Company for the leased assets shall be apportioned according to the straight-line method and included in the current cost. The initial direct expenses related to the leasing transaction are included in the current expenses.

When the lessor undertakes the expenses related to the lease which the Company shall bear, the Company shall deduct the part of the expenses from the total amount of the rent, and the rental expenses shall be apportioned during the lease term and included in the current expenses.

##### 2) Operating leased out assets

The lease fee charged by the Company for the leased out assets shall be assessed and confirmed as the lease income without deducting the whole tenancy period of the rent-free period. The initial direct expenses related to the lease transaction paid by the Company shall be included in the current expenses; If the amount is larger, the capital shall be capitalized and shall be included in the current period income according to the same basic stage as the rental income.

When the company undertakes the lease-related expenses that shall be borne by the lessee, the company will deduct such expenses from the total amount of lease income and allocate the deducted lease expenses during the lease period.

#### (2) *Finance lease accounting treatment*

Applicable   Not applicable

##### 1) Financial leasing-in assets: The Company on the lease beginning date, the fair value of the leased asset and the present value of minimum lease payment of the two lower as the entry value of the assets and the difference as the unrecognized financing charges.

The Company adopts the effective interest method to amortize the unrecognized financing expenses and be included in the financial expenses during the asset lease period.

##### 2) Financial leasing-out assets: the Company recognizes the difference between the sum of the finance lease and the unrecognized residual at the beginning of the lease as the unrealized financing income and recognizes the rental income in the future period in which the rent is received, the initial direct costs incurred by the Company relating to the leasing transaction are included in the initial measurement of the finance lease and the amount recognized in the lease term is reduced.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 32. Other significant accounting policies and accounting estimates

Applicable   Not applicable

#### (1) *Discontinued operation*

It can be recognized as an integral part of discontinued operation when the component has been disposed of or classified as a component that can be separately classified for sale and meet one of the following requirements:

- i. The component represents an independent major business or a separate major operating area.
- ii. This component is part of a related plan to be disposed of an independent major business or a separate major operating area.
- iii. The component is a subsidiary made for resale.

Operating profit and loss and dispose profit and loss as the terminated profit and loss in the profit statement.

#### (2) *Safety production cost*

The Company accrues safety production cost and records it to the cost of related products or in the profit or loss and transferred to special reserve based on state regulations. The Group shall directly reduce special reserve if the safety production cost is belonging to expense. If fixed asset is arising in using safety production cost, all expenditures are recorded in construction in progress and recognized as fixed asset when the safety project is finished and ready for its intended use; meanwhile, the Group shall reduce special reserve based on the cost of the fixed asset and recognize the accumulated depreciation in the same amount. No deprecation shall be recognised in for this fixed asset in following periods.

# FINANCIAL REPORT

## V. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES *(Continued)*

### 33. Changes in Significant Accounting Policies and Accounting Estimates

#### (1) *Changes in significant Accounting Policies*

Applicable Not applicable

Other explanations:

- 1) In May 10, 2017, the Ministry of Finance announced the revised "Enterprise Accounting Standards No. 16: Government Grants" (the "Standards") and the Standards has been implemented from 12 June 2017. The Standards required the enterprises to adopt the method of prospective application method to handle the government grants existed from 1 January 2017. The new government grants between 1 January 2017 and the effective date of the Standards shall be adjusted according to the Standards.

Since 12 June 2017, the Company has adopted the revised Standards. According to the requirements of the revised Standards, the government grants between 1 January 2017 and effective date of the revised Standards have been adjusted. For the transactions that occurred before 1 January 2017, no retroactive adjustments were made; for the financial statements with comparable period financial statements in 2017, no retroactive adjustments were made either.

- 2) On 28 April 2017, the Ministry of Finance announced the amended "Accounting Standards for Business Enterprises No. 42 – Non-current Assets and Disposal Groups Held for Sale and Discontinued Operation", the amended standard was implemented from 28 May 2017. The non-current assets held for sale, disposal group and discontinued operation existed on the implementation date of the standard are subject to prospective application method.

The Company adopted the amended Standards from 28 May 2017, the Company has presented the current financial statements in accordance with the requirements of the new standard. At the same time, the Company re-presents the information previously presented as profit and loss from continued operation to the profit and loss from discontinued operation of the comparable accounting period in the current financial statements, and disclosed the information of comparable accounting period as required by the Standards.

#### (2) *Changes in significant accounting estimates*

Applicable Not applicable

There is no change in accounting estimates during the year.

### 34. Others

Applicable Not applicable

# FINANCIAL REPORT

## VI. TAXATION

### 1. Major Types of Tax and Tax Rates

*Information of major types and tax and tax rate*

Applicable Not applicable

<b>Types</b>	<b>Tax basis</b>	<b>Tax rate</b>
Value added tax	Sales of goods, taxable labor income and taxable services income (pilot areas of business tax changing to VAT applicable to taxable labor income)	6%, 17%
Urban construction and maintenance tax	Actual payment of turnover tax	5% or 7%
Education fee surcharges	Actual payment of turnover tax	3%
Local education surcharges	Actual payment of turnover tax	2%

Income tax rates are as follows by taxpayers:

Applicable Not applicable

<b>Taxpayers</b>	<b>Income tax rate</b>
Shenji Group Kunming Machine Tool Co., Ltd.	15%
Kunming TOS Machine Tool Manufacturing Co., Ltd. ("Kunming TOS")	25%
Xi'an Ser Turbo Machinery Co., Ltd ("Xi'an Ser")	15%, 25%
Changsha Ser Turbine Machinery Co., Ltd ("Changsha Ser")	15%
Kunming Kunji General Machine Co., Ltd. ("General Machine")	25%

# FINANCIAL REPORT

## VI. TAXATION (Continued)

### 2. Preferential Tax Policies

Applicable Not applicable

#### Taxpayers

#### Preferential tax policies and basis

Shenji Group Kunming Machine Tool Co., Ltd.	obtained the high and new technology enterprise ("HNTE") certificate with a valid until 31 December 2017
Xi'an Ser	obtained the HNTE certificate with a valid until 11 November 2017

#### (1) Preferential tax policies of the Company

As at the date of approval of the financial statements, the Company has obtained the HNTE certificate no. CR201553000161 and is entitled to the preferential tax rate for HNTE from 2015 to 2017. Therefore, the Company is subject to 15% corporate income tax rate for the year 2017 (Jan-Dec 2017: 15%).

#### (2) Preferential tax policies of the subsidiaries

The Company's subsidiaries, Xi'an Ser was recognized as HNTE on 11 November 2014 with a valid period of three years. In accordance with China's relevant laws and regulations in the PRC, the company is entitled to the preferential tax rate for HNTE from 2014 to 2016. Xi'an Ser is subject to 15% corporate income tax rate for the year 2017 (Jan-Nov 2017: 15%, Dec 2017: 25%).

### 3. Others

Applicable Not applicable

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. Cash at bank and on hand

Applicable Not applicable

Item	Unit: RMB	
	2017	2016
Cash on hand	158,990.67	237,364.71
Cash at bank	90,104,324.80	325,362,485.06
Other monetary funds	884,728.91	18,077,812.89
Total	<u>91,148,044.38</u>	<u>343,677,662.66</u>

### 2. Financial assets measured at fair value with changes in value recognized in profit or loss

Applicable Not applicable

### 3. Derivative financial assets

Applicable Not applicable

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 4. Bills receivable

(1) *Classification of notes receivable*

Applicable    Not applicable

Item	2017	Unit: RMB	
		2016	
Bank acceptance notes	28,334,093.00	37,912,520.18	
Commercial acceptance notes	1,350,000.00	1,460,587.01	
Total	<u>29,684,093.00</u>	<u>39,373,107.19</u>	

(2) *Bills receivable which have been pledged at the end of the year*

As at 31 December 2017, the Group had no pledged bills receivable.

(3) *Bills receivable endorsed or discounted at the end of the year and undue at the balancesheet date*

Applicable    Not applicable

Item	Unit: RMB	
	Amount derecognized at the end of the year	Amount recognized at the end of the year
Bank acceptance notes	294,888,502.72	–
Commercial acceptance notes	–	4,190,000.00
Total	<u>294,888,502.72</u>	<u>4,190,000.00</u>

(4) *As at the end of the year, bills receivable transferred to accounts receivable due to non-compliance of any bill drawer*

As at the end of the year, the Company had no bills receivable transferred to accounts receivable due to non-compliance of any bill drawer.

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Accounts receivable

(1) Disclosure of accounts receivable by category

✓Applicable □Not applicable

Unit: RMB

Type	Carrying amount		2017 Provision for bad and doubtful debts			Carrying amount		2016 Provision for bad and doubtful debts			Book value
	Amount	Proportion (%)	Amount	Proportion (%)	Book value	Amount	Proportion (%)	Amount	Proportion (%)		
Individually significant with individual bad debt provision	22,527,757.01	3.94	22,527,757.01	100.00	-	22,527,757.01	3.90	22,527,757.01	100.00	-	
Bad debt provision by combination with credit risk characters	535,168,306.00	93.49	280,623,510.00	52.44	254,544,796.00	554,951,770.84	96.10	276,077,897.28	49.75	278,873,873.56	
Combination 1 Aging group	461,337,065.35	80.59	280,623,510.00	60.83	180,713,555.35	485,072,841.96	84.00	276,077,897.28	56.91	208,994,944.68	
Combination 2 related parties	73,831,240.65	12.90	-	不計提	73,831,240.65	69,878,928.88	12.10	-	不計提	69,878,928.88	
Individually not significant but with individual bad debt provision	14,731,911.42	2.57	14,731,911.42	100.00	-	-	-	-	-	-	
Total	<u>572,427,974.43</u>	<u>100.00</u>	<u>317,883,178.43</u>	<u>-</u>	<u>254,544,796.00</u>	<u>577,479,527.85</u>	<u>100.00</u>	<u>298,605,654.29</u>	<u>-</u>	<u>278,873,873.56</u>	

Individually significant accounts receivable with individual bad debt provision as at the end of the year:

Unit: RMB

Accounts Receivable (by business unit)	2017			Reasons for making provision
	Accounts receivable	Provision for bad debts	Proportion (%)	
Shaanxi Ao Wei Qian Yuan Chemical Co., Ltd.	22,527,757.01	22,527,757.01	100.00	no expected to recover the amount
Total	<u>22,527,757.01</u>	<u>22,527,757.01</u>	<u>/</u>	<u>/</u>

In the group, making bad debt provision for accounts receivable by ageing analysis

Unit: RMB

Ageing	2017		Proportion(%)
	Accounts receivable	Provision for bad debts	
Within one year	111,574,044.79	5,578,702.25	5
Sub-total	111,574,044.79	5,578,702.25	5
1-2 years	31,250,160.01	9,375,048.01	30
2-3 years	105,478,450.80	63,287,070.48	60
Over three years	<u>213,034,409.75</u>	<u>202,382,689.26</u>	<u>95</u>
Total	<u>461,337,065.35</u>	<u>280,623,510.00</u>	<u>-</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 5. Accounts receivable (Continued)

(2) The provision, recovery and reversal of bad debts during the year

The provisions for bad debts amounted to RMB19,277,524.14.

(3) Top five accounts receivable by debtor as at the end of the year

Name	31 Dec 2017	Percentage of the accounts receivable at 31 Dec 2017	Provisions for bad debts
Yunnan CY Group	69,414,000.00	11.97	–
Kunming Yunnei Power Co., Ltd.	33,301,557.54	5.74	20,102,800.98
Shaanxi Ao Wei Qian Yuan Chemical Co., Ltd.	22,527,757.01	3.89	22,527,757.01
Hangzhou Feng Yuan Industrial Co., Ltd.	14,068,955.00	2.43	5,156,526.75
Shandong Longma Heavy Technology Co., Ltd.	12,710,256.40	2.19	1,250,512.82
Total	<u>152,022,525.95</u>	<u>26.22</u>	<u>49,037,597.56</u>

### 6. Prepayments

(1) Presentation of prepayments according to ageing analysis

✓Applicable □Not applicable

Ageing	2017		2016	
	Amount	Proportion (%)	Amount	Proportion (%)
Within one year	25,966,891.92	68.13	26,977,261.56	45.48
1-2 years	9,178,631.94	24.08	5,020,926.35	8.46
2-3 years	1,624,887.80	4.26	24,700,924.52	41.64
Over 3 years	1,344,494.34	3.53	2,624,717.87	4.42
Total	<u>38,114,906.00</u>	<u>100.00</u>	<u>59,323,830.30</u>	<u>100.00</u>

Unit: RMB

Explanation on reasons for prepayments with an ageing over one year and significant amount not settled in time

Name	31 Dec 2016	Reasons for not settled in time
Shenyang Rui Shi Da International Trade Co., Ltd. ("Shenyang Rui Shi Da")	6,539,363.93	Contract not completed
Mepro Mechanical Co.,Ltd	1,505,618.00	Contract not completed
Kunming Electrical Machinery Co., Ltd.	520,974.95	Contract not completed
Yunnan Ju Feng Precision Machinery Manufacturing Co., Ltd.	204,330.16	Contract not completed
WeastAsia (Beijing) Technology Ltd.	200,425.00	Contract not completed
Total	<u>8,970,712.04</u>	

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 6. Prepayments (Continued)

(2) Top five balances of prepayments by prepaid item as at the end of the year

Name	31 Dec 2017	Percentage of the accounts receivable at 31 Dec 2017	Ageing	Not settled in time
Shenyang Rui Shi Da	6,539,363.93	17.16	1-2years	The contract is being implemented
China Construction First Building (Group) Co., Ltd.	4,730,000.00	12.41	Within one year	The contract is being implemented
Siemens International Trade (Shanghai) Co., Ltd.	3,798,030.13	9.96	Within one year	The contract is being implemented
Qingdao Jieneng Steam Turbine (Group) Nanjing Co., Ltd	2,419,220.00	6.35	Within one year	The prepayment for material
Shenyang Han Shen Te Technology Co., Ltd.	2,189,901.40	5.75	Within one year	The contract is being implemented
Total	<u>19,676,515.46</u>	<u>51.62</u>	<u>-</u>	<u>-</u>

### 7. Other receivables

(1) Disclosure of other receivables by category

Applicable  Not applicable

Unit: RMB

Type	Other receivables		2017 Provision for bad debts			Other receivables		2016 Provision for bad debts		
	Amount	Proportion (%)	Amount	Proportion (%)	Book value	Amount	Proportion (%)	Amount	Proportion (%)	Book value
Individually significant other receivables with individually dab debt provision	-	-	-	-	-	-	-	-	-	-
Bad debt provision for other receivables by combination with credit risk characters	28,776,030.15	98.71	9,358,015.04	32.52	19,418,015.11	22,677,072.72	98.88	6,209,948.01	27.38	16,467,124.71
Combination 1 Aging group	27,500,539.04	94.33	9,358,015.04	34.03	18,142,524.00	18,697,238.60	81.52	6,209,948.01	33.21	12,487,290.59
Combination 2 related parties	1,275,491.11	4.38	-	not making	1,275,491.11	3,979,834.12	17.36	-	not making	3,979,834.12
Individually not significant other receivables but with individually dab debt provision	<u>376,906.42</u>	<u>1.29</u>	<u>-</u>	<u>not making</u>	<u>376,906.42</u>	<u>257,594.10</u>	<u>1.12</u>	<u>789.27</u>	<u>0.31</u>	<u>256,804.83</u>
Total	<u>29,152,936.57</u>	<u>100.00</u>	<u>9,358,015.04</u>	<u>-</u>	<u>19,794,921.53</u>	<u>22,934,666.82</u>	<u>100.00</u>	<u>6,210,737.28</u>	<u>-</u>	<u>16,723,929.54</u>

At the end of the year, individual significant other receivables with individual bad debt provision

At the end of the year, the Company had no individual significant other receivables with individual bad debt provision.

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 7. Other receivables (Continued)

#### (1) Disclosure of other receivables by category (Continued)

In the group, bad debt provision for other receivables by ageing analysis

Unit: RMB

Ageing	Other receivables	Closing balance	
		Provision for bad debts	Proportion (%)
Within one year			
Sub-total	15,445,195.93	772,259.80	5.00
1-2 years	6,939,175.76	3,469,587.89	50.00
2-3 years	530,431.47	530,431.47	100.00
Over 3 years	4,585,735.88	4,585,735.88	100.00
Total	<u>27,500,539.04</u>	<u>9,358,015.04</u>	<u>—</u>

In the combination, bad debt provision for other receivables by related parties group

Name	31 Dec 2017			Reasons for not making provision
	Other receivables	Provision for bad debts	Proportion (%)	
Kunji Group Co.	647,631.96	—	Not making provision	Related party
Shenyang Machine Tool Co., Ltd. Welding Company ("Welding Company")	627,859.15	—	Not making provision	Related party
Total	<u>1,275,491.11</u>	<u>—</u>	/	/

#### (2) The provision, recovery and reversal of bad debts during the year

The provision for bad debts during the year were RMB3,147,277.76

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 7. Other receivables (Continued)

#### (3) Other receivables by nature

Nature	Unit: RMB	
	2017	2016
Deposits should be recovered	11,105,543.00	6,244,831.32
Expenses on behalf of other parties	4,079,937.72	2,596,293.01
Petty cash	2,388,852.45	2,227,379.19
Deposit for bidding	1,911,550.00	2,796,267.00
Current account with related parties	1,275,491.11	3,979,834.12
Tax to be deducted	1,348,667.10	1,324,517.37
Long-term other receivables for equipment	808,350.00	808,350.00
Long-term other receivables transferred from prepayment	2,840,958.92	1,858,945.00
Other	3,393,586.27	1,098,249.81
Total	<u>29,152,936.57</u>	<u>22,934,666.82</u>

#### (4) Top five other receivables by debtor as at the end of the year

Name	Nature	Closing balance	Ageing	Unit: RMB	
				Percentage of total balance of other receivables at the end of the year (%)	Balance of provision for bad debts at the end of the year
Kunming Rail Transit Group Co., Ltd.	Deposits should be recovered	6,000,000.00	Within 1 year	20.18	300,000.00
China Kangfu International Leasing Co., Ltd.	Deposits should be recovered	2,364,800.00	1-2 years	7.95	1,182,400.00
Bureau of human resources and social security of Songming County	Deposits should be recovered	2,274,000.00	1-2years 1,934,000; 2-3years 340,000	7.65	1,307,000.00
South-west Jian Zhong Electrical Equipment Co., Ltd.	Tax to be deducted	971,760.68	1-2years	3.27	485,880.34
Ai Jie	Others	855,835.20	Within 1 year	2.88	42,791.76
Total	/	<u>12,466,395.88</u>	/	<u>41.92</u>	<u>3,318,072.10</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 8. Inventories

(1) Inventories by category

✓Applicable Not applicable

Unit: RMB

Item	Carrying amount	2017		Carrying amount	2016	
		Provision for diminution in value of inventories	Book value		Provision for diminution in value of inventories	Book value
Raw materials	100,760,168.28	26,764,615.39	73,995,552.89	117,875,364.99	17,907,902.42	99,967,462.57
Work in progress	335,826,537.58	69,151,635.28	266,674,902.30	528,856,274.12	104,645,894.32	424,210,379.80
Finished goods	241,376,811.47	26,992,597.00	214,384,214.47	237,738,248.60	15,898,347.43	221,839,901.17
Consumables	6,766,676.74	-	6,766,676.74	4,342,268.44	-	4,342,268.44
Commissioned processing materials	-	-	-	2,104,763.41	-	2,104,763.41
<b>Total</b>	<b><u>684,730,194.07</u></b>	<b><u>122,908,847.67</u></b>	<b><u>561,821,346.40</u></b>	<b><u>890,916,919.56</u></b>	<b><u>138,452,144.17</u></b>	<b><u>752,464,775.39</u></b>

(2) Provision for diminution in value of inventories

✓Applicable Not applicable

Unit: RMB

Item	Opening balance	Increase during the year		Decrease during the year		Closing balance
		Provision	Others	Reversal or Write-off	Others	
Raw materials	17,907,902.42	9,472,509.45	-	615,796.48	-	26,764,615.39
Work in progress	104,645,894.32	-	-	35,494,259.04	-	69,151,635.28
Finished goods	15,898,347.43	24,522,745.51	-	13,428,495.94	-	26,992,597.00
<b>Total</b>	<b><u>138,452,144.17</u></b>	<b><u>33,995,254.96</u></b>	<b><u>-</u></b>	<b><u>49,538,551.46</u></b>	<b><u>-</u></b>	<b><u>122,908,847.67</u></b>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 9. Other Current assets

Applicable Not applicable

*Unit: RMB*

Item	2017	2016
To be deductible VAT	11,806,576.23	43,290,928.79
Others	6,358,893.26	4,553,735.47
Total	<u>18,165,469.49</u>	<u>47,844,664.26</u>

### 10. Available-for-Sale Financial Assets

#### (1) Information of available-for-sale financial assets

Applicable Not applicable

*Unit: RMB*

Item	2017			2016		
	Carrying amount	Provision for diminution in value	Book value	Carrying amount	Provision for diminution in value	Book value
Available-for-sale debt instruments	-	-	-	-	-	-
Available-for-sale equity instruments	2,612,000.00	2,000,000.00	612,000.00	2,612,000.00	2,000,000.00	612,000.00
Total	<u>2,612,000.00</u>	<u>2,000,000.00</u>	<u>612,000.00</u>	<u>2,612,000.00</u>	<u>2,000,000.00</u>	<u>612,000.00</u>

#### (2) Available-for-sale financial assets measured by cost at the end of the year

Applicable Not applicable

*Unit: RMB*

Invested company	Carrying amount		Provision for diminution in value		Proportion of shares held in the invested company (%)	Cash dividend for Invested company the year
	Opening balance	Closing balance	Opening balance	Closing balance		
Yunnan Cheng Jiang Copper Products Plant	2,000,000.00	2,000,000.00	2,000,000.00	2,000,000.00	-	40.00
Hangzhou Ser Gas Engineering Co., Ltd ("Hangzhou Ser)	612,000.00	612,000.00	-	-	-	11.45
Total	<u>2,612,000.00</u>	<u>2,612,000.00</u>	<u>2,000,000.00</u>	<u>2,000,000.00</u>	/	<u>51.45</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 11. Long-term equity investments

✓Applicable    □Not applicable

Unit: RMB

Investment company	Opening balance	Additional investment	Decrease investment	Changes in equity for the year						Closing balance	Closing balance of impairment provision
				Investment income recognized under the equity method	Other comprehensive income	Movement of other equity	Declared cash dividends or profits	Impairment provision made during the year	Others		
Associate companies											
Xi'an Ruite	13,146,238.82	-	-	-3,107,018.80	-	-	-	-	-	10,039,220.02	-
Sub-total	13,146,238.82	-	-	-3,107,018.80	-	-	-	-	-	10,039,220.02	-
Total	13,146,238.82	-	-	-3,107,018.80	-	-	-	-	-	10,039,220.02	-

### 12. Investment properties

Measure model of investment property

(1) Investment properties measured at cost

Unit: RMB

Item	Building and structures	Land use rights	Construction in progress	Total
<b>I. Cost</b>				
1. Opening balance	18,427,823.95	0	0	18,427,823.95
2. Addition during the year	0	0	0	0
(1) Acquisition	0	0	0	0
(2) Transfer from inventories/ fixed assets/construction in progress	0	0	0	0
(3) Increase by enterprise combination	0	0	0	0
3. Decrease during the year	0	0	0	0
(1) Disposal	0	0	0	0
(2) Other transfer out	0	0	0	0
4. Closing balance	18,427,823.95	0	0	18,427,823.95
<b>II. Accumulated depreciation or amortization</b>				
1. Opening balance	3,162,531.85	0	0	3,162,531.85
2. Addition during the year	438,599.10	0	0	438,599.10
(1) Provision or amortization	438,599.10	0	0	438,599.10
3. Decrease during the year	0	0	0	0
(1) Disposal	0	0	0	0
(2) Other transfer out	0	0	0	0
4. Closing balance	3,601,130.95	0	0	3,601,130.95
<b>III. Impairment provision</b>				
1. Opening balance	0	0	0	0
2. Addition during the year	-	-	-	0
(1) Provision	0	0	0	0
3. Decrease during the year	0	0	0	0
(1) Disposal	0	0	0	0
(2) Other transfer out	0	0	0	0
4. Closing balance	0	0	0	0
<b>IV. Carrying amounts</b>				
1. At the end of the year	14,826,693.00	0	0	14,826,693.00
2. At the beginning of the year	15,265,292.10	0	0	15,265,292.10

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 12. Investment properties (Continued)

Measure model of investment property (Continued)

- (2) Investment properties with pending certificates of ownership  
As at 31 December 2017, the Company had no investment properties with pending certificates of ownership.

### 13. Fixed assets

(1) Details of fixed assets

✓Applicable    □Not applicable

	Unit: RMB				
Item	Building and structures	Machinery and equipment	Transportation equipment	Electronic equipment	Total
<b>I. Cost</b>					
1. Opening balance	229,190,446.00	594,583,570.14	32,244,088.43	18,544,664.19	874,562,768.76
2. Addition during the year	222,926.65	335,042.74	2,274,999.62	218,319.80	3,051,288.81
(1) Acquisition	222,926.65	335,042.74	2,274,999.62	218,319.80	3,051,288.81
(2) Transfer from construction in progress	-	-	-	-	-
(3) Increase by enterprise combination	-	-	-	-	-
3. Decrease during the year	1,745,754.21	5,118,579.65	9,650,376.94	37,289.11	16,551,999.91
(1) Disposal or scrapped	1,745,754.21	5,118,579.65	9,650,376.94	37,289.11	16,551,999.91
4. Closing balance	227,667,618.44	589,800,033.23	24,868,711.11	18,725,694.88	861,062,057.66
<b>II. Accumulated depreciation</b>					
1. Opening balance	38,717,513.36	333,926,061.08	22,111,622.03	14,784,105.57	409,539,302.04
2. Addition during the year	8,825,439.59	29,745,162.35	4,445,476.81	909,196.26	43,925,275.01
(1) Provision	8,825,439.59	29,745,162.35	4,445,476.81	909,196.26	43,925,275.01
3. Decrease during the year	600,411.76	4,170,925.28	8,008,281.03	25,033.82	12,804,651.89
(1) Disposal or scrapped	600,411.76	4,170,925.28	8,008,281.03	25,033.82	12,804,651.89
4. Closing balance	46,942,541.19	359,500,298.15	18,548,817.81	15,668,268.01	440,659,925.16
<b>III. Impairment provision</b>					
1. Opening balance	-	3,370,468.33	-	41,365.93	3,411,834.26
2. Addition during the year	-	8,179,101.54	-	-	8,179,101.54
(1) Provision	-	8,179,101.54	-	-	8,179,101.54
3. Decrease during the year	-	585,253.23	-	-	585,253.23
(1) Disposal or scrapped	-	585,253.23	-	-	585,253.23
4. Closing balance	-	10,964,316.64	-	41,365.93	11,005,682.57
<b>IV. Carrying amounts</b>					
1. At the end of the year	180,725,077.25	219,335,418.44	6,319,893.30	3,016,060.94	409,396,449.93
2. At the beginning of the year	190,472,932.64	257,287,040.73	10,132,466.40	3,719,192.69	461,611,632.46

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 13. Fixed assets (Continued)

#### (2) Particulars of temporarily idle fixed assets

Applicable Not applicable

Unit: RMB

Item	Original carrying amount	Accumulated depreciation	Provision for impairment	Book value	Remark
Machinery and equipment	1,185,575.79	358,985.91	813,398.76	13,191.12	–
Electronic equipment	79,415.17	34,674.24	41,365.93	3,375.00	–
Total	<u>1,264,990.96</u>	<u>393,660.15</u>	<u>854,764.69</u>	<u>16,566.12</u>	–

#### (3) Fixed assets with pending certificates of ownership

Applicable Not applicable

Unit: RMB

Item	Carrying amount	Reasons for fixed assets with pending certificates of ownership
Some Building and structures	102,333,455.95	The time of obtaining property certificates is depending upon the consideration and approval procedures of the relevant government authorities.

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 14. Construction in progress

(1) Information of construction in progress

✓Applicable    □Not applicable

Unit: RMB

Item	Closing balance			Opening balance		
	Book value	Impairment provision	Carrying amount	Book value	Impairment provision	Carrying amount
Yanglin base	53,393,705.86	-	53,393,705.86	38,772,621.92	-	38,772,621.92
Other items	651,162.29	-	651,162.29	3,164,819.60	-	3,164,819.60
Total	<u>54,044,868.15</u>	<u>-</u>	<u>54,044,868.15</u>	<u>41,937,441.52</u>	<u>-</u>	<u>41,937,441.52</u>

(2) Movements of major construction projects in progress during the year

✓Applicable    □Not applicable

Unit: RMB

Item	Budget	Opening balance	Additions during the year	Transfer to fixed assets during the year	Decrease during the year	Closing balance	Investment percentage to total budget (%)	Project progress	Accumulated amount of interest capitalized	Of which, amount of interest capitalized during the year	Interest capitalization rate of the year)	Source of the fund
Yanglin Base	654,000,000.00	38,772,621.92	15,650,197.89	-	1,029,113.95	53,393,705.86	47.26	60.00	-	-	-	Self-financing and budgetary investment of central government
Total	<u>654,000,000.00</u>	<u>38,772,621.92</u>	<u>15,650,197.89</u>	<u>-</u>	<u>1,029,113.95</u>	<u>53,393,705.86</u>	<u>/</u>	<u>/</u>	<u>-</u>	<u>-</u>	<u>/</u>	<u>/</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 15. Intangible assets

#### (1) Information of intangible assets

✓Applicable □Not applicable

Unit: RMB

Item	Land use rights	Patent rights	Unpatented technology	Others	Total
<b>I. Cost</b>					
1. Opening balance	113,414,667.82	18,708,269.86	77,488,010.20	22,458,423.23	232,069,371.11
2. Addition during the year	-	1,818,803.42	-	-	1,818,803.42
(1) Acquisition	-	1,818,803.42	-	-	1,818,803.42
(2) Internal R&D	-	-	-	-	-
(3) Increase by combination of enterprises	-	-	-	-	-
3. Decrease during the year	-	-	-	-	-
(1) Disposal	-	-	-	-	-
4. Closing balance	113,414,667.82	20,527,073.28	77,488,010.20	22,458,423.23	233,888,174.53
<b>II. Accumulated depreciation</b>					
1. Opening balance	10,077,020.02	11,281,697.09	12,525,519.39	11,366,080.79	45,250,317.29
2. Addition during the year	2,315,632.08	1,996,007.26	3,665,409.76	1,875,168.62	9,852,217.72
(1) Provision	2,315,632.08	1,996,007.26	3,665,409.76	1,875,168.62	9,852,217.72
3. Decrease during the year	-	-	-	-	-
(1) Disposal	-	-	-	-	-
4. Closing balance	12,392,652.10	13,277,704.35	16,190,929.15	13,241,249.41	55,102,535.01
<b>III. Impairment provision</b>					
1. Opening balance	-	-	-	-	-
2. Addition during the year	-	-	-	-	-
(1) Provision	-	-	-	-	-
3. Decrease during the year	-	-	-	-	-
(1) Disposal	-	-	-	-	-
4. Closing balance	-	-	-	-	-
<b>IV. Carrying amounts</b>					
1. At the end of the year	101,022,015.72	7,249,368.93	61,297,081.05	9,217,173.82	178,785,639.52
2. At the beginning of the year	103,337,647.80	7,426,572.77	64,962,490.81	11,092,342.44	186,819,053.82

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 16. Development expenditure

✓Applicable Not applicable

Unit: RMB

Item	Increase during the year		Decrease during the year		Closing balance
	Opening balance	Internal development expenditure	Others	Transferred to profit or loss for the current period	
KHC100/2 double-station precision horizontal machining center	-	3,343,254.21	-	- 3,343,254.21	-
THM-μ series precision horizontal machining center	-	476,476.88	-	- 476,476.88	-
Key technology for design and manufacture of high precision jig boring machines	-	125.42	-	-	125.42
Complete equipment of large aero-engine engine brake	-	598,297.74	-	- 598,297.74	-
Research and application of key technologies on high precision CNC jig boring machine for processing of precision box-type parts	-	4,222,939.89	-	- 72,650.18	4,150,289.71
Others	-	18,459,767.62	-	- 18,459,767.62	-
Total	-	<u>27,100,861.76</u>	-	- <u>22,950,446.63</u>	<u>4,150,415.13</u>

### 17. Goodwill

(1) Original value of goodwill

✓Applicable Not applicable

Unit: RMB

Name of invested company or item goodwill formed	Opening balance	Increase during the year		Decrease during the year		Closing balance
		Formed by enterprises combination	Disposal	Disposal	Disposal	
Xi'an Ser	7,296,277.00	-	-	-	-	7,296,277.00
Total	<u>7,296,277.00</u>	-	-	-	-	<u>7,296,277.00</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 17. Goodwill (Continued)

(2) Impairment provision for goodwill

Applicable Not applicable

Unit: RMB

Name of invested company or item goodwill formed	Opening balance	Increase during the year	Decrease during the year	Closing balance
		Provision	Disposal	
Xi'an Ser	7,296,277.00	-	-	7,296,277.00
Total	<u>7,296,277.00</u>	<u>-</u>	<u>-</u>	<u>7,296,277.00</u>

### 18. Deferred tax assets/deferred tax liabilities

(1) Un-offset deferred tax assets

Applicable Not applicable

Unit: RMB

Item	Closing balance		Opening balance	
	Deductible temporary difference	Deferred tax assets	Deductible temporary difference	Deferred tax assets
Provision for asset impairment	7,933,544.32	1,983,386.08	8,357,802.03	2,089,450.51
Estimated liabilities	1,109,186.67	277,296.67	829,668.09	207,417.02
Provision for diminution in value of inventories	530,259.78	132,564.94	552,991.39	138,247.85
Total	<u>9,572,990.77</u>	<u>2,393,247.69</u>	<u>9,740,461.51</u>	<u>2,435,115.38</u>

(2) Breakdown of unrecognized deferred tax assets

Applicable Not applicable

Unit: RMB

Item	Closing balance	Opening balance
Deductible losses	851,834,243.66	508,870,687.33
Provision for asset impairment	475,122,668.50	453,383,431.27
Total	<u>1,326,956,912.16</u>	<u>962,254,118.60</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 18. Deferred tax assets/deferred tax liabilities (Continued)

(3) Expiration of deductible loss for unrecognized deferred income tax assets falls in the periods as follows

Applicable Not applicable

Unit: RMB

Year	Closing balance	Opening balance	Remark
2018	8,716,883.91	8,716,883.91	
2019	140,974,352.12	140,974,352.12	
2020	157,854,123.12	157,854,123.12	
2021	201,325,328.18	201,325,328.18	
2022	342,963,556.33	—	
Total	<u>851,834,243.66</u>	<u>508,870,687.33</u>	/

### 19. Other non-current assets

Applicable Not applicable

Unit: RMB

Item	2017	2016
Prepayments for land use rights	<u>4,116,091.08</u>	<u>4,116,091.08</u>
Total	<u>4,116,091.08</u>	<u>4,116,091.08</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 20. Short-term borrowings

(1) Classification of short-borrowings

Applicable Not applicable

Item	Unit: RMB	
	2017	2016
Loans secured by mortgage	21,433,036.94	27,000,000.00
Guaranteed loans	342,250,000.00	487,050,000.00
Unsecured loans	–	46,622,720.00
Total	<u>363,683,036.94</u>	<u>560,672,720.00</u>

Explanation of short-term loans:

Note: Shenyang Machine Tool (Group) Company Limited (“Shenyang Group”) provided guarantee for the Company’s financing facilities secured from the Export-Import Bank of China. As at 31 December 2017, the total financing limit was zero (31 Dec 2016: RMB300 million). As at 31 December 2017, the short-term loans used by the Company was RMB95 million, which were the renewal loans on 7 July 2017 (31 Dec 2016: RMB200 million).

Shenyang Group provided guarantee for the Company’s financing facilities secured from Hengfeng Bank, as at 31 December 2017, the total financing limit was RMB70 million (31 Dec 2016: RMB100 million). The balance of short-term loan used by the Company was RMB70 million as at 31 December 2017 (31 Dec 2016: RMB100 million).

Shenyang Group provided guarantee for the Company’s financing facilities at a total amount of RMB40 million secured from China Guangfa Bank as at 31 December 2017 (31 Dec 2016: RMB50 million). The balance of short-term loan used by the Company was RMB40 million as at 31 December 2017 (31 Dec 2016: RMB41 million).

Shenyang Group provided guarantee for the Company’s financing facilities at a total amount of RMB141 million secured from the Bank of Communications as at 31 December 2017 (31 Dec 2016: RMB150 million). The balance of short-term loan used by the Company was RMB135 million as at 31 December 2017 (31 Dec 2016: RMB138.3 million).

### 21. Bills payable

Applicable Not applicable

Type	Unit: RMB	
	2017	2016
Bank acceptance notes	–	15,273,453.50
Total	<u>–</u>	<u>15,273,453.50</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 22. Accounts payable

(1) Information of accounts payable

Applicable Not applicable

Item	<i>Unit: RMB</i>	
	Closing balance	Opening balance
Related parties not included in the scope of consolidation	16,411,898.30	16,411,898.30
Accounts payable for material	281,684,503.60	361,909,095.17
Accounts payable for construction	5,213,316.59	4,960,676.58
Other accounts receivable	17,316,746.21	23,483,474.73
Total	<u>320,626,464.70</u>	<u>406,765,144.78</u>

(2) Significant accounts payable with an ageing over one year

Applicable Not applicable

Item	<i>Unit: RMB</i>	
	Closing balance	Reason for unpaid or not settled
Guangzhou BLT Hydraulics & Seals Ltd.	9,625,712.32	Not be collected temporarily
Yunnan CY Group	6,095,143.36	Not be collected temporarily
New Trade Co. Ltd. at Qilin District, Qujing City	5,055,458.53	Not be collected temporarily
Bo Sen Technology Development Co., Ltd. at Yantai Development Zone	4,568,897.06	Not be collected temporarily
Yunnan Hua Da Tian Economic and Trade Co., Ltd	4,537,847.82	Not be collected temporarily
TOS Varnsdorf, a.s.	2,216,489.47	Not be collected temporarily
Dandong Jinqiu Machine Tool Co., Ltd.	2,061,490.66	Not be collected temporarily
Total	<u>34,161,039.22</u>	-

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 23. Advances from customers

(1) Information of advances from customers

Applicable Not applicable

Item	Unit: RMB	
	Closing balance	Opening balance
Advance sales payment	282,852,805.07	257,040,805.89
Total	<u>282,852,805.07</u>	<u>257,040,805.89</u>

(2) Significant advances from customers with an ageing over one year

Applicable Not applicable

Item	Closing balance	Unit: RMB	
		Reason for unpaid or not settled	
Wuhan Iron and Steel (Group) Corporation	17,560,000.00	advance receipt of payment for goods	
Shenyang Fortune Precision Equipment Co., Ltd.	5,328,000.00	advance receipt of payment for goods	
Wuxi Sunteam Electrical Technology Co., Ltd.	4,791,860.43	advance receipt of payment for goods	
Guangzhou Xin Ao Machinery Co., Ltd	4,330,000.00	advance receipt of payment for goods	
Chongqing Trust Machine Tool Co., Ltd.	4,292,485.00	advance receipt of payment for goods	
CSSC-MES Diesel Co., Ltd	2,698,000.66	advance receipt of payment for goods	
Hulunbuir Hong Yang Pharmaceutical Co., Ltd	27,709,000.00	advance receipt of payment for goods	
Henan Topfond Pharmaceutical Company Limited	7,874,277.01	advance receipt of payment for goods	
The United Laboratories (Chengdu) Co Ltd.	7,681,739.50	advance receipt of payment for goods	
Aksu Tong Le Sheng Chemical Co., Ltd.	6,000,000.00	advance receipt of payment for goods	
Shaanxi Ao Wei Qian Yuan Chemical Co., Ltd.	<u>985,000.00</u>	advance receipt of payment for goods	
Total	<u>89,250,362.60</u>		-

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 24. Employee benefits payable

(1) *Employee benefits payable are as follows:*

Applicable Not applicable

*Unit: RMB*

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
I. Short-term remuneration	14,454,490.14	135,274,506.52	130,598,393.09	19,130,603.57
II. post-employment – Defined contribution plan	16,036,487.31	21,981,204.56	25,353,879.99	12,663,811.88
III. Termination benefits	–	539,585.16	539,585.16	–
IV. Other benefits due within one year	14,339,019.56	9,582,278.12	16,676,670.40	7,244,627.28
Total	<u>44,829,997.01</u>	<u>167,377,574.36</u>	<u>173,168,528.64</u>	<u>39,039,042.73</u>

(2) *Short-term remuneration*

Applicable Not applicable

*Unit: RMB*

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Salary, bonus, allowances and subsidies	7,307,557.23	107,395,395.34	107,953,373.09	6,749,579.48
Staff welfare	–	3,312,790.33	3,312,790.33	–
Social insurance	204,490.41	13,307,656.33	13,072,080.03	–
Include: Medical insurance	204,051.36	11,432,295.51	11,636,346.87	–
Work injury insurance	207.97	880,364.24	861,533.94	19,038.27
Maternity insurance	231.08	994,996.58	574,199.22	421,028.44
Housing fund	–	9,375,421.60	5,315,841.10	4,059,580.50
Union expenses and employees education expenses	6,942,442.50	1,883,242.92	944,308.54	7,881,376.88
Short-period paid leave	–	–	–	–
Short-term profit sharing plan	–	–	–	–
Total	<u>14,454,490.14</u>	<u>135,274,506.52</u>	<u>130,598,393.09</u>	<u>19,130,603.57</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 24. Employee benefits payable (Continued)

(3) Defined contribution plan

Applicable Not applicable

Unit: RMB

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Basic retirement insurance premiums	15,868,850.47	21,338,175.66	24,668,564.80	12,538,461.33
Unemployment insurance	167,636.84	643,028.90	685,315.19	125,350.55
Enterprise annuity payment	—	—	—	—
Total	<u>16,036,487.31</u>	<u>21,981,204.56</u>	<u>25,353,879.99</u>	<u>12,663,811.88</u>

### 25. Taxes payable

Applicable Not applicable

Unit: RMB

Item	Closing balance	Opening balance
Value added tax	2,611,956.99	5,334,566.23
Consumption tax	—	—
Business tax	0	0
Corporate income tax	295,363.46	400,822.14
Individual income tax	1,297,635.09	2,121,628.53
Urban maintenance and construction tax	138,283.43	259,428.69
Education surcharges	86,886.17	179,341.14
Property tax	5,245,661.00	5,606,862.83
Stamp duty	131,972.50	329,976.80
Land use tax	1,827,278.16	850,855.99
Other taxes	8,496.04	—
Total	<u>11,643,532.84</u>	<u>15,083,482.35</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 26. Interests payable

Applicable Not applicable

Item	Unit: RMB	
	Closing balance	Opening balance
Interests payable on short-term loans	390,593.75	344,375.00
Total	<u>390,593.75</u>	<u>344,375.00</u>

### 27. Dividends payable

Applicable Not applicable

Item	Unit: RMB	
	Closing balance	Opening balance
Ordinary shares dividend	135,898.49	135,898.49
Total	<u>135,898.49</u>	<u>135,898.49</u>

Other explanation: including significant unpaid dividends payable with an ageing over one year. Reason for unpaid dividends payable: the Company has losses and could not pay the dividends.

### 28. Other payables

(1) Other payables by nature of payments are as follows:

Applicable Not applicable

Item	Unit: RMB	
	Closing balance	Opening balance
Travel expenses	2,335,345.81	1,280,485.05
Withholding and payment on behalf of others	8,692,532.77	9,391,738.03
Personal borrowing	33,414,817.92	217,500.00
Current account with related parties	260,576,058.31	210,368,707.43
Auditor's fee	3,702,619.20	3,530,188.68
Payable for projects	31,943,232.04	21,437,263.33
Commissions and business promotion fees	10,297,936.00	13,930,546.66
Shipping cost	18,187,065.91	17,526,528.75
Housing fund	6,600,233.98	—
Others	13,007,908.86	8,173,057.03
Total	<u>388,757,750.80</u>	<u>285,856,014.96</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 28. Other payables (Continued)

(2) Important other payables with an ageing over one year

Applicable Not applicable

Unit: RMB

Item	Closing balance	Reason for unpaid or not settled
Guangdong Kaiping Jian'an Group Co., Ltd.	1,607,190.79	project fund has not been fully executed
Kunming No. 2 Construction (Group) Co., Ltd.	1,803,608.63	project fund has not been fully executed
Yunnan Engineering Construction General Contracting Company	2,697,640.08	project fund has not been fully executed
Yunnan Huabang Steel Structure Engineering Co., Ltd.	6,305,594.43	project fund has not been fully executed
Yunnan Construction Engineering Second Construction Co., Ltd.	3,445,027.60	project fund has not been fully executed
Total	<u>15,859,061.53</u>	-

### 29. Non-current liabilities due within one year

Applicable Not applicable

Unit: RMB

Item	Closing balance	Opening balance
Guaranteed loans due within one year	-	50,000,000.00
Secured loans due within one years	45,000,000.00	-
Sale and leaseback due within one year	-	35,000,000.00
Total	<u>45,000,000.00</u>	<u>85,000,000.00</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 30. Long-term borrowings

(1) Classification of Long-term borrowings

✓Applicable    □Not applicable

Item	Unit: RMB	
	Closing balance	Opening balance
Secured loans	46,665,275.66	81,665,275.66
Guaranteed loans	–	50,000,000.00
Less: long-term loans due within one year	<u>-45,000,000.00</u>	<u>-85,000,000.00</u>
Total	<u>1,665,275.66</u>	<u>46,665,275.66</u>

(2) Long-term borrowings by expiry date are as follows:

Item	31 Dec 2017	31 Dec 2016
Due within 1 year or on demand	45,000,000.00	85,000,000.00
1-2 years (including 2 years)	1,665,275.66	45,000,000.00
2-3 years (including 3 years)	–	1,665,275.66
Total	<u>46,665,275.66</u>	<u>131,665,275.66</u>

(3) As at 31 December 2017, details of the long-term loans are as follows:

Bank name	Start date	Settlement date	Currency	Annual interest Rate (%)	2017
Export-import Bank of China	2015/2/15	2018/2/15	Renminbi	4.90%	22,500,000.00
Export-import Bank of China	2015/2/15	2018/8/15	Renminbi	4.90%	15,230.78
Export-import Bank of China	2015/6/18	2018/8/15	Renminbi	4.90%	17,208,905.37
Export-import Bank of China	2015/10/9	2018/8/15	Renminbi	4.90%	4,281,436.30
Export-import Bank of China	2016/2/5	2018/8/15	Renminbi	4.90%	994,427.55
Export-import Bank of China	2016/2/5	2019/2/15	Renminbi	4.90%	1,665,275.66
Total	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>46,665,275.66</u>

Note: As at 31st December 2017, building and structures of the Company's fixed assets with net book value of RMB12,342,912.10 were pledged to banks for long-term loans (31 Dec 2016: RMB12,666,096.88).

As at 31st December 2017, land use rights of carrying amount of RMB90,619,648.48 were pledged to banks for long-term loans (31 Dec 2016: RMB92,652,223.00).

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 31. Long-term employee benefits payable

(1) Table of long-term employee benefits payable

Applicable Not applicable

Item	Unit: RMB	
	Closing balance	Opening balance
Post-employment benefits - net liabilities of defined benefit plan	-	-
Termination benefits	41,689,562.44	49,142,395.32
Total	<u>41,689,562.44</u>	<u>49,142,395.32</u>

Note: Some employees of the Company retired from employment prior to their statutory retirement age. According to the requirements of the early retirement plan of the Company, from the date of ceasing service provision up to their respective statutory retirement dates, such employee salary as proposed salary and social insurance for early retirement employees were recognised at their discounted present value as provisions and were included in current administrative expenses ("early retirement expenses"). The discount rate selected by the Company represented the interest rate of national bonds having the same credit term with early retirement plan of the Company.

### 32. Special payables

Applicable Not applicable

Item	Unit: RMB				
	Opening balance	Increase during the period	Decrease during the period	Closing balance	Causes
Tax refund for import tariff and import VAT for key parts of machine tools	20,947,539.29	-	-	20,947,539.29	Note
Total	<u>20,947,539.29</u>	<u>-</u>	<u>-</u>	<u>20,947,539.29</u>	/

Note: Pursuant to the stipulations of the "Notice from the Ministry of Finance, National Development Reform Commission, China Customs, State Administration of Taxation on Import Duties Policy Related to Several Opinions on the Acceleration of Revitalising the Equipment Manufacturing Industry" (Cai Guan Shui [2007] No. 11), the tax refund will be treated as state investment, and should convert into state capital within the specified time. If an enterprise cannot convert the tax refund into state capital within the specified time, it should return the refund to state treasury on time. The Company committed that it would directly issue shares to its state-owned substantial shareholders Shenji Group and Yunnan Industrial Investment within two years after receiving the tax refund and complete the procedure of converting tax refund into state capital. Before that time, the Company will treat it as special payables according to accounting standards. As at 31 December 2017, the procedure of converting tax refund into state capital was not completed and the commitment period was exceeded.

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 33. Estimated liabilities

Applicable Not applicable

Item	Opening balance	Closing balance	Causes
Warranty	9,942,072.79	10,513,913.91	Note 1
Executory loss contract	1,299,709.72	-	Note 2
Total	<u>11,241,782.51</u>	<u>10,513,913.91</u>	/

Unit: RMB

Notes: including relevant significant assumption, estimation of significant estimated liabilities.

*Note 1:* Generally, the Company provides after-sale quality service guarantee to its customers who buy machine tool products from the Company. If the products have malfunction caused by non-accident or quality problems within one year after sale, the Company will provide free maintenance. The above product quality warranty was made based on the Company forecasted product quality warranty expenditures needed to be undertaken for products sold during the period and prior periods.

*Note 2:* During performance of the contractual obligations, the Company will recognize the executory contract as a loss contract which the expected cost incurred exceeds the future inflow economic benefits related to the contract. The Company recognized the expected losses of the loss contracts at the end of the year as estimated liabilities.

### 34. Deferred income

Information of deferred income

Applicable Not applicable

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance	Causes
Government grants	141,102,491.10	59,515,874.00	5,415,451.08	195,202,914.02	Government funding
Total	<u>141,102,491.10</u>	<u>59,515,874.00</u>	<u>5,415,451.08</u>	<u>195,202,914.02</u>	/

Unit: RMB

*Note 1:* The Company commenced to recognise the amount of debt exemption in unimplemented debt restructuring contract as deferred income from 2016, and deferred income was transferred to the current profit or loss when the debt restructuring contract was actually executed.

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 34. Deferred income (Continued)

Projects involved government grants

✓Applicable    □Not applicable

Unit: RMB

Liabilities items	Opening balance	Additional grants during the year	Amount recognized as non-operating income	Other changes	Closing balance	Related to assets/income
Special subsidies for innovation ability construction of provincial high-tech enterprises	50,000.00	-	-	-	50,000.00	Related to income
Efficient precision gear grinding machine (the Company participated in the national major special projects of Qinchuan, Shaaxi in 2011)	775,380.20	-	-	-	775,380.20	Related to income
THM-μ series precision horizontal machining center	4,280,000.00	-	-	-	4,280,000.00	Related to income
Technology innovation platform of precision vertical and horizontal machining center	27,593,674.00	-	-	-	27,593,674.00	Related to income
Key technology for design and manufacture of high precision jig boring machines (863 Program in 2012)	8,380,000.00	-	-	-	8,380,000.00	Related to income
Research on key technical standards and test platform of high-grade CNC machine tool, CNC system and functional component (participated in the national quality inspection center)	4,650,000.00	-	-	-	4,650,000.00	Related to income
Common frontier technology platform for box-type precision work machine tool (participated in Tianda 863 Project in 2012)	900,000.00	-	-	-	900,000.00	Related to income

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 34. Deferred income (Continued)

Projects involved government grants (Continued)

Unit: RMB

Liabilities items	Opening balance	Additional grants during the year	Amount recognized as non-operating income	Other changes	Closing balance	Related to assets/income
Standard test method for box-type precision work machine tool and technology promotion (participated in Precision Machinery & Engineering 863 Project in 2012)	1,665,000.00	-	-	-	1,665,000.00	Related to income
Optical fiber bus open-end high-end CNC system, precision measurement system, servo device and motor technology and complete product system engineering	1,000,000.00	-	-	-	1,000,000.00	Related to income
KHC100/2 double-station precision horizontal machining center	14,037,725.52	-	-	244,380.05	13,793,345.47	Related to income
Application of domestic high-end CNC machine tools and CNC systems in processing units such as aircraft rib beams (participated in Chengdu Aircraft in 2013)	600,000.00	-	-	-	600,000.00	Related to income
National key new products- FMS (flexible manufacturing system)	100,000.00	-	-	-	100,000.00	Related to income
Industrialization of series products of precision horizontal machining center	1,700,000.00	-	-	-	1,700,000.00	Related to income
Improvement of innovation ability of Yunnan Precision Machine Tool Engineering Technology Research Center	1,000,000.00	-	-	-	1,000,000.00	Related to income
XH2740	2,600,000.00	-	-	-	2,600,000.00	Related to income
XH700	2,600,000.00	-	-	-	2,600,000.00	Related to income

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 34. Deferred income (Continued)

Projects involved government grants (Continued)

Unit: RMB

Liabilities items	Opening balance	Additional grants during the year	Amount recognized as non-operating income	Other changes	Closing balance	Related to assets/income
Testing technology research and pilot application of high-speed spindle unit of machine tool	364,300.00	-	-	-	364,300.00	Related to income
Research on precision maintaining technology of CNC machine tool	353,426.00	51,774.00	-	-	405,200.00	Related to income
Complete equipment of large aero-engine engine brake	1,234,420.00	-	-	-	1,234,420.00	Related to income
Yunling industrial technology leading talent fund	378,069.39	200,000.00	-	-	578,069.39	Related to income
Innovation ability construction project of Technology Center in Shenji Group Kunming Machine Tool Co., Ltd.	5,000,000.00	-	-	-	5,000,000.00	Related to income
Application demonstration base of aircraft structural parts on flexible production line and production unit of domestic 5-axis CNC machine tool	260,000.00	50,000.00	-	-	310,000.00	Related to income
Research and application of key technologies on high precision CNC jig boring machine for processing of precision box-type parts (2016ZX04004-002)	7,847,162.00	52,059,000.00	-	4,879,661.00	55,026,501.00	Related to income
Undertaking international R&D tasks for the development and trial production of Horimill horizontal machining center developed by Schiess Tech, Germany	200,000.00	-	-	11,410.00	188,590.00	Related to income
Special subsidy for industrial upgrade of Yanglin Industrial Park	20,380,000.00	-	-	-	20,380,000.00	Related to income

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 34. Deferred income (Continued)

Projects involved government grants (Continued)

Unit: RMB

Liabilities items	Opening balance	Additional grants during the year	Amount recognized as non-operating income	Other changes	Closing balance	Related to assets/income
Application and verification demonstration line for the large-scale complex structural parts of domestic high-end CNC machine tools in thermal insulation	-	5,386,600.00	-	-	5,386,600.00	Related to income
Reliability assurance technology research and application for manufacturing process of 2016zx04004005 machine tool (Chongqing University Project)	-	198,500.00	-	-	198,500.00	Related to income
Precision testing platform research and product validation (Changchun Yuheng Optics project 2017 YFF 0105305)	-	20,000.00	-	-	20,000.00	Related to income
Infrastructure subsidies of Yanglin Base (200mu land use right)	12,763,333.99	-	280,000.03	-	12,483,333.96	Related to asset
Phase one of the CNC heavy and precision machine tool manufacturing project (Yanglin Base)	16,000,000.00	-	-	-	16,000,000.00	Related to asset
Project of plant and supporting facilities construction of heavy casting workshop (Yanglin Base)	2,750,000.00	-	-	-	2,750,000.00	Related to asset
Engineering Department: receiving of the subsidy for the investment in fixed assets of the industrial and information industry in 2017 from the Financial Bureau of Songming County and Kunming	-	1,550,000.00	-	-	1,550,000.00	Related to asset

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 34. Deferred income (Continued)

Projects involved government grants (Continued)

Unit: RMB

Liabilities items	Opening balance	Additional grants during the year	Amount recognized as non-operating income	Other changes	Closing balance	Related to assets/income
The second batch of special funds for strategic emerging industries and new industrialization in 2016 of Hunan	400,000.00	-	-	-	400,000.00	-
Subsidy for tackling key problems in science and technology of strategic emerging industries and major scientific and technological achievements transformation project in 2015 of Hunan	1,000,000.00	-	-	-	1,000,000.00	-
Special subsidy	240,000.00	-	-	-	240,000.00	-
<b>Total</b>	<b>141,102,491.10</b>	<b>59,515,874.00</b>	<b>280,000.03</b>	<b>5,135,451.05</b>	<b>195,202,914.02</b>	<b>-</b>

Note: In the current period of the current profit or loss, the non-operating income is RMB280,000.03. Reasons for other decreases: the above three projects are mainly assumed by Shenji Group Kunming Machine Tool Company Limited, the government allocated funds to Shenji Group Kunming Machine Tool Company Limited, deferred income was first included, and funds were transferred to other self-assured companies.

### 35. Share capital

Applicable  Not applicable

Unit: RMB

	Opening balance	Issuance of new shares	Increase/decrease for the year			Sub-total	Closing balance
			Bonus shares	Capital reserve converted to shares	Others		
RMB Ordinary shares – domestic A Shares	390,186,228.20						390,186,228.20
Overseas listed foreign shares – Hong Kong listed H Shares	140,894,874.80						140,894,874.80
<b>Total shares</b>	<b>531,081,103.00</b>						<b>531,081,103.00</b>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 36. Capital reserve

Applicable Not applicable

Unit: RMB

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Capital premium (share premium)	19,206,777.12			19,206,777.12
Other capital reserves	558,254.05			558,254.05
Total	<u>19,765,031.17</u>	<u>-</u>	<u>-</u>	<u>19,765,031.17</u>

### 37. Operating income and operating costs

Applicable Not applicable

Unit: RMB

Item	2017		2016	
	Income	Cost	Income	Cost
Operating income from principal activities	525,952,460.04	547,986,257.15	645,431,694.70	655,591,011.12
Other operating income	<u>34,446,777.32</u>	<u>34,303,917.18</u>	<u>445,538.43</u>	<u>9,190,780.57</u>
Total operating income	<u>560,399,237.36</u>	<u>582,290,174.33</u>	<u>645,877,233.13</u>	<u>664,781,791.69</u>

### 38. Business taxes and surcharges

Applicable Not applicable

Unit: RMB

Item	Amount incurred in this year	Amount incurred in the last year
Consumption tax		
Business tax		27,000.00
Urban maintenance and construction tax	372,258.27	3,990,426.47
Education surcharges	260,584.81	2,918,388.32
Property tax	1,929,380.53	3,046,659.27
Land use tax	4,001,866.68	2,900,144.00
Vehicle and vessel usage tax	51,150.60	46,017.80
Stamp duty	438,081.36	570,502.82
Others	36,327.32	-33,813.48
Local water conservancy construction fund	25,640.51	
Total	<u>7,115,290.08</u>	<u>13,465,325.20</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 39. Selling and distribution expenses

Applicable Not applicable

Item	Unit: RMB	
	Amount incurred in this year	Amount incurred in the last year
Staff cost	23,064,272.30	23,927,503.58
Commission	9,330,610.31	5,056,196.61
Shipping cost	13,062,315.13	17,891,709.16
Warranty	10,667,362.32	13,657,268.01
Travel expenses	5,978,339.44	4,700,645.95
Automotive operating expenses	1,335,946.01	3,369,845.09
Advertising and Exhibition expenses	521,015.86	1,399,339.60
Business entertainment expense	2,364,076.05	3,476,590.48
Office expenses	1,044,456.81	1,909,980.91
Amortization of intangible assets	2,331,936.63	1,300,000.00
Material fee	12,349,650.12	
Others	3,143,815.02	7,559,557.14
Total	<u>85,193,796.00</u>	<u>84,248,636.53</u>

### 40. General and administrative expenses

Applicable Not applicable

Item	Unit: RMB	
	Amount incurred in this year	Amount incurred in the last year
Staff cost	52,440,373.25	82,876,940.27
R & D expenses	29,798,631.84	63,823,266.65
Depreciation of fixed assets	17,491,241.45	13,102,928.37
Taxes	40,251.81	2,505,398.77
Amortization of intangible assets	7,426,823.05	5,675,354.24
Rent	30,428,612.15	4,267,317.19
Maintenance	2,606,280.41	4,049,795.09
Auditor's fee	4,104,811.31	2,957,641.50
Consulting fees	3,426,261.31	3,622,981.39
Utilities	4,494,337.58	4,011,126.88
Office expenses	3,065,148.08	
Others	14,690,359.42	20,886,961.06
Total	<u>170,013,131.66</u>	<u>207,779,711.41</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 41. Finance expenses

Applicable Not applicable

Item	Unit: RMB	
	Amount incurred in this year	Amount incurred in the last year
Interest expense	45,865,072.60	52,114,401.11
Less: Interest income	-916,045.62	-821,505.34
Exchange income	11,146,025.67	785,294.56
Bank charges	364,895.65	1,228,385.92
Other financial expenses	9,544.75	2,126,701.35
Total	<u>56,469,493.05</u>	<u>55,433,277.60</u>

### 42. Asset impairment losses

Applicable Not applicable

Item	Unit: RMB	
	Amount incurred in this year	Amount incurred in the last year
Bad debt loss	23,207,006.46	63,964,436.17
Loss on diminution in value of inventories	-12,741,681.25	105,734,968.11
Loss on fixed assets impairment	7,593,848.31	585,253.23
Loss on goodwill impairment		7,296,277.00
Total	<u>18,059,173.52</u>	<u>177,580,934.51</u>

### 43. Investment income

Applicable Not applicable

Item	Unit: RMB	
	Amount incurred in this year	Amount incurred in the last year
Income from long-term equity investments accounted for using the equity method	-3,107,018.80	-625,304.03
Total	<u>-3,107,018.80</u>	<u>-625,304.03</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 44. Non-operating income

Information of non-operating income

Applicable Not applicable

*Unit: RMB*

Item	Amount incurred in this year	Amount incurred in the last year	Amount included in extraordinary gains or losses for the year 2017
Gain on debt restructuring	495,619.02	98,552.12	495,619.02
Government grants		20,996,627.01	
Compensation for breach of contract	896,897.00	8,347,172.24	896,897.00
Others	436,458.45	130,927.73	436,458.45
Total	<u>1,828,974.47</u>	<u>29,573,279.10</u>	<u>1,828,974.47</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 44. Non-operating income (Continued)

Government grants recognized through profit or loss

✓Applicable    □Not applicable

Unit: RMB

Item	Amount incurred in this year	Amount incurred in the last year	Related to assets/income
Corporate R&D subsidy of Kunming Science and Technology Bureau	–	410,240.00	Related to income
Research and development of FMS (flexible manufacturing system) (cooperating with the provincial machinery research institute)	–	1,098,000.00	Related to income
Subsequent subsidy funds for development and application demonstration of high-end CNC lathe manufacturing digital workshop project (2013 intelligent manufacturing projects)	–	14,000,000.00	Related to income
The first quarter steady growth bonus of Panlong District Bureau of Economic Trade and Investment Promotion of Kunming	–		Related to income
Special fund for provincial constructive innovation type of Yunnan action plan	–	1,943,800.00	Related to income
Bonus for creating water-saving enterprise	–	41,203.00	Related to income
Subsidy funds for preferential procurement of Panlong District Bureau of Economic Trade and Investment Promotion of Kunming	–		Related to income
Finance Department: receiving of 2016 taxpayers' production and operation support funds allocated by the Finance Bureau of Panlong District	–		Related to income
Receiving of 2017 employment subsidy allocated by the Office of Unemployment Insurance Committee of Kunming City	–	1,275,384.00	Related to income
Vertical and horizontal machining center of high precision universal main spindle	–	800,000.00	Related to income
Grants for high precision TGK46100 horizontal jig boring machine tools project	–	264,900.00	Related to income
2015 brand name rewards of Yunnan and Kunming	–	100,000.00	Related to income
Amortization of 200mu land use right of Yanglin base	–	280,000.01	Related to asset
Discount interest funds	–		Related to income
Project funding of "Joint design and development of WRD160Q CNC floor-type boring and milling machining center"	–	200,000.00	Related to income
Yunnan science and technology project grants from Kunming Science and Technology Bureau	–	583,100.00	Related to income
<b>Total</b>	<b>–</b>	<b>20,996,627.01</b>	<b>/</b>

Other explanations:

✓Applicable    □Not applicable

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 44. Non-operating income (Continued)

Government grants recognized through other income

Item	For the year 2017	For the year 2016	Related to assets/income
Corporate R&D subsidy of Kunming Science and Technology Bureau	1,290,360.00	–	Related to income
Research and development of FMS (flexible manufacturing system) (cooperating with the provincial machinery research institute)	–	–	Related to income
Subsequent subsidy funds for development and application demonstration of high-end CNC lathe manufacturing digital workshop project (2013 intelligent manufacturing projects)	6,000,000.00	–	Related to income
The first quarter steady growth bonus of Panlong District Bureau of Economic Trade and Investment Promotion of Kunming	40,000.00	–	Related to income
Special fund for provincial constructive innovation type of Yunnan action plan	–	–	Related to income
Bonus for creating water-saving enterprise	33,621.00	–	Related to income
Subsidy funds for preferential procurement of Panlong District Bureau of Economic Trade and Investment Promotion of Kunming	138,800.00	–	Related to income
Finance Department: receiving of 2016 taxpayers' production and operation support funds allocated by the Finance Bureau of Panlong District	79,816.00	–	Related to income
Receiving of 2017 employment subsidy allocated by the Office of Unemployment Insurance Committee of Kunming City	660,173.02	–	Related to income
Vertical and horizontal machining center of high precision universal main spindle	–	–	Related to income
Grants for high precision TGK46100 horizontal jig boring machine tools project	–	–	Related to income
2015 brand name rewards of Yunnan and Kunming	–	–	Related to income
Amortization of 200mu land use right of Yanglin base	280,000.01	–	Related to asset
Discount interest funds	300,000.00	–	Related to income
Bureau of human resources and social security of Kunming City received the project funding of "WFN180HS high speed planer milling machining center"	61,000.00	–	Related to income
Yunnan science and technology project grants from Kunming Science and Technology Bureau	–	–	Related to income
Project funding of "Joint design and development of WRD160Q CNC floor-type boring and milling machining center"	–	–	Related to income
<b>Total</b>	<b>8,883,770.03</b>	<b>–</b>	<b>–</b>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 45. Non-operating expenses

✓Applicable Not applicable

Item	Unit: RMB		
	Amount incurred in this year	Amount incurred in the last year	Amount included in extraordinary gains or losses for the year 2017
Losses on disposal of non-current assets	161,913.63	1,050,001.78	161,913.63
Of which: losses on disposal of fixed assets	161,913.63		161,913.63
Public welfare donation expenses		2,000.00	
Compensation expenses	55,407.15	1,406,470.14	55,407.15
Others	835,526.73	2,849,381.41	835,526.73
Total	<u>1,052,847.51</u>	<u>5,307,853.33</u>	<u>1,052,847.51</u>

### 46. Income tax expenses

(1) *Chart of income tax expenses*

✓Applicable Not applicable

Item	Unit: RMB	
	Amount incurred in this year	Amount incurred in the last year
Current income tax expenses	705,388.63	423,322.21
Deferred income tax expense	41,867.69	23,325,611.74
Total	<u>747,256.32</u>	<u>23,748,933.95</u>

(2) *Reconciliation process of accounting profit and income tax expenses*

✓Applicable Not applicable

Item	Unit: RMB	
	Amount incurred in this year	
Total profit		-351,386,205.22
Income tax expenses calculated according to the appropriate/applicable tax rates		-52,707,930.78
The impact of subsidiaries applied for different tax rates		-1,803,152.84
The impact of non-deductible costs, expenses and losses		789,037.53
The impact of the deductible temporary difference or the deductible loss of the deferred tax assets unrecognized in the current period		56,030,953.82
Income tax expenses		<u>747,256.32</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 47. Surplus reserve

Applicable Not applicable

Unit: RMB

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
Statutory surplus reserve	117,077,019.33	–	–	117,077,019.33
Total	117,077,019.33	–	–	117,077,019.33

### 48. Retained earnings

Applicable Not applicable

Unit: RMB

Item	2017
Retained earnings as at the end of the prior year before adjustment	-356,450,991.71
Total of adjusted opening retained earnings	0
Retained earnings as at the beginning of the year after adjustment	-356,450,991.71
Add: comprehensive income attributable to shareholders of the Company	-349,693,190.86
Retained earnings at the end of the year	-706,144,182.57

Details of adjusted opening retaining earnings:

- As the Accounting Standards for Business Enterprises and its related new regulations required to carry out retrospective adjustment, the retained earnings at the beginning of the year was negative RMB356,450,991.71 after adjustment.

### 49. Items of cash flow statement

(1) Cash received relating to other operating activities

Applicable Not applicable

Unit: RMB

Item	Amount incurred in this year	Amount incurred in the last year
Government grants	59,515,874.00	33,437,829.39
Current account with related parties	100,909,014.22	161,325,865.00
Others	11,783,413.45	12,148,388.90
Total	172,208,301.67	206,912,083.29

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 49. Items of cash flow statement (Continued)

(2) Cash paid relating to other operating activities

Applicable Not applicable

Item	Unit: RMB	
	Amount incurred in this year	Amount incurred in the last year
R & D expenses	–	6,567,953.76
After sales service fee	–	17,456,966.80
Office expenses	–	8,564,256.87
Shipping cost	–	17,891,709.16
Others	46,593,227.74	2,742,131.93
Out-of-pocket expenses	<u>138,875,339.58</u>	<u>3,245,600.00</u>
Total	<u>185,468,567.32</u>	<u>56,468,618.52</u>

(3) Cash received relating to other investing activities

Applicable Not applicable

Item	Unit: RMB	
	Amount incurred in this year	Amount incurred in the last year
Cash received for warranty	–	80,196,621.21
Total	<u>–</u>	<u>80,196,621.21</u>

(4) Cash paid relating to other investing activities

Applicable Not applicable

Item	Unit: RMB	
	Amount incurred in this year	Amount incurred in the last year
Cash paid for warranty	–	50,951,127.12
Total	<u>–</u>	<u>50,951,127.12</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 49. Items of cash flow statement (Continued)

(5) Cash received relating to other financing activities

Applicable Not applicable

Item	Unit: RMB	
	Amount incurred in this year	Amount incurred in the last year
Received temporary borrowing(s)	<u>82,717,500.00</u>	<u>412,010,000.00</u>
Total	<u>82,717,500.00</u>	<u>412,010,000.00</u>

(6) Cash paid relating to other financing activities

Applicable Not applicable

Item	Unit: RMB	
	Amount incurred in this year	Amount incurred in the last year
Cash paid for temporary borrowing(s)	<u>55,000,000.00</u>	<u>412,010,000.00</u>
Total	<u>55,000,000.00</u>	<u>412,010,000.00</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50. Related information of cash flow statement

(1) Supplementary information for consolidated cash flow statement

✓Applicable    □Not applicable

	Unit: RMB	
Supplementary information	2017	2016
<b>1.Reconciliation of net profit to cash flows from operating activities</b>		
Net profit	-352,133,461.54	-34,252,880.16
Add: Provision for asset impairment	22,479,574.10	149,650,975.56
Depreciation of fixed assets	43,925,275.01	44,478,280.22
Amortization of intangible assets	9,852,217.72	7,029,829.24
Amortization of long-term deferred expenses	-	226,992.16
Loss on disposal of fixed assets, intangible assets and other long-term-assets ("- " for gain)	-640,824.24	-215,630,516.63
Loss on fixed assets scrapped ("- " for gain)	-	1,050,001.78
Loss on changes in fair value ("- " for gain)	-	-
Finance expense ("- " for gain)	56,629,937.04	52,512,763.44
Investment loss ("- " for gain)	3,107,018.80	625,304.03
Decrease in deferred tax assets ("- " for increase)	41,867.69	32,105,233.74
Increase in deferred tax liabilities ("- " for decrease)	-	-
Decrease in inventories ("- " for increase)	206,186,725.49	254,005,220.61
Decrease in operating receivables ("- " for increase)	54,662,711.06	-11,684,204.12
Increase in operating payables ("- " for decrease)	-44,932,021.94	-47,789,629.67
Others	-	-
Net cash flows from operating activities	-820,980.81	-74,672,629.80
<b>2.Major investing and financing activities not involving cash settlements:</b>		
Conversion of debt into capital	-	-
Convertible corporate bonds due within one year	-	-
Fixed assets acquired under finance lease arrangement	-	-
<b>3.Net change in cash and cash equivalents:</b>		
Closing balance of cash	90,263,315.47	325,599,849.77
Less: Opening balance of cash	325,599,849.77	71,288,005.75
Add: cash equivalents closing balance	-	-
Less: cash equivalents opening balance	-	-
Net increase in cash and cash equivalents	-235,336,534.30	254,311,844.02

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 50. Related information of cash flow statement (Continued)

(2) Composition of cash and cash equivalents

✓Applicable Not applicable

Item	Unit: RMB	
	Closing balance	Opening balance
<b>I. Cash</b>		
Including: Cash on hand	158,990.67	237,807.55
Bank deposits available on demand	90,104,324.80	325,362,042.22
Other monetary funds available on demand	–	–
Deposit in the Central Bank available on demand	–	–
Interbank deposits	–	–
Loans to other banks	–	–
<b>2.Cash equivalents</b>	90,263,315.47	325,599,849.77
Including: Bond investments due within 3 months	–	–
<b>3.Ending balance of cash and cash equivalents</b>	90,263,315.47	325,599,849.77
Including: Cash and cash equivalents with restricted use of the parent company or the subsidiaries of the Group	–	–

### 51. Assets with restricted ownership or use right

✓Applicable Not applicable

Item	Unit: RMB	
	Closing balance	Reasons for restriction
Cash at bank or on hand	884,728.91	Pledged, frozen
Fixed assets	13,995,687.28	Pledged
Intangible assets	99,221,754.48	Pledged
Total	<u>114,102,170.67</u>	<u>/</u>

# FINANCIAL REPORT

## VII. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

### 52. Foreign currency monetary items

(1) Foreign currency monetary items

Applicable Not applicable

Item	Closing foreign currency balance	Exchange rate	Unit: dollar Closing balance in RMB
Cash at bank and on hand			
Of which: USD	77,590.66	6.5342	506,992.89
EUR	19,001.12	7.8023	148,252.44
HKD	2,754,227.35	0.8359	2,302,258.64
JPY	1.00	0.06	0.06
Accounts receivable			
Of which: USD	10,499.00	6.5342	68,602.57
EUR	36,718.27	7.8023	286,486.96
Accounts payable			
EUR	-36,937.00	7.8023	-288,193.56
USD			
Other payables			
EUR	-21,847,000.00	7.8023	-170,456,848.10
Total balance sheet exposure			
EUR	-21,828,217.61	7.8023	-170,310,302.26
USD	88,089.66	6.5342	575,595.46
JPY	1	0.06	0.06
HKD	2,754,227.35	0.8359	2,302,258.64

Other explanations:

In respect of accounts receivables and payables denominated in foreign currencies other than the functional currency, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

(1) The Group's exposure as at the balance sheet date to currency risk arising from recognised major assets or liabilities denominated in foreign currencies is as follows. For presentation purposes, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the balance sheet date.

## VIII. CHANGE IN THE SCOPE OF CONSOLIDATION

Applicable Not applicable

# FINANCIAL REPORT

## IX. DISCLOSURE OF EQUITY IN OTHER ENTITIES

### 1. Interests in subsidiaries

(1) *Composition of the Group*

✓Applicable    □Not applicable

Name of subsidiary	Principal place of business	Place of registration	Nature of business	Percentage of shareholding (%)		Method of acquisition
				Directly	Indirectly	
Xi'an Ser	Xi'an	Xi'an	Development, design, production and sales of compressor series products and accessories	45.00		Business combination not under common control
Changsha Ser	Changsha	Changsha	Development, design, production and sales of compressor series products and accessories		100.00	Business combination not under common control
Kunming TOS	Kunming	Kunming	Development, design, production and sales of machine tool series products and accessories	50.00		Business combination not under common control
General Machine	Kunming	Kunming	Development, design, production and sales of machine tool series products and accessories	100.00		Established through investments

Explanation on percentage of shareholdings held in the subsidiary is different from percentage of voting rights

Both the percentage of voting rights of the Company in Xi'an Ser and Kunming TOS are 57.14% which determined based on the percentage of voting rights of the Company in the board of directors of the investee companies. The Company has control over the financial and operational decision-making of the investee companies, and is able to exercise its power over Xi'an Ser and Kunming TOS to influence the amount of its attributable variable returns. Therefore, the Company has treated the investee companies as its subsidiaries and adopted the cost method for accounting.

# FINANCIAL REPORT

## IX. DISCLOSURE OF EQUITY IN OTHER ENTITIES (Continued)

### 1. Interests in subsidiaries (Continued)

#### (2) Major non wholly-owned subsidiaries

✓Applicable    □Not applicable

Unit: RMB

Name of subsidiary	Percentage of shareholding of non-controlling shareholders	Profit attributable to non-controlling shareholders for the year	Dividend declared to non-controlling shareholders during the year	Balance of non-controlling interests at the end of the year
Xi'an Ser	55.00	-1,557,166.22		-35,992,964.76
Changsha Ser	55.00	-3,881,253.95		18,714,381.97
Kunming TOS	50.00	-4,484,686.77	2,500,000.00	-41,925,131.61

#### (3) Principal financial information on major non wholly-owned subsidiaries

✓Applicable    □Not applicable

Unit: RMB

Name of subsidiary	31 December 2017					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Xi'an Ser	129,916,507.81	33,448,756.99	163,365,264.80	227,167,018.91	1,640,000.00	228,807,018.91
Changsha Ser	131,107,292.78	31,060,016.50	162,167,309.28	126,741,160.25	1,400,000.00	128,141,160.25
Kunming TOS	99,180,087.89	4,773,235.52	103,953,323.41	18,993,873.52	1,109,186.67	20,103,060.19

Name of subsidiary	31 December 2016					
	Current assets	Non-current assets	Total assets	Current liabilities	Non-current liabilities	Total liabilities
Xi'an Ser	185,136,109.97	36,710,636.66	221,846,746.63	282,534,168.30	1,640,000.00	284,174,168.30
Changsha Ser	186,804,581.08	34,022,996.20	220,827,577.28	178,344,602.88	1,400,000.00	179,744,602.88
Kunming TOS	116,637,194.73	5,566,335.48	122,203,530.21	26,979,991.05	829,668.09	27,809,659.14

Name of subsidiary	2017			2016		
	Operating income	Net profit	Total comprehensive income	Operating income	Net profit	Total comprehensive income
Xi'an Ser	42,212,516.90	-3,114,332.44	-3,114,332.44	9,917,435.92	46,437,197.29	46,437,197.29
Changsha Ser	17,627,639.61	-7,056,825.37	-7,056,825.37	26,351,945.92	-17,886,475.39	-17,886,475.39
Kunming TOS	73,007,488.42	-5,543,607.85	-5,543,607.85	28,392,909.11	10,499,813.52	10,499,813.52

# FINANCIAL REPORT

## IX. DISCLOSURE OF EQUITY IN OTHER ENTITIES *(Continued)*

### 2. In the situation of the portion of shareholders' equity in a subsidiary changed, the Company still in control of the subsidiary

Applicable Not applicable

### 3. Interests in joint ventures or associates

Applicable Not applicable

#### (1) Significant joint ventures or associates

Applicable Not applicable

Unit: RMB

Name of associate enterprise	Principal Place of business	Place of registration	Nature of business	Percentage of shareholdings		Accounting method for investments
				Directly	Indirectly	
Xi'an Ruite	Xi'an	Xi'an	Production and sales of laser prototyping machine	23.33		Equity method

#### (2) Principal financial information on the major associated company

Applicable Not applicable

Unit: RMB

Item	Xi'an Ruite	
	31 Dec 2017	31 Dec 2016
Current assets	51,995,907.54	57,988,371.40
Non-current assets	68,289,427.16	72,017,336.46
Total assets	120,285,334.70	130,005,707.86
Current liabilities	31,933,863.13	21,841,668.22
Non-current liabilities	40,751,983.00	44,242,723.00
Total liabilities	72,685,846.13	66,084,391.22
Non-controlling interests	6,841,110.29	9,847,143.51
Equity attributable to shareholders of the Company	40,758,378.28	54,074,173.13
Share of net assets calculated based on percentage of shareholding	11,106,547.33	12,617,307.06
Carrying amount of investment in associates	10,039,220.02	13,146,238.82
Operating income	41,494,751.91	53,138,061.18
Net profit	<u>-16,321,828.07</u>	<u>-2,615,157.76</u>
Total comprehensive income	<u>-16,321,828.07</u>	<u>-2,615,157.76</u>

# FINANCIAL REPORT

## X. RELATED PARTIES AND RELATED PARTIES' TRANSACTION

### 1. Information of the parent company of the enterprise

Applicable Not applicable

*Unit: RMB*

Name of parent company	Registration place	Business nature	Registered capital	Percentage of shareholding of the parent company in the Company (%)	Percentage of voting right of the parent company in the Company (%)
Shenyang Group	China	Production and sales of machine tools	RMB1,556,480,000	25.08	25.08

The ultimate controlling party of the Company is Shenyang State-owned Assets Supervision and Administration Commission.

### 2. Subsidiaries of the Company

Please see Note IX. 1 for the information of equity in subsidiaries of the Company.

### 3. Joint ventures and associates

Please see Note VIII for the information of equity in associated companies of the Company.

# FINANCIAL REPORT

## X. RELATED PARTIES AND RELATED PARTIES' TRANSACTION *(Continued)*

### 4. Information on other related parties

✓Applicable    □Not applicable

Name of other related parties	Related relationship
Yunnan Industrial Investment Holding Group Co Ltd.	The second largest shareholder of the Company
Yunnan Yun Ji Group Import and Export Co., Ltd. ("Yun Ji I & E Co.")	Subsidiary of the largest shareholder of the Company
Yunnan CY Group Co., Ltd. ("Yunnan CY Group")	Subsidiary of the largest shareholder of the Company
Kunming Kunji Group Co., Ltd. ("Kunji Group Co.")	Subsidiary of the second largest shareholder of the Company
Yunnan State-owned Assets Property Management Co., Ltd. ("Yunnan State-owned Assets Property")	Subsidiary of the second largest shareholder of the Company
Yunnan CY (Group) Company Jinhui Spraying Factory ("Jinhui Spraying Factory")	Subsidiary of the largest shareholder of the Company
Yunnan CY Group Co., Ltd., Mechanical and Electrical Products Trading Centre ("Trading Centre")	Subsidiary of the largest shareholder of the Company
Shenyang Zhongjie Machine Tool Co., Ltd. ("Zhongjie machine tool")	Subsidiary of the largest shareholder of the Company
Shenyang Machine Tool Company Limited ("Shenyang Machine Tool")	Subsidiary of the largest shareholder of the Company
Shiess GmbH, Germany ("Shiess")	Subsidiary of the largest shareholder of the Company
Shenyang Machine Tool Complete Sets Equipment Co., Ltd. ("Complete Sets Equipment")	Subsidiary of the largest shareholder of the Company
Shenyang Group (Hong Kong) Co., Ltd. ("Shenyang Group Hong Kong")	Subsidiary of the largest shareholder of the Company
Shenyang Group Design & Research Institute Co., Ltd. ("Shenyang Group Design & Research Institute")	Subsidiary of the largest shareholder of the Company
Yunnan CY (Group) Industry & Trade Co., Ltd. ("CY Group Industry & Trade")	Subsidiary of the largest shareholder of the Company
Shenyang Shi Rui Da	Subsidiary of the largest shareholder of the Company
Shenji Industrial Co., Ltd	Subsidiary of the largest shareholder of the Company
Welding Company	Subsidiary of the largest shareholder of the Company
Shenji International Trade Co., Ltd. ("Shenji International")	Subsidiary of the largest shareholder of the Company
Shaanxi Ruite	The associate enterprise of the Company

# FINANCIAL REPORT

## X. RELATED PARTIES AND RELATED PARTIES' TRANSACTION *(Continued)*

### 5. Related parties' transactions

#### (1) Purchase of goods, providing and receiving services

Table of purchase of goods/receiving services

Applicable Not applicable

*Unit: RMB*

Related party	Nature of connected transaction	2017	2016
Yunnan CY Group	Purchase of goods		10,799,944.76
Jinhui Spraying Factory	Purchase of goods		427,048.95
Shenyang Machine Tool	Purchase of goods		
Shenyang Shi Rui Da	Purchase of goods		2,597,476.24
Schiess	Purchase of goods		794,467.48
Shenyang Group Design & Research Institute	Purchase of goods		2,847,775.10
Shenji International	Purchase of goods	433,705.66	701,563.71
Yunnan CY Group	Receiving services		1,725,818.80
Welding Company	Receiving services	5,499,972.45	2,692.31
Shenyang Group	Guarantee fee		1,860,000.00
Shenyang Group	Borrowings	1,400,000.00	2,752,315.27
Shiess	Purchase of intangible assets	13,067,174.74	14,467,464.00

Table of sales of goods/providing services

Applicable Not applicable

*Unit: RMB*

Related party	Nature of connected transaction	2017	2016
Yunnan CY Group	Sales of goods		98,054,700.85
Yunji I & E Co.	Sales of goods	5,299.15	692,307.69
CY Group Industry & Trade	Providing services	3,573,794.00	
Yunnan CY Group	Providing services	4,298,592.30	
Yunji I & E Co.	Providing services		1,538.46
Shenyang Machine Tool Complete Sets Equipment	Providing services		4,538.46

# FINANCIAL REPORT

## X. RELATED PARTIES AND RELATED PARTIES' TRANSACTION (Continued)

### 5. Related parties' transactions (Continued)

#### (2) Lease

The Company as lessee:

Applicable  Not applicable

Unit: RMB

Lessor	Type of lease assets	Lease fee recognised in 2017	Lease fee recognised in 2016
Kunji Group	Land and Plant buildings	5,250,000.00	5,250,000.00

#### (3) Guarantee to related parties

The Company as beneficiary

Applicable  Not applicable

Unit: RMB

Guarantor	Amount	Commencement	Expiration	Whether the guarantee completed
Shenyang Group	30,000,000.00	2017/6/26	2018/6/26	No
Shenyang Group	30,000,000.00	2017/6/29	2018/6/29	No
Shenyang Group	30,000,000.00	2017/7/5	2018/7/5	No
Shenyang Group	30,000,000.00	2017/7/10	2018/7/10	No
Shenyang Group	15,000,000.00	2017/7/12	2018/7/12	No
Shenyang Group	70,000,000.00	2017/7/14	2018/7/13	No
Shenyang Group	95,000,000.00	2017/7/7	2018/7/6	No
Shenyang Group	20,000,000.00	2017/10/26	2018/10/25	No
Shenyang Group	20,000,000.00	2017/11/2	2018/11/1	No
Shenyang Group	22,500,000.00	2015/2/15	2018/2/15	No
Shenyang Group	15,230.78	2015/2/15	2018/8/15	No
Shenyang Group	17,208,905.37	2015/6/18	2018/8/15	No
Shenyang Group	4,281,436.30	2015/10/9	2018/8/15	No
Shenyang Group	994,427.55	2016/2/5	2018/8/15	No

#### (4) Related party providing/receiving fund

Related party	Nature of connected transaction	2017	2016
Kunji Group	Provision of funds – other expenses on behalf of related parties	646,341.40	2,639,829.79
Yunnan CY Group	Provision of funds – other expenses on behalf of related parties		14,500,000.00
Shenji Industrial Co., Ltd	Provision of funds – other expenses on behalf of related parties		7,234.00
Shenyang Group Hong Kong	Receipt of funds – funding transactions	35,797,055.52	159,631,659.60
Shiess	Receipt of funds – technology use rights	13,067,174.74	14,467,464.00
Yunnan CY Group	Receipt of funds – funding transactions		22,870,000.00
Shenyang Group	Receipt of funds – borrowing	88,696,438.36	76,000,000.00
Shenyang Group	Receipt of funds – other expenses on behalf of related parties	745,260.36	941,522.94

# FINANCIAL REPORT

## X. RELATED PARTIES AND RELATED PARTIES' TRANSACTION *(Continued)*

### 5. Related parties' transactions *(Continued)*

(5) *Emoluments of key management staff*

Applicable Not applicable

*Unit: RMB*

Item	2017	2016
Emoluments of key management staff	3,306,394.82	3,662,415.31

### 6. Receivables and payables from/to related parties

(1) *Receivables from related parties*

Applicable Not applicable

*Unit: RMB*

Item	Related parties	Closing balance		Opening balance	
		Carrying amount	Provision	Carrying amount	Provision
Accounts receivable	Yunnan CY Group	69,414,000.00		69,414,000.00	
Accounts receivable	Shiess	268,720.42		267,428.88	
Accounts receivable	Shan'xi Ruite	167,500.00		167,500.00	
Accounts receivable	Shenyang Machine Tool Sales Co., Ltd.	30,000.00		30,000.00	
Accounts receivable	Welding Company	3,951,020.23			
Prepayments	Shenyang Shi Rui DA	6,539,363.93		7,180,932.32	
Other receivables	Shenyang Group	647,631.96		3,972,600.12	
Other receivables	Welding Company	627,859.15			
Other receivables	Shenji Industrial Co., Ltd			7,234.00	
Other non-current assets	Shiess				

# FINANCIAL REPORT

## X. RELATED PARTIES AND RELATED PARTIES' TRANSACTION *(Continued)*

### 6. Receivables and payables from/to related parties *(Continued)*

(2) *Payables to related parties*

Applicable Not applicable

		<i>Unit: RMB</i>	
Item	Related parties	Closing balance	Opening balance
Accounts payable	Yunnan CY Group	6,095,143.36	6,095,143.36
Accounts payable	Jinhui Spraying Factory	2,923,502.85	2,923,502.85
Accounts payable	Schiess	578,332.60	579,033.79
Accounts payable	Shenyang Group Design & Research Institute	2,332,328.00	2,332,328.00
Accounts payable	Welding Company	4,046,471.49	176,240.00
Accounts payable	Shenji International	436,120.00	372,752.14
Advances from customers	Yunnan CY Group	4,640.00	4,640.00
Advances from customers	Yunji I & E Co.		6,200.00
Advances from customers	Schiess	113,840.24	1,578,179.60
Advances from customers	Shenji International		2,297,534.40
Other payables	Shenyang Group Hong Kong	194,969,928.12	176,437,299.60
Other payables	Kunji Group	10,778,690.44	15,750,000.00
Other payables	Schiess	1,400,289.26	14,467,464.00
Other payables	Yunnan State-owned Assets Property	9,862.03	34,792.45
Other payables	Shenyang Group	53,417,288.46	3,679,151.38

## XI. COMMITMENTS AND CONTINGENCIES

### 1. Significant commitments

(1) *Capital commitment*

Item	Closing balance	Opening balance
Construction contract signed but not implemented or not fully implemented	12,251,909.65	252,715,390.15
Construction contract authorized but not signed or not implemented or not fully implemented	95,134,240.00	95,134,240.00
Proprietary technology and patent licensing contract signed and implementing or proposed to implement	25,245,487.58	42,241,312.67
Total	<u>132,631,637.2</u>	<u>390,090,942.82</u>

# FINANCIAL REPORT

## XI. COMMITMENTS AND CONTINGENCIES *(Continued)*

### 1. Significant commitments *(Continued)*

#### (2) Operating Lease commitments

As at the balance sheet date, the Company entered into irrevocable operating lease contracts with external companies are as follows:

Item	Closing balance	Opening balance
Minimum lease payments under irrevocable operating leases:		
The first year after balance sheet date	30,460,000.00	30,460,000.00
The second year after balance sheet date		30,460,000.00
The third year after balance sheet date		
In the years thereafter		
Total	<u>30,460,000.00</u>	<u>60,920,000.00</u>

### 2. Contingencies

#### (1) Important contingencies existed on the balance sheet date

Applicable    Not applicable

- 1) Details of contingencies related to investment in joint ventures and associates, see Note IX EQUITY IN OTHER ENTITIES.
- 2) Pending proceeding or arbitration of contingencies and their financial implications

On 15 May 2015, the counterclaim person (original defendant): Wuxi Creative Technology Co., Ltd. ("Creative Tech") and the counterclaimed person (Wuxi Sunteam Electrical Technology Co., Ltd. ("Sunteam Tech") entered into CNC Equipment Purchase and Sales Contract. On 20 May, Sunteam Tech signed the Technology Agreement with the third party, Shenji Group Kunming Machine Tool Co., Ltd. (the "Company"), the total price was RMB3,730,000. Creative Tech totally paid RMB3,567,800 to Sunteam Tech and Sunteam Tech delivered the equipment. However, due to the serious quality problems of the equipment, it has not been debugged qualified. The equipment cannot be put into normal use. Sunteam Tech and the Company had successively sent technicians to the Creative Tech to repair the equipment and replace some parts and formed "meeting minutes". However, the quality of equipment has not been completely resolved, only simple initial processing can be performed. The Creative Tech requested: (1) Sunteam Tech should return the payment of equipment of RMB3,567,800 which paid by the counter claim person, and compensate the direct economic losses of RMB536,000 to the counter claim person; (2) third party as the manufacturer of the equipment should bear the joint responsibility for the appeal request; (3) the defendant should bear the litigation costs.

# FINANCIAL REPORT

## XI. COMMITMENTS AND CONTINGENCIES *(Continued)*

### 2. Contingencies *(Continued)*

(1) *Important contingencies existed on the balance sheet date (Continued)*

2) Pending proceeding or arbitration of contingencies and their financial implications *(Continued)*

The plaintiff Zheng Ru and other over 100 investors accumulated to buy 2,105,600 A Shares of the Company with their owned funds from 5 Jan 2017 to 17 March 2017. From 24 March 2017 to 24 April 2017, the Company published Announcement on the Significant Risk Warning for 8 times to prompt that "the inside information disclosed that the Company may be suspected of breach of financial regulations". After that, the stock price continuously fell to down limit with significant decline. As at 10 April 2017, the plaintiff chose opportunities to sell all such shares successively. The loss of principal was over RMB3.13 million. The plaintiff requested: (1) The defendant, Shenji Group Kunming Machine Tool Co., Ltd. shall compensate the plaintiff's investment losses of RMB3,203,484.91 due to its false statements; (2) All costs of this case should be borne by the defendant.

3) Except for the above contingencies, as at 31 December 2017, the Company had no other significant contingencies should be disclosed without disclosed.

## XII. SUBSEQUENT EVENT TO THE BALANCE SHEET DATE

In December 1997, the plaintiff Luo Jianbin invested RMB100,000 in Hengtong Co. ("Hengtong"), which represented 16.66% shareholdings of the registered capital of RMB600,00 of Hengtong. In June 2002, the plaintiff transferred RMB90,000 of the shareholdings out of RMB100,000 of shareholdings to the defendant, and signed the Written Share Transfer Agreement with the defendant, Shenji Group Kunming Machine Tool Co., Ltd. (the "Company"). After share transfer, the plaintiff made the confirmation and signed the amended articles of association of Hengtong and conducted industrial and commercial filing. However, there was no agreement between the two parties on the consideration of the equity and the payment period. There was no payment so far and no explanation was given. From 2002 up to now, shareholdings and shareholders of Hengtong have been changed constantly. The plaintiff's 16.66% shareholdings from the beginning has been diluted to 0.4849%. As the plaintiff accounted for less than 1% of Hengtong's equity, he was unable to exercise his shareholder's rights such as reviewing the accounts. The plaintiff made the request to Hengtong every year to pay the consideration of RMB90,000 of shareholdings or the reasonable payment period. However, Hengtong passed the buck for various reasons. In 2017, the plaintiff entrusted lawyers to investigate the history of industrial and commercial registration of the establishment and changes of Hengtong. The lawyer found the report of the evaluation of assets [(2001) no.226] on the internet which the defendant as a listed company published. The base date of the evaluation was 30 June 2001 and the net assets of the evaluation was RMB6,787,340.43. According to the evaluation report, the plaintiff considered that the defendant should pay RMB1,017,693.82 as the consideration of the shareholdings ( $6,787,340.43 \times 16.66\% \times 0.9 = 1,017,693.82$ ) to the plaintiff.

Due to a sales contract dispute, on 18 January 2018, Shenyang En Pai Er Automation Equipment Co., Ltd ("Automation Co.") sued Xi'an Ser, the subsidiary of the Company in Beilin District Court of Xi'an City. Automation Co. requested Xi'an Ser to return the payment of goods and the interests of RMB109,210.00 in total. As at the date of the financial statements, the lawsuit has not yet been judged.

# FINANCIAL REPORT

## XIII. OTHER SIGNIFICANT EVENTS

### 1. Corrections of prior periods' accounting errors

#### (1) Retrospective restatement

✓Applicable    Not applicable

Unit: RMB

Content of correction of accounting errors	Handling procedure	Names of affected financial statement items at the beginning of the year/previous period	Accumulative affected amount
<p>(1) According to the inspection results of "Announcement on the Decision of Administrative Penalties (Shenji Group Kunming Machine Tool Company Limited and Wang Xing and Chang Baoqiang etc. 23 Responsible Persons)" issued by the CSRC on 12 February 2018, falsely increase of the cost of revenue, the inter-period revenue and falsely increased revenue of the Company from 2013 to 2015 of RMB483,080,163.99 should be reduced; business taxes and surcharges of RMB9,867,912.30, impairment losses of assets of RMB36,857,915.08 and sales expenses of RMB2,589,621.35 should be reduced, and reduced operating costs of RMB235,272,252.56 simultaneously. Regarding understatement of termination benefits and senior management remuneration, increased general and administrative expenses of RMB29,608,616.03 from 2013 to 2015. After adjustment, at the beginning of 2016, the undistributed profits decreased by RMB228,101,078.73.</p> <p>Kunming Machine Tool conducted the errors correction to the above three previous accounting errors based on the results of the self-inspection in the 2016 annual report which published on 24 April 2017. After the CSRC published the inspection results, Kunming Machine Tool made additional adjustments according to the inspection results. After adjustments, decreased the profit of RMB29,027,658.95 in the period of 2016, increased undistributed profit of RMB4,597,923.08 at the beginning of 2017, increased accounts receivable of RMB5,801,738.62 at the beginning of the year, increased advances from customers of RMB946,819.48 at the beginning of the year and increased taxes payable at the beginning of the year of RMB256,996.06.</p>	<p>The correction of accounting errors was considered and approved by the 8th meeting of the 9th board of directors, and the retrospective restatement method was used to correct the errors in the period.</p>	Accountings receivable	5,801,738.62
		Advances from customers	946,819.48
		Taxes payable	256,996.06
		Retained earnings at the beginning of 2017	4,597,923.08
		Operating income	7,931,623.93
		Asset impairment losses	595,909.32
		Business taxes and surcharges	161,805.12
		Operating costs	36,201,568.44

# FINANCIAL REPORT

## XIII. OTHER SIGNIFICANT EVENTS *(Continued)*

### 1. Corrections of prior periods' accounting errors *(Continued)*

#### (1) Retrospective restatement *(Continued)*

Unit: RMB

Content of correction of accounting errors	Handling procedure	Names of affected financial statement items at the beginning of the year/previous period	Accumulative affected amount
(2) Correction of other accounting errors	Heavy processing and assembly plants not being transferred in fixed assets in time led to less depreciation, property tax and more capitalized loan interest	Fixed assets	-47,922,397.96
		Retained earnings at the beginning of 2017	-47,922,397.96
		Finance expenses	344,375.00
		Business taxes and surcharges	1,027,921.65
		General and administrative expenses	2,906,326.11
		Selling and distribution expenses	11,511,513.89
Understatement of the freight and warranty		Retained earnings at the beginning of 2017	-11,511,513.89
		Accounts receivable	10,216,008.98
		Estimated liabilities	1,295,504.91
Difference between capitalization of training fees and amortization of intangible assets		Intangible assets	-5,998,752.04
		Retained earnings at the beginning of 2017	-5,998,752.04
		General and administrative expenses	38,983.04
		General and administrative expenses	5,371,442.46
Understatement of termination benefits		Retained earnings at the beginning of 2017	-5,371,442.46
		Long-term employee benefits payable	5,371,442.46

# FINANCIAL REPORT

## XIII. OTHER SIGNIFICANT EVENTS (Continued)

### 1. Corrections of prior periods' accounting errors (Continued)

#### (1) Retrospective restatement (Continued)

Unit: RMB

Content of correction of accounting errors	Handling procedure	Names of affected financial statement items at the beginning of the year/previous period	Accumulative affected amount
Adjustments were made to the cost of principal activities and provision for diminution in value of inventories based on the result of physical stock-take and evaluation report at the end of 2016.		Operating costs	13,677,961.65
		Inventories	-13,677,961.65
		Retained earnings at the beginning of 2017	-27,241,060.91
		Asset impairment losses	13,563,099.26
		Provision for diminution in value of inventories	13,563,099.26
		Retained earnings at the beginning of 2017	-30,223,937.38
Correction of accounting errors in Xi'an Ser, the controlling subsidiary (excluding inventory valuation adjustments)		Provision for diminution in value of inventories	36,671,648.49
		Operating income	13,167,500.13
		Accounts receivable	13,167,500.13
		Asset impairment losses	36,671,648.49

# FINANCIAL REPORT

## XIII. OTHER SIGNIFICANT EVENTS *(Continued)*

### 2. Segment information

(1) *Basis for determination and accounting policies*

Applicable   Not applicable

1) Basis for determination and accounting policies

The Company has two reportable segments, which are boring machines segment and turbo machines segment, determined based on the structure of its internal organisation, management requirements and internal reporting system. Each reportable segment is a separate business unit which offers different products and services, and is managed separately because they require different technology and marketing strategies. The financial information of the different segments is regularly reviewed by the Company's management to make decisions about resources to be allocated to each segment and assess its performance.

2) Financial information of reporting segments

For the purposes of assessing segment performance and allocating resources between segments, the Company's management regularly reviews the assets, liabilities, revenue, expenses and results of operations, attributable to each reportable segment on the following bases:

Segment assets include all tangible and intangible assets, receivables, advance payments, inventories and other current assets belonging to segments but exclude deferred tax assets resulting from unrealized gains and losses of the Group's internal transactions, long-term equity investment and other undistributed corporate assets. Segment liabilities include payables, advance receipts, bank loans and estimated liabilities belonging to segments.

Financial performance is operating income (including operating income from external customers and inter-segment operating income) after deducting expenses, depreciation, amortisation and impairment losses attributable to the individual segments, and interest income and expense from cash balances and borrowings managed directly by the segments. Inter-segment sales are determined with reference to prices charged to external parties for similar orders. Investment income and directors' remunerations are not allocated to individual segments.

Information regarding the Company's reportable segments set out below is the measure of segment profit or loss and segment assets and liabilities reviewed by the chief operating decision maker or is otherwise regularly provided to the chief operating decision maker, even if not included in the measure of segment profit or loss and segment assets and liabilities:

# FINANCIAL REPORT

## XIII. OTHER SIGNIFICANT EVENTS (Continued)

### 2. Segment information (Continued)

#### (2) Financial information of reporting segments

✓Applicable □Not applicable

Item	Boring machines		Turbo machines		Elimination between segments		Unallocated items		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Operating income from external customers	527,577,656.21	597,212,100.55	32,548,458.93	48,665,132.58	-551,037.74	-551,037.74	560,399,237.36	645,877,233.13	-	-
Inter segment operating income	-551,037.74	-551,037.74	-	-	-	-	-	-	-	-
Income from investment in associates and jointly controlled enterprises	24,757,217.86	107,467,796.48	-6,698,044.34	70,113,138.03	-	-	18,059,173.52	177,580,934.51	-	-
Assets impairment losses	50,278,430.13	49,902,542.52	3,499,062.60	4,223,050.19	-	-	53,777,492.73	54,125,592.71	-	-
Depreciation and amortization	891,187.80	1,299,679.65	24,867.82	42,221.46	-	-	916,045.62	1,341,901.11	-	-
Interest income on bank deposit	44,099,697.08	31,671,930.85	2,316,413.26	2,702,043.69	-	-	46,416,110.34	34,373,974.54	-	-
Interest expense	-345,148,148.96	-227,908,486.32	-6,238,056.26	-89,595,459.89	-	-	-351,386,205.22	-317,503,946.21	-	-
Income before income tax (" " for losses)	747,256.32	23,726,433.95	22,500.00	22,500.00	-	-	747,256.32	23,748,933.95	-	-
Income tax expense (" " for benefit)	-353,873,095.89	-262,432,958.24	-6,238,056.26	-89,617,959.89	-	-	-352,133,461.54	-341,252,880.16	-	-
Net income (" " for losses)	1,547,223,039.55	2,055,204,596.81	154,898,831.19	218,919,680.69	-10,483,669.42	-9,899,569.42	1,691,638,201.32	2,264,224,708.08	-	-
Total assets	1,508,684,630.62	1,668,270,782.60	223,947,369.44	281,730,162.68	-10,483,669.42	-9,899,569.42	1,722,148,330.64	1,940,101,375.86	-	-
Total liabilities	493,404,001.11	596,766,562.12	32,548,458.93	48,665,132.58	-551,037.74	-551,037.74	525,952,460.04	645,431,694.70	-	-
Other items:	507,792,372.32	628,676,905.30	401,933,884.83	26,914,105.82	-	-	547,986,257.15	655,591,011.12	-	-
- Operating income	-	-	-	-	-	-	-	-	-	-
- Operating cost	-	-	-	-	-	-	-	-	-	-
- Long-term equity investment in associates and financial assets available for sale	-	-	-	-	-	-	-	-	-	-
- The amounts of additions to non-current assets other than long-term equity investments (" " for decrease)	-41,209,342.19	-216,688,360.76	-3,261,879.67	-13,803,900.58	-	-	-44,471,221.86	-230,452,508.41	-	-
							10,039,220.02	14,916,542.85		

Unit: RMB

# FINANCIAL REPORT

## XIV. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY

### 1. Accounts receivable

(1) *Accounts receivable by category*

✓Applicable    □Not applicable

Unit: RMB

Type	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
<b>31 December 2017</b>					
Individually significant accounts receivable with individual bad debt provision					
Bad debt provision for accounts receivable by combination with credit risk characters	519,316,895.39	97.24	210,593,074.13	40.55	308,723,821.26
Combination 1 ageing group	362,502,124.89	67.88	210,593,074.13	58.09	151,909,050.76
Combination 2 related parties group	156,814,770.50	29.36	–	–	156,814,770.50
Individually not significant accounts receivable but with individual bad debt provision	14,731,911.42	2.76	14,731,911.42	100.00	–
<b>Total</b>	<b>534,048,806.81</b>	<b>100.00</b>	<b>225,324,985.55</b>	<b>–</b>	<b>308,723,821.26</b>

Type	Carrying amount		Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
<b>31 December 2016</b>					
Individually significant accounts receivable with individual bad debt provision					
Bad debt provision for accounts receivable by combination with credit risk characters	528,581,609.68	100.00	204,466,018.23	–	324,115,591.45
Combination 1 ageing group	373,656,340.02	70.69	204,466,018.23	–	169,190,321.79
Combination 2 related parties group	154,925,269.66	29.31	–	–	154,925,269.66
Individually not significant accounts receivable but with individual bad debt provision					
<b>Total</b>	<b>528,581,609.68</b>	<b>100.00</b>	<b>204,466,018.23</b>	<b>–</b>	<b>324,115,591.45</b>

# FINANCIAL REPORT

## XIV. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY

(Continued)

### 1. Accounts receivable (Continued)

#### (1) Accounts receivable by category (Continued)

Explanation on accounts receivable by category:

- i. In the group, making bad debt provision for accounts receivable by ageing analysis

Ageing	31 December 2017		
	Accounts receivable	Provision for bad debt	Proportion (%)
Within one year	95,733,378.33	4,786,668.92	5.00
1-2 years	21,035,641.69	6,310,692.51	30.00
2-3 years	97,002,105.50	58,201,263.30	60.00
Over three years	148,730,999.37	141,294,449.40	95.00
Total	<u>362,502,124.89</u>	<u>210,593,074.13</u>	<u>-</u>

- ii. In the group, making bad debt provision for accounts receivable by related parties

Name	31 December 2017			Reason for not making provision
	Accounts receivable	Provision for bad debt	Proportion (%)	
General machine	83,626,430.42	-	Not making provision	Related party
Yunnan CY Group	69,414,000.00	-	Not making provision	Related party
Kunming TOS	982,658.13	-	Not making provision	Related party
Changsha Ser	234,878.88	-	Not making provision	Related party
Shiess	268,720.42	-	Not making provision	Related party
Welding Company	2,089,659.87	-	Not making provision	Related party
TOS VARNSDORF A.S.	922.78	-	Not making provision	Related party
Shenyang Machine Tool Sales Co.	30,000.00	-	Not making provision	Related party
Xi'an Ruite	167,500.00	-	Not making provision	Related party
Total	<u>156,814,770.50</u>	<u>-</u>	<u>-</u>	<u>-</u>

# FINANCIAL REPORT

## XIV. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY

(Continued)

### 1. Accounts receivable (Continued)

(2) *The provision, recovery and reversal of bad debts during the year*

The provisions for bad debts amounted to RMB23,562,458.08 during the year.

(3) *Top five accounts receivable by debtors as at the end of the year*

Applicable Not applicable

Name	31 December 2017	Proportion to the total balance of accounts receivable at the end of the year (%)	Provision for bad debts
General machine	83,626,430.42	15.67	–
Yunnan CY Group	69,414,000.00	13.01	–
Kunming Yunnei Power Co., Ltd.	33,301,557.54	6.24	20,102,800.98
Hangzhou Feng Yuan Industrial Co., Ltd.	14,068,955.00	2.64	5,156,526.75
Shandong Longma Heavy Technology Co., Ltd.	<u>12,710,256.40</u>	<u>2.38</u>	<u>1,250,512.82</u>
Total	<u>213,121,199.36</u>	<u>39.95</u>	<u>26,509,840.55</u>

# FINANCIAL REPORT

## XIV. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY (Continued)

### 2. Other receivables

(1) Analysis of other receivables by category

✓Applicable    □Not applicable

Unit: RMB

Type	Carrying amount		31 December 2017 Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Individually significant accounts receivable with individual bad debt provision					
Bad debt provision for accounts receivable by combination with credit risk characters	61,228,791.33	100.00	7,519,467.58	12.33	53,709,323.75
Combination 1 ageing group	21,277,358.98	34.75	7,519,467.58	34.53	13,757,891.40
Combination 2 related parties group	39,951,432.35	65.25	–		39,367,332.35
Individually not significant accounts receivable but with individual bad debt provision					
<b>Total</b>	<b>61,228,791.33</b>	<b>100.00</b>	<b>7,519,467.58</b>	<b>–</b>	<b>53,709,323.75</b>

Type	Carrying amount		31 December 2016 Provision for bad debts		Book value
	Amount	Proportion (%)	Amount	Proportion (%)	
Individually significant accounts receivable with individual bad debt provision					
Bad debt provision for accounts receivable by combination with credit risk characters	45,984,896.45	100	4,952,679.73	10.77	41,032,216.72
Combination 1 ageing group	14,692,906.28	31.95	4,952,679.73	33.71	9,740,226.55
Combination 2 related parties group	31,291,990.17	64.30	–	–	31,291,990.17
Individually not significant accounts receivable but with individual bad debt provision					
<b>Total</b>	<b>45,984,896.45</b>	<b>100.00</b>	<b>4,952,679.73</b>	<b>–</b>	<b>41,032,216.72</b>

# FINANCIAL REPORT

## XIV. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY (Continued)

### 2. Other receivables (Continued)

#### (1) Analysis of other receivables by category (Continued)

- i. In the group, making bad debt provision for other receivables by ageing analysis  
Applicable   Not applicable

Unit: RMB

Ageing	Other receivables	Closing balance	
		Provision for bad and doubtful debts	Proportion (%)
Within one year	11,259,542.62	562,977.13	5.00
Sub-total	11,259,542.62	562,977.13	5.00
1-2 years	6,122,651.83	3,061,325.92	50.00
2-3 years	438,835.32	438,835.32	100.00
Over 3 years	3,456,329.21	3,456,329.21	100.00
Total	<u>21,277,358.98</u>	<u>7,519,467.58</u>	<u>-</u>

- ii. In the group, making bad debt provision for other receivables by related parties

Name	31 December 2017			Reason for not making provision
	Other receivables	Provision for bad debts	Proportion (%)	
Kunming TOS	2,554,784.92	-	Not making provision	Related party
General Machine	26,500,224.93	-	Not making provision	Related party
Xi'an Ser	10,248,790.54	-	Not making provision	Related party
Kunji Group	647,631.96	-	Not making provision	Related party
Total	<u>39,951,432.35</u>	<u>-</u>	<u>-</u>	<u>-</u>

#### (2) The provision, recovery and reversal of bad debts during the year

The provision for bad debts during the year were RMB2,566,787.85.

# FINANCIAL REPORT

## XIV. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY (Continued)

### 2. Other receivables (Continued)

#### (3) Other receivables by nature

Applicable Not applicable

Nature	Unit: RMB	
	2017	2016
Petty cash	413,909.77	451,450.55
Other expenses on behalf of related parties	2,964,252.00	2,043,126.67
Tax to be deducted	971,760.68	1,175,350.39
Deposit for bidding	1,795,700.00	2,351,267.00
Deposits should be recovered	10,761,660.00	5,855,682.32
Current account with related parties	39,951,432.35	31,291,990.17
Others	4,370,076.53	2,816,029.35
Total	<u>61,228,791.33</u>	<u>45,984,896.45</u>

#### (4) Top five other receivables by debtors as at the end of the year

Applicable Not applicable

Name of the Company	Nature	Unit: RMB			
		31 December 2017	Ageing	Percentage of total balance of other receivables at the end of the year (%)	provision for bad debts
General Machine	Current account with related parties	26,500,224.93	Within one year	43.28	-
Xi'an Ser Complete Sets Equipment	Current account with related parties	10,248,790.54	Within one year	16.74	-
Kunming Rail Transit Group Co., Ltd.	Deposits should be recovered	6,000,000.00	Within one year	9.80	300,000.00
Kunming TOS	Current account with related parties	2,554,784.92	Within one year	4.17	-
China Kangfu International Leasing Co., Ltd.	Deposits should be recovered	2,364,800.00	1-2 years	3.86	1,182,400.00
Total	-	<u>47,668,600.39</u>	<u>-</u>	<u>77.85</u>	<u>1,482,400.00</u>

# FINANCIAL REPORT

## XIV. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY (Continued)

### 3. Long-term equity investments

✓Applicable    □Not applicable

Unit: RMB

Item	31 December 2017		31 December 2016		Book value
	Carrying amount	Provision for impairment made during the year	Carrying amount	Provision for impairment made during the year	
Investments in subsidiaries	70,126,236.86	23,693,265.85	70,126,236.86	23,693,265.85	46,432,971.01
Investments in joint ventures and associates	10,039,220.02		13,146,238.82		13,146,238.82
Total	<u>80,165,456.88</u>	<u>23,693,265.85</u>	<u>83,272,475.68</u>	<u>23,693,265.85</u>	<u>59,579,209.83</u>

#### (1) Investments in subsidiaries

✓Applicable    □Not applicable

Unit: RMB

Subsidiary	Opening balance	Increase during the year	Decrease during the year	Closing balance	Provision for impairment made during the year	Closing balance of impairment provision
Xi'an Ser General Machine	21,693,265.85			21,693,265.85		21,693,265.85
	3,000,000.00			3,000,000.00		
Total	<u>68,126,236.86</u>			<u>68,126,236.86</u>		<u>21,693,265.85</u>

#### (2) Investments in joint venture and associates

✓Applicable    □Not applicable

Unit: RMB

Investment company	Opening balance	Additional investment	Decrease investment	Changes in equity for the year				Closing balance	Closing balance of impairment provision
				Investment Income Recognized under the Equity method	Other Comprehensive income	Movement of other equity	Declared cash dividends or profits		
associates									
Xi'an Ruite	13,146,238.82			-3,107,018.80					10,039,220.02
Sub-total	<u>13,146,238.82</u>			<u>-3,107,018.80</u>					<u>10,039,220.02</u>
Total	<u>13,146,238.82</u>			<u>-3,107,018.80</u>					<u>10,039,220.02</u>

# FINANCIAL REPORT

## XIV. NOTES TO MAJOR FINANCIAL STATEMENT ITEMS OF THE PARENT COMPANY

(Continued)

### 4. Operating income and operating costs

Applicable Not applicable

*Unit: RMB*

Item	2017		2016	
	Income	Cost	Income	Cost
Operating income from principal activities	432,655,091.17	474,334,884.78	580,084,845.62	616,673,896.97
Other operating income	<u>31,558,079.57</u>	<u>30,967,230.90</u>	<u>11,898,106.02</u>	<u>8,856,566.89</u>
Total	<u>464,213,170.74</u>	<u>505,302,115.68</u>	<u>591,982,951.64</u>	<u>625,530,463.86</u>

### 5. Investment income

Applicable Not applicable

*Unit: RMB*

Item	2017	2016
Income from long-term equity investments accounted for using the equity method	-3,107,018.80	-625,304.03
Dividends distribution	<u>2,500,000.00</u>	
Total	<u>-607,018.80</u>	<u>-625,304.03</u>

### 6. Others

Applicable Not applicable

## XV. SUPPLEMENTARY INFORMATION

### 1. Details of extraordinary profit & loss

Applicable Not applicable

*Unit: RMB*

Item	Amount	Note
Profit & loss on disposal of non-current assets	640,824.24	
Government grants taken into profit & loss of the period (except for those closely related to business of the company and those granted by the government in fixed amount or quantity according national standards)	8,883,770.03	
Profit & loss on debt restructuring	495,619.02	
Other Incomes and Expenses except for the above-mentioned	442,421.57	
Effects on income tax	-1,728,048.79	
Effects on non-controlling interests	<u>-208,806.20</u>	
Total	<u>8,525,779.87</u>	

# FINANCIAL REPORT

## XV. SUPPLEMENTARY INFORMATION *(Continued)*

### 1. Details of extraordinary profit & loss *(Continued)*

Explanation on the items of extraordinary gains or losses defined by the Company under the requirement of Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 – Extraordinary Gains or Losses, and the items of recurring profit or loss defined by the Company which listed as the non- extraordinary gains or losses under the Explanatory Announcement on Information Disclosure for Companies Offering Their Securities to the Public No.1 – Extraordinary Gains or Losses.

Applicable Not applicable

### 2. Return on net assets and earnings per share

Applicable Not applicable

Profit for the period	Weighted average return on net assets (%)	Earnings per share (RMB/share)	
		Basic earnings per share	Diluted earnings per share
Net profit attributable to ordinary shareholders of the Company	-255.95	-0.66	-0.66
Net profit attributable to ordinary shareholders of the Company after deduction of extraordinary profit and loss	-270.63	-0.67	-0.67

## DOCUMENTS AVAILABLE FOR INSPECTION

1. Financial statements signed and stamped by legal representative and financial officer of the Company
2. Original copy of Auditors' Report bearing the signatures and seals of the Accounting Firm and Certified Public Accountants
3. 2017 Annual Report
4. Written confirmation for the 2017 Annual Report by directors and senior management officers
5. Written approval by supervisory committee for 2017 Annual Report prepared by the Board.

**Shenji Group Kunming Machine Tool Company Limited**

**Wang He**

*Chairman*

27th April 2018