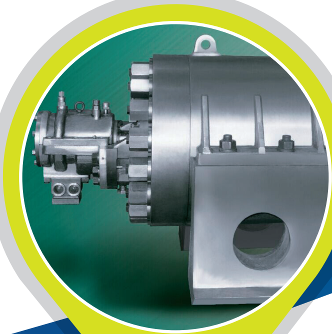
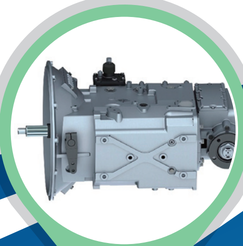
重慶機電股份有限公司
CHONGQING MACHINERY & ELECTRIC CO., LTD.*

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

Stock Code: 02722

ANNUAL REPORT 2014





EQUIP CHINA, ADVANCE TOWARDS THE WORLD

* *For identification purposes only*

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Corporate Information

DIRECTORS

Executive Directors

Mr. Wang Yuxiang *(Chairman)*
Mr. Yu Gang
Mr. Ren Yong
Mr. Xiang Hu *(appointed on 18 June 2014)*

Non-executive Directors

Mr. Huang Yong
Mr. Wang Jiyu
Mr. Yang Jingpu
Mr. Deng Yong

Independent Non-executive Directors

Mr. Lo Wah Wai
Mr. Ren Xiaochang
Mr. Jin Jingyu
Mr. Liu Wei
(appointed on 29 September 2014)

COMMITTEES UNDER BOARD OF DIRECTORS

Members of the Audit Committee

Mr. Lo Wah Wai *(Chairman)*
Mr. Jin Jingyu
Mr. Liu Wei
Mr. Deng Yong

Members of the Remuneration Committee

Mr. Ren Xiaochang *(Chairman)*
Mr. Lo Wah Wai
Mr. Jin Jingyu
Mr. Wang Jiyu

Members of the Nomination Committee

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

Members of the Strategic Committee

Mr. Wang Yuxiang *(Chairman)*
Mr. Yu Gang
Mr. Ren Yong
Mr. Xiang Hu
Mr. Huang Yong
Mr. Ren Xiaochang
Mr. Jin Jingyu
Mr. Liu Wei

SUPERVISORS

Mr. Yang Mingquan
Mr. Wang Pengcheng
Ms. Wu Yi
(appointed on 29 September 2014)
Mr. Huang Hui
(appointed on 29 September 2014)
Mr. Chen Qing
Mr. Zhao Zicheng

LEGAL REPRESENTATIVE

Mr. Wang Yuxiang

COMPANY SECRETARY

Miss Chiu Hoi Shan *(Practising Solicitor)*
(Appointed on 14 October 2014)

QUALIFIED ACCOUNTANT

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

AUTHORIZED REPRESENTATIVES AND CONTACT INFORMATION

Mr. Xiang Hu
No. 60 Middle Section of
Huangshan Avenue, New North Zone,
Chongqing City, the PRC
Postal code: 401123
Tel.: (86) 023-63075688

Ms. Chiu Hoi Shan
(Appointed on 14 October 2014)
Room 502, 5th Floor, China Building,
29 Queen's Road Central, Central,
Hong Kong
Tel.: 852-2166 9738

ALTERNATE AUTHORIZED REPRESENTATIVE AND CONTACT INFORMATION

Mr. Lo Wah Wai
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Hong Kong
Tel.: 852-2802 2191

REGISTERED ADDRESS

No. 60 Middle Section of
Huangshan Avenue, New North Zone,
Chongqing City, the PRC

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor
Services Limited
Shops 1712-1716, 17th Floor,
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

INTERNATIONAL AUDITOR

PricewaterhouseCoopers

LEGAL ADVISOR TO THE COMPANY

S.H. Leung & Co. (As to Hong Kong Laws)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 502, 5th Floor,
China Building,
29 Queen's Road Central, Central,
Hong Kong

WEBSITE OF THE COMPANY

www.chinacqme.com

PRINCIPAL BANKER

China Merchants Bank
Chongqing Shangqingsi Sub-branch
1st Floor, Zhong-an International Building
No.162 Zhongshan Fourth Road
Yuzhong District
Chongqing City, the PRC

SHARE INFORMATION

Listing Place

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

STOCK CODE

02722

FINANCIAL YEAR END

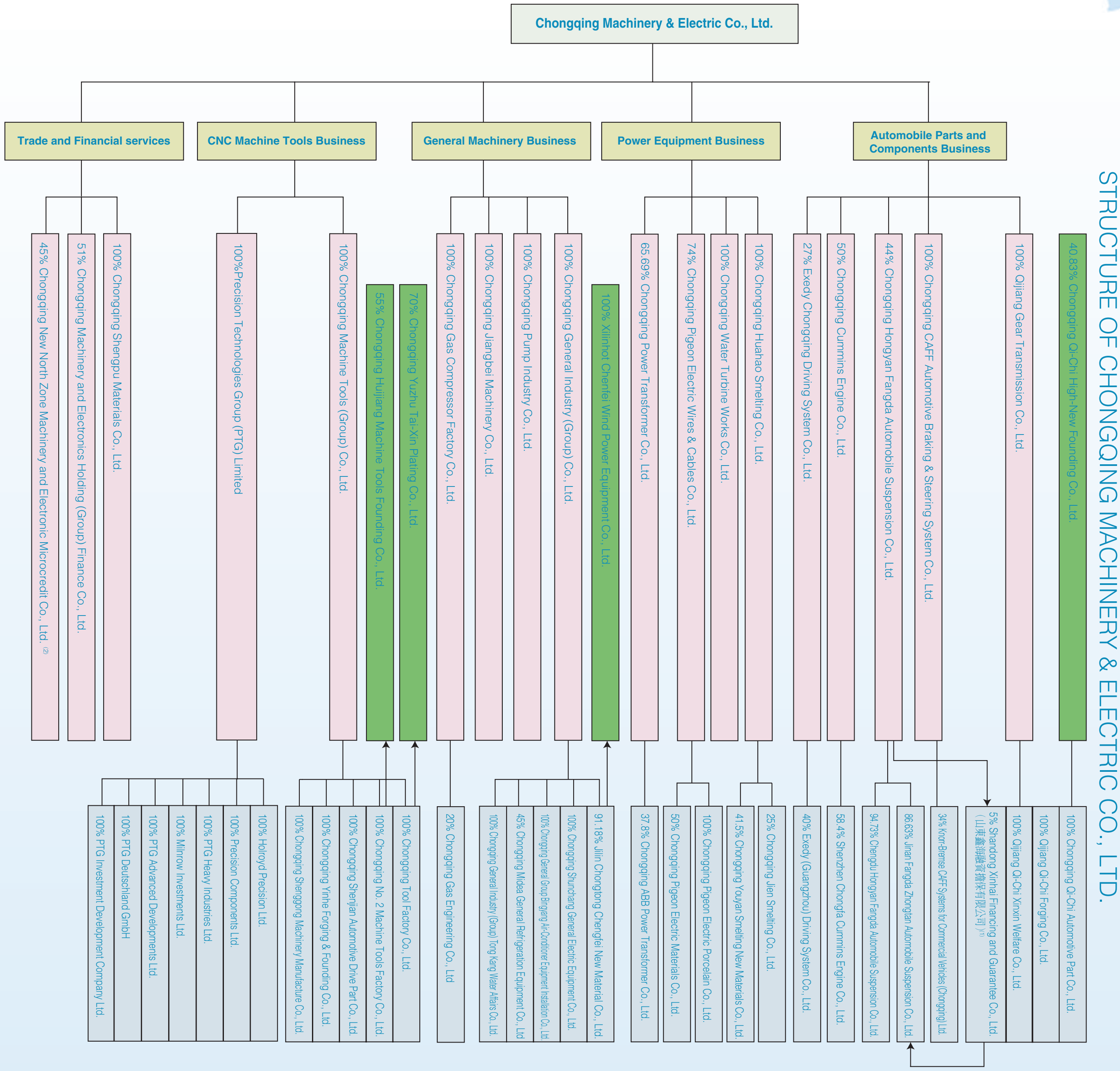
31 December

Financial Highlights

(RMB '000)	2010	2011	2012 (Restated)	2013	**2014**
Revenue and profit					
Revenue	8,883,202	10,546,001	8,908,032	9,701,044	**9,485,570**
Profit before taxation	765,058	913,658	488,874	585,223	**630,679**
Taxation	(66,298)	(168,463)	(30,525)	(44,785)	**(66,906)**
Profit for the year	698,760	745,195	458,349	540,438	**563,773**
Attributable to					
Equity holders of the Company	687,732	737,277	443,446	506,829	**511,943**
Non-controlling Interests	11,028	7,918	14,903	33,609	**51,830**
Dividends – Proposed final dividends	294,771	221,078	128,962	184,232	**169,493**
Earnings per share attributable to equity holders of the Company – Basic *(RMB)*	0.19	0.20	0.12	0.14	**0.14**
Assets and liabilities					
Non-current assets	2,907,784	3,299,965	3,786,175	4,441,363	**4,852,425**
Current assets	7,264,453	8,460,007	8,457,330	8,408,940	**8,782,188**
Current liabilities	4,442,554	4,669,679	5,001,485	4,940,234	**5,420,311**
Net current assets	2,821,899	3,790,328	3,455,845	3,468,706	**3,361,877**
Total assets less current liabilities	5,729,683	7,090,293	7,242,020	7,910,069	**8,214,302**
Non-current liabilities	1,155,475	2,123,434	1,759,829	2,023,804	**1,963,333**
Net assets	4,574,208	4,966,859	5,482,191	5,886,265	**6,250,969**
Equity attributable to equity holders of the Company	4,509,996	4,924,901	5,143,392	5,518,845	**5,844,478**
Non-controlling interests	64,212	41,958	338,799	367,420	**406,491**

The financial information of 2010 and 2011 has not been restated with effect of the adoption of HKFRS 11 'Joint Arrangements' and HKAS 19 'Employee Benefit'.

Group Structure



(1) Qijiang Gear Transmission Co., Ltd. and Chongqing Hongyan Fangda Automobile Suspension Co., Ltd. held 3% and 2% equity interests of Shandong Xinhai Financing and Guarantee Co., Ltd.（山東鑫海融資擔保有限公司）respectively.

(2) Chongqing Machinery & Electric Co., Ltd., Qijiang Gear Transmission Co., Ltd and Chongqing Machine Tools (Group) Co., Ltd. held 10% equity interests of Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd. respectively, while Chongqing Pump Industry Co., Ltd., Chongqing General Industry (Group) Co., Ltd. and Chongqing Water Turbine Works Co., Ltd. held 5% equity interests of Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd. respectively.

Results Highlights

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

The revenue of the Group for the year ended 31 December 2014 amounted to approximately RMB9,485.6 million, representing a decrease of approximately 2.2% as compared with approximately RMB9,701.0 million for 2013.

Profit attributable to the shareholders of the Company for the year ended 31 December 2014 was approximately RMB511.9 million, representing an increase of approximately 1.0% as compared with approximately RMB506.8 million for 2013.

Basic earnings per share for the year ended 31 December 2014 amounted to approximately RMB0.14 (2013: approximately RMB0.14).

The board of directors (the "Board") proposed to declare a final dividend of RMB0.046 per share for the year ended 31 December 2014 (2013: RMB0.05).

Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am pleased to announce the annual results of the Group for the year ended 31 December 2014 (the "Period" or the "Year"). The Group's annual results have been audited by the Company's auditor, PricewaterhouseCoopers. It is my pleasure to present the annual results of the Group as well as its sustainable development strategy and outlook to shareholders.

RESULTS REVIEW

In a profound post-crisis adjustment cycle, the world economy moved sluggishly in recovery through 2014. A recession in fixed asset investment was seen as the global weakness continued into the second half of the year, driven by the depreciation of Euro and Japanese Yen and a nosedive of Rouble amid global currency volatilities triggered by the tapering of quantitative easing in the U.S. as well as oil price slumps due to joint economic sanctions by the U.S. and European Community against Russia. China also stepped into a development phase featuring slower paces, structural improvement, new impetus and multiple challenges, coupled with softer momentum of fixed asset investment, muted overall market demand and a notable deceleration of export growth. Thanks to the macro policy package with an aim at stabilising growth, optimising structure and deepening reform, China expedited the industrial restructuring with its annual GDP growth staying

Chairman's Statement (Continued)

at 7.4%. Despite the challenges from shrinking market demand, intensifying competition and the hiking labour costs, the Group stabilised its growth by pressing forward reforms and innovations under its new "321" strategy with a focus on quality and profitability improvements and a proposition of the "Year of Management Enhancement".

Total revenue of the Group for the year ended 31 December 2014 was approximately RMB9,485.6 million (2013: RMB9,701.0 million), representing a decrease of approximately RMB215.4 million or approximately 2.2% over last year. Gross profit was approximately RMB1,064.8 million (2013: RMB1,084.8 million), representing a decrease of approximately RMB20.0 million or approximately 1.8% over last year. Profit attributable to the shareholders of the Company amounted to approximately RMB511.9 million (2013: RMB506.8 million), representing an increase of approximately RMB5.1 million or approximately 1.0% from 2013.

During the Period, the Group's administrative expenses accounted for approximately 8.6% of the revenue while distribution and selling expenses accounted for approximately 2.7%, slightly higher than last year in general. The Group maintained a healthy financial position during the Period. As at 31 December 2014, total cash and bank deposits of the Group amounted to approximately RMB1,887.5 million, lower than last year by approximately 15.7%.

Earnings per share for the Period were approximately RMB0.14 (2013: approximately RMB0.14). Total assets as at 31 December 2014 amounted to approximately RMB13,634.6 million (as at 31 December 2013: RMB12,850.3 million), while total liabilities amounted to approximately RMB7,383.6 million (as at 31 December 2013: RMB6,964.0 million); and net asset value per share was approximately RMB1.70 (as at 31 December 2013: RMB1.60).

BUSINESS REVIEW AND OUTLOOK

Automobile parts and components (gear boxes, steering systems)

In 2014, China's automobile industry maintained an overall stable growth with a year-on-year growth of approximately 7% both in output and sales. However, due to a slowdown in domestic investment, rapid development of high-speed rails, bullet trains and urban rail transit and the implementation of the National IV Standard ahead of schedule, the commercial vehicle sector (large and medium passenger vehicles and heavy-duty trucks) in close relation to the Group witnessed weaker market demand compared to last year, with production and sales volumes decreasing by approximately 6% year-on-year. The Group's gear boxes and steering systems business, albeit with a slight drop in output and sales volumes, recorded a steady growth in market share desirably. The diesel engine business experienced a decline in operating performance, as a result of the prolonged real estate investment recession as well as inadequate demand from power equipment, engineering machinery, petroleum machinery and shipbuilding markets. The automobile parts and components business of the Group recorded revenue of approximately RMB1,114.7 million for the year, representing a decrease of approximately 10.6% from 2013.

The Group's proprietary Automatic Mechanical Transmission (AMT) product for large and medium passenger vehicles and energy-efficient and environment-friendly gear boxes for new energy passenger vehicles were well recognised in markets at home and aboard with increasing orders. The gear boxes with electric power steering system (EPS) have achieved industrialisation and bulk production. For the gear box production base with an annual capacity of 400,000 units for medium and heavy-duty trucks, Phase 1 of 200,000 gear boxes of the project is expected to commence trial production in the first half of 2015.

In view of the escalating government-led infrastructure investment and faster urbanisation paces in China, this segment is expected to remain in a stable track in 2015.

Chongqing Cummins Engine Co., Ltd. ("Chongqing Cummins"), a jointly controlled entity of the Group, is engaged in diesel engine business mainly including three series (Cummins N, K and M) of diesel engines for diesel power generators, engineering machinery, shipbuilding and heavy-duty automobiles, taking a leading position in the domestic high-horsepower engine sector. To meet the domestic demand for phase III non-road diesel engines, it expects to complete trial production and bulk sale of the upgraded 14-litre QSN electronic-controlled engine in 2015. Trial production of the QSK50 high-horsepower engine has been completed, which will commence sale in 2015 according to market demand. Trial production of QSK60 high-horsepower engine is estimated to complete in 2015. Chongqing Cummins has completed groundwork for its engine technology R&D centre and production line, which will start construction by stage and are expected to finish construction and commence operation in the third quarter of 2017. The Group's medium to long-term goal is to build Chongqing Cummins into a world-class high-horsepower engine manufacturing base. Annual results of the jointly controlled entity are set out in the section headed "SHARE OF POST-TAX PROFITS OF JOINT VENTURE" in page 200 of this Annual Report.

Power equipment (hydroelectric generation equipment, electrical wires and cables, and materials)

In 2014, sales of wires and cables recorded a stable increase due to factors such as the Chinese Government's promotion of clean energy, smart power grid construction, rapid urban development, and increased pace of sales expansion of the wires and cables market.

Chairman's Statement (Continued)

Due to the stable increase in overseas orders and the improvement in the quality of orders, revenue and profit from hydroelectric generators both recorded a growth. During the year, the Group restructured its non-ferrous metal powder business with extremely low gross profit margin, and transferred the control of its non-ferrous metal powder business to a joint venture established with a leader in the industry. This led to a year-on-year decrease in the segment's overall revenue, but sales results demonstrated significant improvement. The segment recorded revenue of approximately RMB3,122.0 million for the year, representing a year-on-year decrease of approximately 9.4%.

During the Period, the Group's tractive power supply equipment passed the qualification certification by China Railway Certification Center (CRCC), and became the only enterprise in China, which obtained both the administrative license for railway products and the CRCC certification. The Group's electrical wires and cables business also passed annual review by the National Safety Mark Center for Coal Mine Supplies and hence became qualified to supply power cable products to coal mines, laying a solid ground to expand its presence in different segment markets. The "Technology R&D and Industrialisation of High-head Hydroelectric Generating Sets" was granted the "Science and Technology Progress Award (Second Prize)" in the machinery industry of China.

In view of the government-led intelligent power grid projects and faster urbanisation paces, rapid overseas market development and sound orders, this segment is expected to maintain a stable growth in 2015.

General machinery (industrial pumps, gas compressors, separation machines, refrigeration machines, industrial fans and power rotor blades)

In 2014, the traditional market of general machinery, including the iron and steel, metallurgy and cement industries, was still in recession in general. The business performance in separation machines and compressors was still weak, with subdued and continual decline in demand. However, benefiting from the stable performance in industrial pumps in the medium and high-end market, and the rapidly increasing revenue from wind power rotor blades, the segment's revenue recorded a rapid increase. The segment recorded revenue of approximately RMB1,714.1 million for the year, representing a year-on-year increase of approximately 19.1%.

With fan products successfully passing the review by an expert panel of China Quality Certification Center ("CQC"), the Group became the first certified energy-efficient fan manufacturer in China. The Group has started designing for its offshore windpower blade industrialisation project. The Group also actively explores overseas market to foster new growth drivers. In addition to the sales contract on wind power rotor blades secured in the North American market, the Group's industrial pump segment has successfully entered into the charging pump unit supply contract on generators 2# and 3# (K-2/K-3) of the nuclear power generation project in Karachi, Pakistan.

In view of the escalating government-led infrastructure investment, incentive policies on clean energy, rapid overseas market development and sound orders for wind power rotor blades and high-end industrial pumps, this segment is expected to maintain a stable growth in 2015.

CNC machine tools (gear-producing machines, complex precision metal-cutting tools, CNC lathes and machine centres and precision screw machines)

In 2014, the market for CNC machine tools was affected by adjustments in the world economic structure and industrial cycle. China's CNC machine tool industry operated under pressure, and was still situated in a downward interval in general. With shrinking production capabilities and investments in traditional industries such as automobile, engineering machinery, general machinery and vessels, the overall demand for machine tools was still in a downtrend. However, the segment recorded revenue of approximately RMB882.3 million, representing a year-on-year decrease of approximately 5.7%.

Our proprietary products including YW7232CNC high-efficiency precision grinding machine and YZ3120CNC series CNC hobbing machine were selected in gear processing equipment upgrades in automobile and aviation industries, and were well received in market. Our 4 products were certified as high-tech products in Chongqing, including Y3132CNC5 CNC hobbing machine, Y3140CNC5 CNC hobbing machine, YDZ4232CNC5 CNC automatic shaving machine and YBS3120A hobbing machine. Chongqing Machine Tools completed its environmental relocation in the second half of 2014, and is recovering normal production.

The Group envisages that the segment will face more competitions from abroad in 2015. Nevertheless, in view of our faster paces in upgrading CNC machine tools to better meet market demand, this segment is expected to maintain a stable growth in 2015.

Trade business

In 2014, the bulk commodity procurement platform of the Group increased the types of procurement, directly reducing procurement cost of the Group by approximately RMB15.0 million. The turnover of this segment amounted to approximately RMB2,565.6 million, representing a year-on-year decrease of approximately 0.5%.

Chairman's Statement (Continued)

The Group will further increase the commodity types and scope of its centralised bulk material procurement and strengthen the supervision and risk control, so as to cut down materials procurement cost and upgrade its supply chain and logistics management. This segment is expected to grow steadily in 2015.

Financial services

In 2014, The Group gave full play to its functions in the provision of various financial services by providing its subordinate enterprises with loans, guarantees and deposits to reduce their financial costs and enhance the efficient use of funds. Revenue amounted to approximately RMB86.9 million during the year, representing a year-on-year increase of approximately 31.7%.

The Group will further draw upon financial services function of the Finance Company to carry out comprehensive financial business within the scope authorised by the State. The Group expects to further revitalise its internal funds and reduce the volume of external indirect financing. This segment is expected to maintain broadly stable with a slight decline in 2015.

DEVELOPMENT FOUNDATION AND ADVANTAGES

The Group ranked in the "Fortune China 500 Companies" for 5 consecutive years from 2010 to 2014 and won the title of "2014 China Top 500 Machinery Manufacturers" (ranking No. 125), and is the largest integrated equipment manufacturing enterprise based in western China. The following foundations and advantages will contribute to our future development:

Firstly, the Group benefits from the preferential policies such as the Chongqing Municipal "314" overall strategic deployment and the large-scale development of China's western region, and enjoys unique geographical and taxation advantages; secondly, the four core businesses of the Group are in line with the national industrial policies, its products have relatively big market shares in the niche markets, and the Group's diversified product portfolio enhances its ability in mitigating and preventing market risks; thirdly, the Group is equipped with the fundamentals for technological development and innovation by possessing a famous Chinese brand, a Chinese well-known trademark and several Chongqing famous brands, state-level and municipal-level technological centres and numerous patented invention technologies, which, together with the industry-leading craftsmanship and technology accumulated over years as well as on-going investment in research and development, brings us a strong brand advantage and technological innovation and R&D ability; fourthly, the Group has established an efficient and standardised corporate governance structure and system as well as the monitoring mechanisms on decision-making and production safety, which ensure sound oversight over efficient operation and effective corporate governance; fifthly, the Group has a sound human resources management system and incentive mechanism, featuring the six mechanisms for talents management, i.e. "selection, cultivation, utilisation, retaining, dismissal and backup", and through means of attracting talents both locally and abroad, job rotations, communications and training, the quality and ability of our staff are improved continuously, which provide talents support to the sustainable development of the Group; and sixthly, the forthcoming new "Yangtze River Economic Belt" and the Chongqing-Xinjiang-Europe Railway will usher in opportunities for the Group to develop new business chains and markets, and facilitate resource sharing between Chongqing's equipment manufacturing industry and global peers as well as the upstream and downstream players to complement each other for mutual growth. The Board, management and all employees of the Group have full confidence in future development.

DEVELOPMENT STRATEGY

The Group's development strategy and work priorities in 2015 are set out as follows:

I. Development Strategy

Based on the "Twelfth Five-year Plans" of China and the Company, we will continue to incorporate the new "321" strategy focusing on "sharpening up existing business, boosting new business and continuous innovation", deepen the reformation, enhance the management, improve quality and profitability and strengthen risk control, so as to promote our sustainable and healthy development.

II. Work Priorities

(1) Focus on the quality of business operation to improve profitability

Achieve digitalisation of business operation indicators by leveraging on the information platform; keep a close eye on and analyze indicators such as trade receivables, inventory and operating profit; enhance the awareness of product quality, with an emphasis on quality loss per RMB100 sales revenue; actively expand new businesses and vigorously develop overseas markets in emerging

Chairman's Statement (Continued)

economies; gradually promote the pilot logistics optimisation programme to reduce logistics costs; and deepen centralised procurement and explore on energy contract management to achieve cost reduction and efficiency improvement.

(2) Press ahead with innovations on systems and mechanisms and deepen reform and restructuring

Accelerate ownership restructuring of subsidiaries by introducing investors, push forward managerial ownership and strive to achieve substantive breakthrough for reform and restructuring.

(3) Accelerate transformation and upgrading with a focus on project execution and technological innovation

Ensure the progress of environmental relocation and key projects; keep track of and promote new industries and projects to identify new business drivers; increase investment in technological innovation projects and the development of new projects based on a market-oriented approach; and optimize patent mix to increase the proportion of patents for invention.

(4) Place emphasis on talent training under innovative human resources management

Tackle the selected issues in organisational structure, staffing and remuneration allocation under the model of "one policy for one enterprise; pilot programmes go first" and "classified guidance and implementation in batch"; and optimize the workforce of the Group through a combination of means such as learning, training and practising, and actively introduce high-level international talents to gradually build up a talent team for overseas operation of the Group.

(5) Improve capital efficiency through financial foundation management

Carry forward the overall budget management, and gradually establish a standardised system on costs and expenses; optimise the financial model and evaluation method for investment projects, and develop an overall annual financing scheme covering funding requirements from production, operation and project construction; plan for value-added tax in lieu of business tax, giving full play to the tax benefits from the taxation reform; establish financial warning management system model and risk warning mechanism; use financial leverage to revitalise internal stock of unused funds and optimise financial structure; and deepen the application of the EAS system.

(6) Strengthen risk prevention and control through monitoring and auditing services

Give full play to the "immune efficacy" of auditing by stepping up on-going monitoring and strengthening process supervision and management with a focus on special auditing of connected transactions; earnestly implement self-examination and maintenance of the internal control system of the Group and carry out internal control evaluation on a regular basis; and establish and improve the legal risk prevention mechanism to enhance the rule of law and compliance management in corporate governance.

(7) Reinforce centralized management through the construction of information platform

Advance the construction project of the information system in strict accordance with the design proposal and schedule plan of the Group's management and information system.

(8) Protect shareholders' rights through the regulation of corporate governance

Strengthen centralised training for the Company's directors, supervisors and senior management on Listing Rules; further regulate the operation of the corporate governance structure of the Company's subsidiaries; and enhance the performance of duties and responsibilities of dispatched directors and supervisors to protect shareholders' rights.

AWARDS

During the Period, the Group received the following awards:

- Chongqing Machine Tools (Group) Co., Ltd. ("Chongqing Machine Tools"), a subsidiary of the Company, won the nomination prize for the 2013 China Industrial Award;

Chairman's Statement (Continued)

- Chongqing Machine Tools, a subsidiary of the Company, was honoured the "Chunyan Award" in the China CNC Machine Tools Exhibition;

- YZ3120CNC series CNC hobbing machine of Chongqing Machine Tools, a subsidiary of the Company, was included in the "National Major New Product Endorsement List of the Ministry of Science and Technology 2014", which is the only product receiving the honour in Chongqing city;

- Chongqing General Industry (Group) Co., Ltd. ("Chongqing General") and Chongqing Machine Tools, subsidiaries of the Company, were certified as "Chinese Honourable Enterprises in the Industrial Brand Competitiveness Review 2013";

- Five products of Chongqing General, a subsidiary of the Company, won golden awards in the "7th International Fluid Machinery Exhibition 2014", namely high-efficiency centrifugal water chilling unit, waste heat recovery centrifugal heat-pump unit, large ammonia centrifugal compressor unit, single-stage high-speed centrifugal fan unit, and pure-hydrogen annealing furnace cyclic fan unit;

- Chongqing Pigeon Electric Wire & Cable Co., Ltd. ("Chongqing Pigeon"), a subsidiary of the Company, was named "Top 100 Enterprises in Chongqing" and "Top 100 Manufacturing Enterprises in Chongqing" for 10 consecutive years;

- Chongqing Pigeon, a subsidiary of the Company, won the first "Yubei District Chief Quality Management Award";

- Chongqing Water Turbine Works Co., Ltd. ("Chongqing Water Turbine"), a subsidiary of the Company, was granted the "Science and Technology Progress Award (Second Prize)" in the machinery industry of China, in recognition of its "Technology R&D and Industrialisation of High-head Hydroelectric Generating Sets";

- Chongqing Pump Industry Co., Ltd. ("Chongqing Pump"), a subsidiary of the Company, was granted the National Science and Technology Progress Award (Second Prize), in recognition of its "Research and Engineering Application of Theory and Key Technology on High-efficiency Centrifugal Pumps".

SUMMARY

Looking to 2015, while the recovery in the U.S. will help stimulating the global economy into the active pace, the monetary easing in Europe and Japan is expected to stimulate their domestic growths and emerging economies should remain stable. In general, the global economy recovery remains sluggish.

In China, structural adjustments, transformation and upgrading will remain as the key note, as the economy stepped into the "New Normal". Year 2015 will mark a milestone in switching the economic drivers, although economic development in China will be enhanced under the national strategies on "One Belt, One Road" and the "Yangtze River Economic Belt" as well as faster paces of new urbanisation. A slowdown of economic growth should be a high probability event against the easier monetary policy, which will allow the government to be more focused on reforms with a more neutral stance in macro control. The Group shall earnestly implement its new "321" strategy focusing on "sharpening up existing business, boosting new business and continuous innovation", to seek quality and profitability improvements by enhancing market development and internal management for sustainable growth. We expect to keep the Group's business in a steady developing trajectory in 2015.

The Group's sustainable development relies on unremitting efforts and unchanged support from all parties. On behalf of the Board, I would like to extend my heartfelt gratitude to customers, suppliers, business partners and shareholders for their full support. My appreciation also goes to all our staff for their hard work and contributions in the past year. The Group will work together with you for brilliant achievements with the vision to "Equip China and Advance towards the World".

Mr. Wang Yuxiang
Executive Director and Chairman

Chongqing, the PRC
24 March 2015

Management's Discussion and Analysis

OUTLOOK AND PROSPECT

2014 saw a sluggish recovery in the world economy which was still in a period of profound readjustment after the financial crisis. China's economy has entered a phase featuring a slower development pace, optimised structure, new driving forces and various challenges, in which, the growth of investment in fixed assets slowed down, the overall market demand was weakened and export growth significantly declined. The government implemented a series of macro-control policies, such as "stable growth, structure readjustment and further reform", resulting in the improvement of industrial structure, and a GDP annual growth rate of 7.4%. Despite the difficulties and challenges of shrinking market demands, intensified competition and high costs, the Group achieved stable development as a whole with its principal business optimised by adhering to the new "321" strategy and the mission of quality and efficiency improvement in the "year of management enhancement" through further reforms and innovations.

Looking into 2015, the recovery of the American economy will boost the global economy, while the monetary easing policies of Europe and Japan will stimulate domestic economic growth. Emerging economies will remain stable. In general, the global economic recovery will remain sluggish.

Entering the economic development phase of "New Normal", China is expected to achieve a GDP growth of 7% with structure adjustment and transformation and upgrade still being the main tasks. Although the launch of national strategies, such as "One Belt, One Road", "Yangtze River Economic Belt" and accelerating new urbanisation, helped boost China's economic development, the year 2015 is a key year for China to transform its economic growth momentum and a fall in economic growth is very likely to happen. In 2015, with "seeking development through deep reforms, improving efficiency through refined management" as its central task, the Group will enhance operational efficiency by improving the quality of economic operation, deepen reform and reorganisation through innovative institutional mechanisms, accelerate transformation and upgrades by focusing on project constructions and technological innovations, innovate human resources management through personnel training, improve capital efficiency through financial foundation management, strengthen risk control through monitoring services, reinforce centralised management through the construction of information platform, and protect shareholders' rights through the regulation of corporate governance. The Group's business is expected to maintain stable development in 2015.

BUSINESS REVIEW

Economic operation achieved quality improvement while maintaining stability

With the analysis of the market condition and a full understanding of its economic operation, the Group implemented comprehensive and special investigation on enterprises by categories, and assisted enterprises in formulating plans to turn from loss to profit, resulting in a significant improvement in the quality of economic operation. The Group fully grasped the market trend and strived to obtain domestic and international orders, with international orders achieving more rapid growth. By strictly controlling special indicators and enhancing refined management, the Group effectively controlled accounts receivable and inventories and achieved double-digits decrease in product quality loss. The centralised procurement of bulk commodity was optimised and new achievements were made in cost reduction and efficiency improvement.

Pragmatic Promotion of Project Constructions

In 2014, the Group paid close attention to the progress of project constructions by strengthening project supervision and inspection and strictly controlled the quality and investment budget management. The non-productive space of certain projects was cut down by over 2,000 square metres in area, which saved investment construction cost of approximately RMB91.5 million, and 18 projects were under orderly progress.

Relocation of Chongqing Machine Tools' factory and office has been completed and put into operation. The environmental relocation project of phase 2 of Chongqing Machine Tools

Management's Discussion and Analysis (Continued)

(the relocation of Chongqing Tool Factory Co., Ltd., Chongqing Yinhe Forging & Founding Co., Ltd., apart from Chongqing Shenjian Automotive Drive Part Co., Ltd., for which no additional land will be required as it will be relocated to the existing site of Chongqing No.2 Machine Tools Factory), Chongqing Water Turbine and Chongqing Jiangbei Machinery Co., Ltd., ("Chongqing Jiangbei Machinery") have completed bidding works and commenced constructions. The phase 1 of 200,000 gear boxes of the project of Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear Transmission") for an annual output of 400,000 gear boxes for medium and heavy-duty vehicles has entered the final phase of construction, and the project aims at being completed and put into production in the first half of 2015. The offshore windpower blade industrialisation project of Chongqing General is currently in the process of project design. The project of the Precision Technologies Group (PTG) Limited in the UK ("PTG UK") to produce precision screws in the USA have completed project approval and is in preparation for early-stage site selection, with trial production expected to commence in the second half of 2016.

Technological Innovation and Informatisation

The Group enhanced technological research and innovation, and developed 124 new products in 2014, 22 of which passed the appraisal for new products of municipal level or above. The Group formulated (amended) 23 national and industrial standards, published 22 technological papers, introduced "Provisional Measures on Regarding Investment in Technology Innovation Project by Enterprises as Annual Salary Assessment Profit", and reported and implemented 47 technological innovation projects.

The Group's proprietary Automatic Mechanical Transmission (AMT) product for large and medium passenger vehicle, energy-efficient and environment-friendly gear boxes for new energy passenger vehicles, gear boxes with electric power steering system (EPS), cotton picker, LW520B/J centrifuge all achieved bulk sales. YZ3132CNC5, Y3140CNC5 series of CNC hobbing machines, YDZ4232CNC5 CNC hobbing machine and YBS3120A hobbing machine have been recognised by the experts at Chongqing Science & Technology Commission as hi-tech products of Chongqing Municipality.

During the Period, the intellectual property strategy was further promoted. The Group applied for 278 new patents and was granted 273 patents, including 11 patents for invention, resulting in a total of 1366 patent grants. The Company has strengthened the cooperation with the Chongqing Intellectual Property Office, entered into the "Agreement on Enterprise Patent Exploration and Arrangement", and received policy financial support of approximately RMB150,000 for patents exploration and arrangement. Chongqing Gas Compressor Factory Co., Ltd. ("Chongqing Gas Compressor"), Chongqing Water Turbine and Qijiang Gear Transmission received patent subsidies of approximately RMB300,000 in aggregate from the Chongqing Intellectual Property Office.

In 2014, the Company established the information department to coordinate and establish the information system of the Company. Experts and professional agencies were engaged to design the information system, and completed "Overall Plan and Blueprint Design", "Suggestions on the Implementation of Planning and Selection", "Guidelines on the Information Construction of Subsidiaries", and "IT Management Plan" for the informatisation of Chongqing Machinery & Electric.

Expanding Financial Channels

The Group successfully developed overseas financing and risk avoidance mechanisms for hedging foreign exchange. The financing costs decreased by approximately 1% due to the loans in the amounts of approximately GBP17 million and approximately USD10 million obtained from offshore banks through cross-border loan. During the Period, 5 foreign exchange forward contracts were completed, involving funds totalling approximately EUR1.54 million and USD1.054 million, respectively, mainly used for hedging foreign exchange fluctuation risks on prepayments of machinery imports and receivables of sales contracts. The Company proactively expanded financial services, and introduced financial lease business, thereby raising stable capital for the medium and long-term development of the Company and easing debt burden.

Management's Discussion and Analysis (Continued)

Effective Improvement of Internal Control

The Company enhanced its corporate governance and control. Through enhancing, implementing and executing multiple internal measures and the internal control system, the Company strengthened its ability against various kinds of risks. During the Period, 14 subsidiaries of the Company, including Chongqing Pigeon, Chongqing Pump, Qijiang Gear Transmission, Chongqing Machine Tools, carried out follow-up monitoring of risk elements, with the rectification rate of items with deficiencies identified in 2013 reaching 87%. The enterprises emphasised the internal control risk prevention, and launched self-examination on internal control based on the "Internal Control Handbook". The Company organised evaluation of the effectiveness of internal control of the Company, Chongqing Water Turbine, Chongqing Pigeon, Chongqing CAFF Automotive Braking & Steering System Co., Ltd. ("Chongqing CAFF") and Chongqing General, and made 41 amendments to the Company's "Internal Control Handbook". The Company also strengthened monitoring on the governance of its overseas enterprises, completed risk evaluation, as well as formulated and executed systems including "Comprehensive System on Budget Management", "Foreign Exchange Hedging Management System", "Procurement Management System", "Sales Management System", and "Capital Business Management System".

Continued Optimisation of Human Resources

The Group continued to improve its performance appraisal system, amended the salary appraisal method for persons in charge of its subordinate enterprises, and strongly emphasised the benefits of the core competitiveness and quality of the talents of the enterprises. The Group introduced evaluation benchmarks such as economic value added (EVA) to strengthen positive incentives; built a unified online recruitment platform, and launched campus recruitment for six urgently-needed management positions in its subsidiaries in the fields of finance, audit, law, etc.; organised the launch of special training such as EVA Theory and Practice, as well as launched work-related competition for talents in technology, finance, human resources positions, etc. During the Period, the Group invested a total of approximately RMB3.04 million in training, and organised 942 training sessions in total. The main contents of training involved business skills, professional knowledge, lean production, corporate culture, worker safety and health, etc., with the total number of attendances by staff reaching 15,892 and an average of about 38 hours of training per capita. Continued optimisation of human resources provided the Company with strong and effective assurance and support in terms of talent and intellectual capacity in realising its strategic goal.

RESULTS OVERVIEW

Operation Analysis

Automobile Parts and Components

In 2014, China's automobile industry maintained an overall stable growth with a year-on-year growth of approximately 7% both in output and sales. However, due to a slowdown in domestic investment, rapid development of high-speed rails, bullet trains and urban rail transit and the implementation of the National IV Standard ahead of schedule, the commercial vehicle sector (large and medium passenger vehicles and heavy-duty trucks) in close relation to the Group witnessed weaker market demand compared to last year, with production and sales volumes decreasing by approximately 6% year-on-year. The Group's gear boxes and steering systems business, albeit with a slight drop in output and sales volumes, recorded a steady growth in market share desirably. The diesel engine business experienced a decline in operating performance, as a result of the prolonged real estate investment recession as well as inadequate demand from power equipment, engineering machinery, petroleum machinery and shipbuilding markets. The automobile parts and components business of the Group recorded revenue of approximately RMB1,114.7 million for the year, representing a decrease of approximately 10.6% from 2013.

Power Equipment

In 2014, sales of wires and cables recorded a stable increase due to factors such as the Chinese Government's promotion of clean energy, smart power grid construction, rapid urban development, and increased pace of sales expansion of the wires and cables market. Due to the stable increase in overseas orders and the improvement in the quality of orders, revenue and profit from hydroelectric generators both recorded a growth. During the year, the Group restructured its non-ferrous metal powder business with extremely low gross profit margin, and transferred the control of its non-ferrous metal powder business to a joint venture established with a leader in the industry. This led to a year-on-year decrease in the segment's overall revenue, but sales results demonstrated significant improvement. The segment recorded revenue of approximately RMB3,122.0 million for the year, representing a year-on-year decrease of approximately 9.4%.

Management's Discussion and Analysis (Continued)

General Machinery

In 2014, the traditional market of general machinery, including the iron and steel, metallurgy and cement industries, was still in recession in general. The business performance in separation machines and compressors was still weak, with subdued and continual decline in demand. However, benefiting from the stable performance in industrial pumps in the medium and high-end market, and the rapidly increasing revenue from wind power rotor blades, the segment's revenue recorded a rapid increase. The segment recorded revenue of approximately RMB1,714.1 million for the year, representing a year-on-year increase of approximately 19.1%.

CNC Machine Tools

In 2014, the market for CNC machine tools was affected by adjustments in the world economic structure and industrial cycle. China's CNC machine tool industry operated under pressure, and was still situated in a downward interval in general. With shrinking production capabilities and investments in traditional industries such as automobile, engineering machinery, general machinery and vessels, the overall demand for machine tools was still in a downtrend. However, the segment recorded revenue of approximately RMB882.3 million, representing a year-on-year decrease of approximately 5.7%.

Trade Business

In 2014, the bulk commodity procurement platform of the Group increased the types of procurement, directly reducing procurement cost of the Group by approximately RMB15.0 million. The turnover of this segment amounted to approximately RMB2,565.6 million, representing a year-on-year decrease of approximately 0.5%.

Financial Services

In 2014, The Group gave full play to its functions in the provision of various financial services by providing its subordinate enterprises with loans, guarantees and deposits to reduce their financial costs and enhance the efficient use of funds. Revenue amounted to approximately RMB86.9 million during the year, representing a year-on-year increase of approximately 31.7%.

SALES

For the year ended 31 December 2014, the Group's total revenue amounted to approximately RMB9,485.6 million, a decrease of approximately RMB215.4 million or approximately 2.2% as compared with approximately RMB9,701.0 million for the same period of 2013. As compared with 2013, the revenue of automobile parts and components was approximately RMB1,114.7 million (accounting for approximately 11.8% of total revenue), a decrease of approximately 10.6%; revenue of power equipment was approximately RMB3,122.0 million (accounting for approximately 32.9% of total revenue), a decrease of approximately 9.4%; revenue of general machinery was approximately RMB1,714.1 million (accounting for approximately 18.1% of total revenue), an increase of approximately 19.1%; revenue of CNC machine tools was approximately RMB882.3 million (accounting for approximately 9.3% of total revenue), a decrease of approximately 5.7%; revenue of trade business was approximately RMB2,565.6 million (accounting for approximately 27.0% of total revenue), a decrease of approximately 0.5%; and revenue of financial services was approximately RMB86.9 million (accounting for approximately 0.9% of total revenue), an increase of approximately 31.7%.

GROSS PROFIT

The gross profit for 2014 was approximately RMB1,064.8 million, decreased by approximately RMB20.0 million or approximately 1.8%, as compared with approximately RMB1,084.8 million for the same period of 2013. Gross profit margin was approximately 11.2%, the same as that for the same period last year. Excluding the trade business and financial services, the gross profit margin was approximately 14.3% (2013: approximately 14.4%).

As compared with 2013, gross profit and the proportion for power equipment and general machinery increased. On the other hand, the gross profit for automobile parts and components and CNC machine tools dropped.

Management's Discussion and Analysis (Continued)

OTHER INCOME AND GAINS

The other income and gains for 2014 were approximately RMB350.0 million, an increase of approximately RMB130.3 million or approximately 59.3%, as compared with approximately RMB219.7 million for the same period of 2013, mainly due to an income of approximately RMB173.7 million from disposal of lands by Chongqing Water Turbine and Chongqing Machine Tools, and the government subsidies and support for technology development increased by approximately RMB11.9 million.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for 2014 were approximately RMB1,069.6 million, an increase of approximately RMB53.9 million or approximately 5.3%, as compared with approximately RMB1,015.7 million for the same period of 2013, mainly due to the increase in research and development costs and the provision for impairment of assets. The overall selling and administrative expenses accounted for approximately 11.3% of sales, a slight increase of approximately 0.8 percentage point as compared with 10.5% for the same period of 2013.

OPERATING PROFITS

The operating profit for 2014 was approximately RMB345.2 million, an increase of approximately RMB56.4 million or approximately 19.5%, as compared with approximately RMB288.8 million for the same period of 2013.

FINANCE COSTS

Interest expense for 2014 amounted to approximately RMB104.5 million, a decrease of approximately RMB32.2 million or approximately 23.6%, as compared with approximately RMB136.7 million for the same period of 2013, mainly due to the fact that more financial expenses were capitalized and a decrease in the income from the bank interests during the Period.

SHARE OF POST-TAX PROFITS OF JOINT VENTURE

The Group's share of post-tax profits of joint venture for the year ended 31 December 2014 was approximately RMB317.5 million, a decrease of approximately RMB36.3 million or approximately 10.3%, as compared with approximately RMB353.8 million for the same period last year. Such decrease was due to the slight decline in the sales of Chongqing Cummins Engine Co., Ltd.

SHARE OF POST-TAX PROFITS OF ASSOCIATES

The Group's share of post-tax profits of associates for the year ended 31 December 2014 was approximately RMB51.1 million, an increase of approximately RMB7.0 million or approximately 15.9%, as compared with approximately RMB44.1 million for the same period of 2013. The increase was attributable to an increase of approximately RMB 8.3 million in the results of Chongqing Midea General Refrigeration Equipment Co., Ltd. and Knorr-Bremse CAFF Systems for Commercial Vehicles (Chongqing) Ltd. and an increase of approximately RMB4.0 million in the results of Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd. On the contrary, the results of Chongqing ABB Power Transformer Co. Ltd. decreased by RMB 5.8 million.

INCOME TAX EXPENSES

The income tax expenses for the year ended 31 December 2014 were approximately RMB66.9 million, an increase of approximately RMB22.1 million, or approximately 49.3%, as compared with approximately RMB44.8 million for the same period of 2013, mainly due to the change in deferred income tax.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year ended 31 December 2014 was approximately RMB511.9 million, an increase of approximately RMB5.1 million or approximately 1.0% as compared with approximately RMB506.8 million for the same period of 2013. Earnings per share amounted to approximately RMB0.14, the same as that of 2013.

Management's Discussion and Analysis (Continued)

DISTRIBUTABLE RESERVES

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

The Company's reserves available for distribution as at 31 December 2014 under HKFRSs and CAS were RMB1,271,495,000 and RMB1,431,835,000 respectively. Thus, as at 31 December 2014, the Company's distributable reserve attributable to shareholders of the Company amounted to RMB1,271,495,000.

BUSINESS PERFORMANCE

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

	Revenue		Gross profit		Segment Results	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2014	2013	**2014**	2013	**2014**	2013
	(RMB in millions, except for percentage)					
Automobile parts and components						
Domestic						
Gear boxes	**733.8**	845.3	**119.6**	154.0	**(4.8)**	19.6
Other products	**380.9**	402.0	**44.5**	47.4	**8.6**	1.7
Total	**1,114.7**	1,247.3	**164.1**	201.4	**3.8**	21.3
% of total	**11.8%**	12.9%	**15.4%**	18.6%	**1.1%**	7.4%
Power equipment						
Domestic						
Hydroelectric generation equipment	**407.5**	348.4	**83.9**	75.4	**123.4**	44.7
Electrical wires and cables	**2,449.9**	2,583.1	**175.6**	173.4	**83.6**	95.4
Other products	**264.6**	514.9	**2.3**	3.8	**(47.2)**	(19.1)
Total	**3,122.0**	3,446.4	**261.8**	252.6	**159.8**	121.0
% of total	**32.9%**	35.5%	**24.6%**	23.3%	**46.3%**	42.0%
General machinery						
Domestic						
Total	**1,714.1**	1,439.6	**392.5**	349.0	**77.1**	72.3
% of total	**18.1%**	14.8%	**36.9%**	32.1%	**22.3%**	25.0%

	Revenue Year ended 31 December 2014	Revenue 2013	Gross profit Year ended 31 December 2014	Gross profit 2013	Segment Results Year ended 31 December 2014	Segment Results 2013
	(RMB in millions, except for percentage)					
CNC machine tools						
Domestic	**571.2**	573.1	**115.7**	115.1	**103.9**	53.2
Foreign	**311.1**	362.5	**45.6**	98.4	**(27.3)**	1.8
Total	**882.3**	935.6	**161.3**	213.5	**76.6**	55.0
% of total	**9.3%**	9.6%	**15.1%**	19.7%	**22.2%**	19.0%
Trade business						
Domestic						
Total	**2,565.6**	2,577.5	**10.0**	14.7	**7.8**	8.6
% of total	**27.0%**	26.6%	**0.9%**	1.4%	**2.3%**	2.9%
Financial business						
Domestic						
Total	**86.9**	66.0	**75.1**	53.6	**55.2**	34.7
% of total	**0.9%**	0.7%	**7.1%**	4.9%	**16.0%**	12.0%
Headquarters						
Total	**–**	(11.4)	**–**	–	**(35.1)**	(24.1)
% of total	**–%**	(0.1%)	**–%**	–%	**(10.2%)**	(8.3%)
Total	**9,485.6**	9,701.0	**1,064.8**	1,084.8	**345.2**	288.8

AUTOMOBILE PARTS AND COMPONENTS

Revenue from the automobile parts and components segment for the year ended 31 December 2014 was approximately RMB1,114.7 million, representing a decrease of approximately RMB132.6 million or approximately 10.6%, as compared with approximately RMB1,247.3 million for the same period of 2013. Revenue from gear boxes and steering systems business decreased by approximately RMB111.5 million or approximately 13.2% and approximately RMB21.1 million or approximately 5.2% respectively as compared with the same period of 2013, mainly due to the decrease in demands, change in the products structure and the decline in selling prices in the commercial vehicle market.

During the Period, gross profit for the automobile parts and components segment was approximately RMB164.1 million, representing a decrease of approximately RMB37.3 million or approximately 18.5%, as compared with approximately RMB201.4 million for the same period of 2013. Gross profit margin decreased to approximately 14.7% for 2014 from approximately 16.1% for 2013, primarily due to the change in the products' sales structure and the increase in unit cost. The gross profit margin of such business dropped approximately 1.4 percentage points compared with the same period of 2013.

Overall, the results for the automobile parts and components segment for the year ended 31 December 2014 amounted to approximately RMB3.8 million, representing a significant decrease of approximately RMB17.5 million or approximately 82.2%, as compared with approximately RMB21.3 million for the same period of 2013, mainly due to the drop in revenue from gear boxes and the increase in the proportion of the sales of the gear boxes with a low gross profit margin.

POWER EQUIPMENT

Revenue from the power equipment segment for the year ended 31 December 2014 was approximately RMB3,122.0 million, a decrease of approximately RMB324.4 million or approximately 9.4%, as compared with approximately RMB3,446.4 million for the same period of 2013, primarily due to the decrease in revenue of approximately RMB133.2 million or approximately 5.2% and approximately RMB250.3 million or approximately 48.6%, respectively, from electrical wires and cables and non-ferrous metal powder business upon reorganisation. On the contrary, revenue from hydroelectric generation equipment increased by approximately RMB59.1 million, or approximately 17.0%.

During the Period, gross profit for the power equipment segment was approximately RMB261.8 million, an increase of approximately RMB9.2 million or approximately 3.6%, as compared with approximately RMB252.6 million for the same period of 2013. The overall gross profit margin increased to approximately 8.4% for 2014 from approximately 7.3% for 2013, primarily due to the increase in the proportion of electrical wires and cables business, and the gross profit margin increased to approximately 7.2% for 2014 from approximately 6.7% for 2013.

Overall, the results for the power equipment segment for the year ended 31 December 2014 amounted to approximately RMB159.8 million, an increase of approximately RMB38.8 million or approximately 32.1%, as compared with approximately RMB121.0 million for the same period of 2013, primarily due to the improvement of the product structure of hydroelectric generation equipment and the increase in revenue from land transfer.

GENERAL MACHINERY

Revenue from the general machinery segment for the year ended 31 December 2014 was approximately RMB1,714.1 million, an increase of approximately RMB274.5 million or approximately 19.1% as compared with approximately RMB1,439.6 million for the same period of 2013, primarily due to the significant increase in the revenue from wind power rotor blades.

During the Period, gross profit for the general machinery segment was approximately RMB392.5 million, an increase of approximately RMB43.5 million or approximately 12.5% as compared with approximately RMB349.0 million for the same period of 2013. Gross profit margin slightly dropped to approximately 22.9% for 2014 from approximately 24.2% for 2013, mainly due to the intensified competition in the market and the decline in product prices.

Overall, the results for the general machinery segment for the year ended 31 December 2014 amounted to approximately RMB77.1 million, an increase of approximately RMB4.8 million or approximately 6.6%, as compared with approximately RMB72.3 million for the same period of 2013.

CNC MACHINE TOOLS

Revenue from the CNC machine tools segment for the year ended 31 December 2014 was approximately RMB882.3 million, a decrease of approximately RMB53.3 million or approximately 5.7%, as compared with approximately RMB935.6 million for the same period of 2013. The PTG UK, a subsidiary of the Company, achieved revenue of approximately RMB311.1 million during the Period, representing a decrease of approximately RMB51.4 million or approximately 14.2%, as compared to approximately RMB362.5 million for the year ended 31 December 2013. This was mainly attributable to the worldwide decrease in the production of and demand for screw rotors.

During the Period, gross profit for the CNC machine tools segment was approximately RMB161.3 million, a decrease of approximately RMB52.2 million or approximately 24.4%, as compared with approximately RMB213.5 million for the same period of 2013. Gross profit margin decreased to approximately 18.3% for 2014 from approximately 22.8% for 2013, primarily due to a decrease in production and sales volume, resulting in an increase in unit costs.

Management's Discussion and Analysis (Continued)

Overall, the results for the CNC machine tools segment for the year ended 31 December 2014 amounted to approximately RMB76.6 million, an increase of approximately RMB21.6 million or approximately 39.3%, as compared with RMB55.0 million for the same period of 2013. It was mainly driven by the increase in the revenue from land transfer.

TRADE BUSINESS

For the year ended 31 December 2014, the trade business segment recorded revenue of approximately RMB2,565.6 million, representing a decrease of approximately RMB11.9 million or approximately 0.5%, as compared with approximately RMB2,577.5 million for the same period of 2013.

During the Period, the gross profit for the trade business segment amounted to approximately RMB10.0 million, representing a decrease of approximately RMB4.7 million or approximately 32.0%, as compared with RMB14.7 million for the same period of 2013. The gross profit margin decreased to approximately 0.4% for 2014 from approximately 0.6% for 2013.

Overall, for the year ended 31 December 2014, the results attributable to the trade business segment amounted to approximately RMB7.8 million, representing a decrease of approximately RMB0.8 million or approximately 9.3% as compared with approximately RMB8.6million for the same period of 2013.

FINANCIAL SERVICES

For the year ended 31 December 2014, the financial services segment recorded revenue of approximately RMB86.9 million, representing an increase of approximately RMB20.9 million or approximately 31.7%, as compared to approximately RMB66.0 million for the same period of 2013.

During the Period, the gross profit for the financial services segment amounted to approximately RMB75.1 million, representing an increase of approximately RMB21.5 million or approximately 40.1%, as compared to approximately RMB53.6 million for the same period of 2013. The gross profit margin increased to approximately 86.4% in 2014 from approximately 81.2% in 2013, mainly due to the increase in revenue.

Overall, for the year ended 31 December 2014, the results of the financial services segment amounted to approximately RMB55.2 million, representing an increase of approximately RMB20.5 million or approximately 59.1%, as compared to approximately RMB34.7 million for the same period of 2013.

CASH FLOW

As at 31 December 2014, the cash and bank deposits (including restricted cash) of the Group amounted to approximately RMB1,887.5 million (31 December 2013: approximately RMB2,239.5 million), representing a decrease of approximately RMB352.0 million or approximately 15.7%, mainly due to the increase in the capital expenditure for environmental relocation.

During the Period, the Group had a net cash outflow from operating activities of approximately RMB27.4 million (for the year ended 31 December 2013: approximately RMB134.3 million), a net cash outflow from investing activities of approximately RMB379.3 million (for the year ended 31 December 2013: a net cash outflow of approximately RMB318.2 million), and a net cash outflow from financing activities of approximately RMB181.1 million (for the year ended 31 December 2013: a net cash outflow of RMB280.6 million). Directors believe that the Group is financially sound and has sufficient resources to meet its operating capital needs and fund any predictable capital expenditure.

TRADE AND OTHER RECEIVABLES

As at 31 December 2014, the trade receivables and other receivables assets of the Group totalled approximately RMB4,187.4 million, representing an increase of approximately RMB310.0 million, as compared with approximately RMB3,877.4 million as at 31 December 2013, primarily attributable to an increase in extended loans of approximately RMB186.4 million from the financial business and an increase of approximately RMB176.0 million in trade receivables due to the increase in revenue from wind power rotor blades. On the contrary, receivables from automobile parts and components as well as CNC machine tools decreased. Please refer to note 19 to the consolidated financial statements for detailed ageing analysis of the trade and bills receivables.

Management's Discussion and Analysis (Continued)

TRADE AND OTHER PAYABLES

As at 31 December 2014, the trade payables and other payables of the Group totalled approximately RMB4,230.1 million, representing an increase of approximately RMB401.7 million, as compared with approximately RMB3,828.4 million as at 31 December 2013, primarily due to an increase in the bills payable of wind power rotor blades of approximately RMB327.9 million and the increase in the deposits from financial business of approximately RMB194.6 million. On the contrary, the trade payables from automobile parts and components as well as CNC machine tools decreased. Please refer to note 27 to the consolidated financial statements for detailed ageing analysis of the trade and bills payables.

ASSETS AND LIABILITIES

As at 31 December 2014, the total assets of the Group amounted to approximately RMB13,634.6 million, representing an increase of approximately RMB784.3 million as compared with approximately RMB12,850.3 million as at 31 December 2013. Total current assets amounted to approximately RMB8,782.2 million, an increase of approximately RMB373.3 million as compared with approximately RMB8,408.9 million as at 31 December 2013, accounting for approximately 64.4% of total assets. However, total non-current assets amounted to approximately RMB4,852.4 million, representing an increase of approximately RMB411.0 million as compared with approximately RMB4,441.4 million as at 31 December 2013, and accounting for approximately 35.6% of total assets.

As at 31 December 2014, total liabilities of the Group amounted to approximately RMB7,383.6 million, representing an increase of approximately RMB419.6 million as compared with approximately RMB6,964.0 million as at 31 December 2013. Total current liabilities were approximately RMB5,420.3 million, an increase of approximately RMB480.1 million as compared with approximately RMB4,940.2 million as at 31 December 2013, accounting for approximately 73.4% of total liabilities. However, total non-current liabilities were approximately RMB1,963.3 million, representing a decrease of approximately RMB60.5 million as compared with approximately RMB2,023.8 million as at 31 December 2013, and accounting for approximately 26.6% of total liabilities.

As at 31 December 2014, net current assets of the Group were approximately RMB3,361.9 million, representing a decrease of approximately RMB106.8 million as compared with approximately RMB3,468.7 million as at 31 December 2013.

CURRENT RATIO

As at 31 December 2014, current ratio (the ratio of current assets to current liabilities) of the Group was 1.62:1 (31 December 2013: 1.70:1).

GEARING RATIO

As at 31 December 2014, by dividing the borrowing by the total capital, the gearing ratio of the Group was 28.5% (31 December 2013: 29.7%).

INDEBTEDNESS

As at 31 December 2014, the Group had an aggregate bank and other borrowings of approximately RMB2,495.0 million, representing an increase of approximately RMB8.9 million as compared with approximately RMB2,486.1 million as at 31 December 2013.

Borrowings repayable by the Group within one year were approximately RMB1,073.0 million, representing an increase of approximately RMB76.1 million as compared with approximately RMB996.9 million as at 31 December 2013. Borrowings repayable after one year were approximately RMB1,422.0 million, representing a decrease of approximately RMB67.3 million as compared with approximately RMB1,489.3 million as at 31 December 2013.

SECURED ASSETS

As at 31 December 2014, approximately RMB684.0 million of the Group was deposited with the banks with pledge or restricted for use (31 December 2013: approximately RMB447.2 million). In addition, certain bank borrowings of the Group were secured by certain land user rights, properties, plants and equipment and investment properties of the Group, and other assets of the Group, which had a net book value of approximately RMB231.9 million as at 31 December 2014 (31 December 2013: approximately RMB982.5 million).

CONTINGENT LIABILITIES

As at 31 December 2014, the Group had no significant contingent liabilities.

Management's Discussion and Analysis (Continued)

SIGNIFICANT EVENTS

Events in the Period

(1) Chongqing Water Turbine, a wholly owned subsidiary of the Company, disposed a land parcel of approximately 181,485 square meters to Chongqing Land Group at a consideration of RMB544,460,000, and Chongqing Machine Tools, a wholly owned subsidiary of the Company disposed a land parcel of approximately 278,572.7 square meters to Chongqing Land Group at a consideration of RMB752,148,000. For details, please refer to the circular of the Board published on the websites of the Hong Kong Stock Exchange and the Company on 30 April 2014.

(2) The resignation of Mr. Chen Xianzheng as an executive director and the appointment of Mr. Xiang Hu as an executive director to hold office from the date of the meeting until expiry of the term of the third session of the Board were approved at the 2013 annual general meeting of the Company held on 18 June 2014, at which, the Board was authorized to determine the remuneration of Mr. Xiang Hu pursuant to the remuneration standard for Directors passed at the 2012 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.

(3) The resignation of Mr. Yang Zhimin as an independent non-executive director and appointment of Mr. Liu Wei as an independent non-executive director to hold office from the date of the meeting until expiry of the term of the third session of the Board were approved at the first extraordinary general meeting in 2014 held on 29 September 2014, at which, the Board was authorised to fix the remuneration of Mr. Liu Wei pursuant to the remuneration standard for Directors passed at the 2012 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.

(4) The resignation of Mr. Liu Xing and Mr. Du Chengrong as an independent supervisor and appointment of Ms. Wu Yi and Mr. Huang Hui as an independent supervisor to hold office from the date of the meeting until expiry of the term of the third session of the Board were approved at the first extraordinary general meeting in 2014 held on 29 September 2014, at which, the Board was authorised to fix the remuneration of supervisors pursuant to the remuneration standard for Supervisors passed at the

2012 annual general meeting and to enter into a service agreement with them on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.

(5) The amendments to the remuneration package of the third session of directors were approved at the first extraordinary general meeting in 2014 held on 29 September 2014.

Save as disclosed above, the Company did not have any other significant discloseable events during the Period.

SUBSEQUENT EVENTS

The Group had no significant events after 31 December 2014.

CAPITAL EXPENDITURE

As at 31 December 2014, the total capital expenditure of the Group was approximately RMB679.1 million, which was principally used for environmental relocation, plant expansion, production technology improvement and equipment upgrade (31 December 2013: approximately RMB792.4 million).

CAPITAL COMMITMENT

As at 31 December 2014, the Group had capital commitments of approximately RMB490.6 million (31 December 2013: approximately RMB559.6 million) in respect of fixed assets and intangible assets.

RISK OF FOREIGN EXCHANGE

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

Management's Discussion and Analysis (Continued)

As at 31 December 2014, the bank deposits of the Group included HK dollar valued at approximately RMB0.07 million, US dollar valued at approximately RMB12.0 million, GBP valued at approximately RMB24.1 million and EUR valued at approximately RMB4.4 million (31 December 2013: HK dollar valued at approximately RMB0.07 million, US dollar valued at approximately RMB1.9 million, GBP valued at approximately RMB7.3 million, and EUR valued at approximately RMB3.4 million). Save as the aforesaid, the Group was not exposed to any significant risk of foreign exchange.

EMPLOYEES

As at 31 December 2014, the Group had a total of 13,878 employees (31 December 2013: 15,595 employees). The Group will continue the upgrade of its technical talent base, foster and recruit technical and management personnel possessed with extensive professional experiences, optimise the distribution system that links with the remunerations and performance reviews of our management and employees, improve training on safety so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

Directors, Supervisors and Senior Management

The following table sets out information regarding our Directors:

Name	Age	Position
Wang Yuxiang	53	Executive Director, Chairman
Yu Gang	50	Executive Director
Ren Yong	57	Executive Director
Xiang Hu	50	Executive Director
Huang Yong	52	Non-executive Director
Wang Jiyu	58	Non-executive Director
Yang Jingpu	59	Non-executive Director
Deng Yong	55	Non-executive Director
Lo Wah Wai	51	Independent Non-executive Director
Ren Xiaochang	58	Independent Non-executive Director
Jin Jingyu	49	Independent Non-executive Director
Liu Wei	50	Independent Non-executive Director

EXECUTIVE DIRECTORS

Mr. Wang Yuxiang, aged 53, has served as the Chairman, executive Director, chairman of the nomination committee and strategic committee of the Company since 18 June 2013. He joined the Parent Group and served as the chairman and Party Committee secretary since April 2013, and has also served as a director and chairman of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. since August 2013. Mr. Wang has over 30 years of experience in business and regional economic management. Mr. Wang served as the deputy director and a member of the Party Committee of Chongqing State-owned Assets Supervision and Administration Commission from June 2009 to April 2013 (and concurrently served as the Party Committee secretary of Chongqing Consultation Research Institute (重慶市諮詢研究院) from November 2011 to April 2013), the deputy director and a member of the Party group of Chongqing Economic and Information Technology Commission (重慶市經濟和信息化委員會) from March 2009 to June 2009, the deputy director and a member of the Party Group of Chongqing Economic Commission (重慶市經濟委員會) from April 2004 to March 2009 (during which he was delegated by three ministries and commissions including the Organization Department of the CPC Central Committee to take a temporary post as the deputy director of the Marketing Department of China Southern Power Grid from March to October 2006), the secretary of the Disciplinary Inspection Committee of China National Erzhong Group Co. from July 2000 to April 2004 (and concurrently served as the Party Committee secretary of Deyang Heavy Industry Park (德陽重工園區) from November 2000 to

Directors, Supervisors and Senior Management (Continued)

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

Mr. Yu Gang, aged 50, joined the Parent Group in September 2003, joined the Group in July 2007. Since October 2010, he has been the general manager of the Company, and has served as an executive Director of the Company since 30 December 2010. He serves as the Acting Chairman from 25 January 2013 to 18 June 2013. He has served as a director of the Parent Group since September 2003. Since May 2009, he has also been serving as a director and vice chairman at Chongqing Wanli New Energy Co., Ltd. (stock code: 600847.SH). In addition, Mr. Yu has concurrently been a director of Kunlun Financial Leasing Company Limited since August 2010. Mr. Yu has been a director and the chairman of Chongqing Cummins Engine Co., Ltd. since January 2011. He also serves as a director and vice chairman of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd since October 2012. Mr. Yu has over 20 years of experience in the government service and the management of large enterprises. He served as the vice president of the Parent Group from September 2003 to September 2010, and a non-executive Director of the Company from July 2007 to December 2010. Prior to joining the Company, Mr. Yu was the deputy mayor of Jiangjin Municipal Government from 2001 to 2003 in charge of industrial development of the municipality, the assistant to the mayor of Jiangjin Municipal Government and the section chief of Economic Committee and the minister of the political department of the Industry and Transportation Department from 1997 to 2001 in charge of the industry and economy of the municipality. Between 1989 and 1997, he was an officer in the political department of the Chongqing Municipality Industrial Transportation Department in charge of human resources management, and an officer in the Chongqing Machinery School from 1984 to 1989. Mr. Yu is a senior engineer who graduated from Chongqing Machinery Manufacturing School with a professional degree in machinery engineering in 1984 and from Chongqing Party School in 1997. He graduated from Southwest Normal School with a master's degree in business management in 2002. He also graduated from the college of online education (網絡學院) of Xiamen University with a college degree in business administration in July 2012, and from Xiamen University majoring in EMBA, with a master's degree in June 2013.

Mr. Ren Yong, aged 57, is a Vice General Manager of the Company, and serves as an executive Director of the Company since April 2013. He joined the Parent Group in February 1982 and the Group in March 2005. He has been the chairman and Party Committee secretary of Chongqing Heavy Vehicle Group Co., Ltd. since July 2005, and served as the chairman of Chongqing CAFF Automotive Braking & Steering System Co., Ltd. from March 2005 to December 2011. Mr. Ren has been a director and vice chairman of SAICIVECO HONGYAN Commercial Vehicle Co., Ltd (上汽依維柯紅岩商用車有限公司) since June 2007, a director of Chongqing Cummins Engine Co., Ltd. since October 2011, a director of Chongqing Power Transformer Co., Ltd (重慶變壓器有限責任公司) since October 2011, a director of Chongqing Pigeon Electric Wire & Cable Co., Ltd. since December 2011, a director of Chongqing ABB Transformers Co. Ltd. since March 2012 as well as the chairman of Chongqing Power Transformer Co., Ltd. (重慶變壓器有限責任公司) since August 2012. Mr. Ren has over 20 years of management experience in the automobile industry. He served as a director of the Parent Group from November 2004 to October 2013. From March 2003 to July 2005, he was the general manager, deputy secretary of Party Committee and director of Chongqing Heavy the Vehicle Group Co., Ltd., during which he concurrently served as the Party Committee secretary and director of Chongqing Hongyan Motor Co., Ltd., from January 2003 to July 2005, the chairman of Chongqing Heavy Vehicle Group Special Purpose Vehicle Co., Ltd. from June 2004. From December 2000 to March 2003, he served as deputy general manager and deputy secretary of Party Committee of Chongqing Heavy Vehicle Group Co., Ltd.. From February 1982 to November 1998, he was the deputy manager, head of the assembly division, director of manager office of a branch company of Sichuan Truck Plant. From November 1998 to December 2000, he was the deputy manager of such plant in charge of human resources, salary, education, forces and security, etc. Mr.

Directors, Supervisors and Senior Management (Continued)

Ren is a senior engineer who graduated from the Taiyuan Heavy Machinery Institute with a bachelor's degree in equipment and process in February 1982. From September 2002 to July 2008, he studied in and graduated from the Chongqing University with a master's degree in Business and Administration.

Mr. Xiang Hu, aged 50, an executive Director and the secretary of the Board of the Company, joined the Company in September 2012, and has served as an executive Director of the Company since June 2014 and the secretary of the Board of the Company since January 2014. In addition, he has served as a director of Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd. (重慶市北部新區機電小額貸款有限公司) since March 2013, a director of Chongqing Water Turbine Works Co., Ltd. and Chongqing Jiangbei Machinery Co., Ltd. since October 2012. Mr. Xiang has over 20 years of experience in government service and news media. From September 2012 to January 2014, he served as a Vice General Manager of the Company. He served as the deputy director of the Chongqing Intellectual Property Rights Bureau from November 2004 to September 2012, the president of the Modern Workers Newspaper (現代工人報報社) (now known as Chongqing Times) from January 2003 to November 2004, the deputy party secretary of Nanchuan, Chongqing from May 1998 to January 2003, the general manager of Chongqing News Development Company (重慶新聞發展公司) under Xinhua News Agency from July 1993 to May 1998, and a journalist of the Sichuan branch office of Xinhua News Agency from July 1986 to July 1993. Mr. Xiang graduated from the Department of Law of Southwest University of Political Science and Law in July 1986, from the Graduate School of Southwest University of Political Science and Law majoring in law of economy in June 1997, and from Nanyang Technological University, Singapore, majoring in managerial economics in July 2002.

NON-EXECUTIVE DIRECTORS

Mr. Huang Yong, aged 52, joined the Parent Group in July 1984. Since July 2007, he has been a non-executive Director of the Company. Mr. Huang has been a director and the president of the Parent Company since 2004. Since January 2011, Mr. Huang has concurrently served as the chairman of Chongqing General Aviation Industry Group Co., Ltd. (重慶通用航空產業集團有限公司). Since January 2013, he has concurrently served as the chairman of Enstrom Helicopter Corporation (美國恩斯特龍直升機公司). He is also served as a Director of Chongqing Jin Tong Scrap Car Recycling (Group) Co., Ltd. (重慶市金通報廢汽車回收處理(集團)有限公司) since March 2014. Mr. Huang has over 20 years of experience in the automobile industry. He was the general manager of Chongqing General Aviation Industry Group Co., Ltd. (重慶通用航空產業集團有限公司) from January 2011 to May

2013, and the vice chairman and general manager of Chongqing Hongyan Motor Co., Ltd from 2003 to 2004. From 2000 to 2004, Mr. Huang was the general manger and thereafter the chairman of Chongqing Heavy Vehicle Group Co., Ltd. From 1996 to 2000, he was the deputy plant manager of Sichuan Automobile Manufacturing Plant, and from 1984 to 1996, he worked in Sichuan Automobile Manufacturing Plant. Mr. Huang is a senior engineer and a tutor of postgraduate of Chongqing University of Technology. He graduated from Hunan University with a bachelor's degree in automobile manufacturing in 1984 and obtained his master's degree in engineering from Chongqing University in 2000.

Mr. Wang Jiyu, aged 58, has been the non-executive Director of the Company since December 2010. He joined the Parent Group in December 1980, and has been the vice president and a member of the Party Committee of the Parent Company since October 2001.He has been serving as a director and vice chairman of Chongqing Lifan Automobile Co., Ltd. since May 2004 and a director and vice chairman of Chongqing Electric Machine Federation Ltd. since October 2007 and June 2010 respectively. He has been the chairman of Chongqing Communications, Transport, Electromechanical & Logistics Co., Ltd. since March 2011. He has also been the chairman of ChongQing XiTong Electric Co., Ltd. since October 2014. Mr. Wang has over 20 years of experience in business management. He was an assistant to president and head of the economic operation department at the Parent Company from August 2000 to October 2001, in charge of economic operation, safety and hygiene, labour and salaries as well as comprehensive statistics. From November 1984 to August 2000, he served at Chongqing Municipal Machinery Industry Bureau as secretary of the organization and personnel division, deputy secretary of the communist youth league, deputy director of the enterprise management division and deputy director of the general production division (in charge of operation) in tandem. Mr. Wang was the deputy secretary of the Work Committee of Communist Youth League of Chongqing Engineering & Mining Machinery Industry Company (重慶工程礦山機械工業公司) from October 1982 to November 1984 and a teacher at the Technical School of Chongqing Mining Machine Factory (重慶礦山機器廠技校) from December 1980 to October 1982. Mr. Wang is a senior economist who graduated from the Correspondence Institute of the Party School of C.C. of C.P.C. with a diploma is economic management in June 1988. He obtained a bachelor degree in Business Administration from Xiamen University in 2014, and is currently attending an EMBA course in Xiamen University.

Directors, Supervisors and Senior Management (Continued)

Mr. Yang Jingpu, aged 59, joined the Company in August 2007 and has been a non-executive Director of the Company since then. Since May 2010, Mr. Yang has been the chairman and the general manger of Chongqing Construction Engineering Holdings Investment Co., Ltd. (重慶建工控股投資有限公司) and the chairman of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司), in charge of board matters, strategic planning and investment. Mr. Yang has over 15 years of experience in managing large enterprises. Mr. Yang was the chairman and the general manager of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團有限責任公司) from July 2007 to May 2010. Mr. Yang was the general manager of Chongqing Coal Group from 2004 to 2007 responsible for general management and was the deputy director of Chongqing City Coal Industrial Bureau from 2001 to 2004 in charge of restructuring and reformation, operational and administrative management. From 1992 to 2001, Mr. Yang was the deputy director and thereafter, director of Chongqing City Songzao Mining Bureau in charge of coal production, safety, sales and finance. Mr. Yang is a senior economist and a senior engineer. He graduated from Jiaozuo Coal Academy with a bachelor's degree in industrial management engineering in 1988 and a master's degree in mining engineering from Chinese University of Mining and Technology in 2001.

Mr. Deng Yong, aged 55, is the chief financial officer of Chongqing Yufu Assets Management Co., Ltd. He joined the Company with the position of non-executive Director since April 2013. He has served as a non-executive director of Bank of Chongqing Co., Ltd. (1963.HK) since February 2013 and a director of Chongqing Chuanyi Automation Co., Ltd. since April 2013. Mr. Deng Yong has over 20 years of experience in the financial industry. He served as a president assistant and the general manager of the planning and financial department of the Southwest Securities Co., Ltd (600369.SH) from August 2008 to April 2012, a general manager assistant and the manager of the financial department of Chongqing Yufu Assets Management Co., Ltd. from March 2004 to August 2008, deputy general manager of the Linjiang Road and Jiulongpo Divisions of China Galaxy Securities Co., Ltd. from September 2000 to March 2004, deputy general manager of the Chongqing Securities Division of China Cinda Trust & Investment Company (中國信達信託投資公司重慶證券營業部) from June 1997 to September 2000 (he was seconded to work for the work group of red chips of Chongqing Municipal Government (重慶市政府紅籌股工作小組) from September 1997 to June 1998), the manager of the securities investment department of Chongqing Trust & Investment Company (重慶市信託投資公司) from September 1992 to June 1997 and an employee at the Chongqing branch of the China Construction Bank from July 1988 to September 1992. Mr. Deng Yong is an engineer graduated from Chongqing University with a bachelor's degree in Applied Mathematics in July 1982. He studied and obtained a Master of Science degree majoring in econometrics from the Applied Mathematics Faculty of Chongqing University from September 1986 to July 1988.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Wah Wai, aged 51, joined our Company in January 2008 and has been an independent non-executive Director of the Company and the chairman of our Company's audit committee since January 2008. He had more than eight years of experience in auditing and business consulting services in an international accounting firm, two years of which were spent in the United States. Mr. Lo was an independent non-executive director of Far East Pharmaceutical Technology Limited (stock code: 399.HK) in September 2004. A petition was filed on 15 September 2004 to wind up Far East Pharmaceutical Technology Limited in respect of the default of a syndicated bank loan and since then, liquidators have been appointed. Mr. Lo was not involved in the arrangement of the syndicated bank loan and his appointment was made after the said default had occurred. Mr. Lo is also an independent non-executive director of Tenfu (Cayman) Holdings Company Limited (stock code: 6868.HK). He has served as an independent non-executive director of Chongqing Medicines (Group) Co., Ltd. (重慶醫藥(集團)股份有限公司) since July 2012. He is a practising member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lo graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration in 1986 and New Jersey Institute of Technology, the U.S., with a master's degree in science in 1992.

Mr. Ren Xiaochang, aged 58, joined the Company in July 2007 and has been an independent non-executive Director of the Company and the chairman of our remuneration committee since then. He is currently the chairman and legal representative of China Automotive Engineering Research Institute Co., Ltd. (stock code: 601965.SH). Mr. Ren has over 30 years of experience in the automobile industry. Mr. Ren has been with Chongqing Research Institute of Automobile (renamed as China Automotive Engineering Research Institute Co., Ltd.) since January 1982 and once served as the deputy director of Car Design Department, vice chief, chief, the vice chairman, general manager (superintendent), chairman and deputy secretory to the Party Committee of it in charge of operational management, strategic planning, human resources and assets management, etc. Mr. Ren is also currently an independent director of China Chang'an Automobile Group Co., Ltd. in charge of matters relating to the board of directors. Mr. Ren graduated from Hunan University with a bachelor's degree in engineering in 1982 and the Management School of Wuhan University of Technology with a master's degree in business administration in 2004. Mr. Ren is a senior engineer of researcher's grade, an expert of Machinery Industrial Scientific Technology Specialist of the PRC and an expert with special allowance from the State Council.

Directors, Supervisors and Senior Management (Continued)

Mr. Jin Jingyu, aged 49, joined the Company in June 2012 and has served as an independent non-executive Director of the Company since June 2012. He has been serving at Chongqing Technology and Business University as the Chairman of the Academic Council of the School of Finance, and professor of finance and tutor of postgraduate since March 2009. He has served as an independent non-executive director of Bank of Chongqing Co., Ltd.* (1963. HK) since March 2014. Mr. Jin joined the Chonging Technology and Business University (known as Chongqing Business School before 2003) in May 1997 and served as the deputy director of the Finance and Investment Department from March 2000 to March 2001 and an associate professor and professor of finance from November 2000 to November 2005. He studied in the Mathematics Department of Henan University from September 1988 to July 1992 as an undergraduate student; studied in the University of Science and Technology of China majored in management science from September 1992 to July 1995 and received a master's degree in engineering; studied in the Southwest Jiaotong University majored in management science and engineering from March 2003 to January 2007 and received a doctor's degree in management. Mr. Jin held several concurrent posts as follows: from September 1997 to September 2002, a business director of the Financing Service Company (融資服務公司) and general manager of the 1st Business Department of Dapeng Securities Company Limited (大鵬證券有限責任公司); from July 2002 to June 2003, a director and secretary to the board of directors of Southwest Synthetic Pharmaceutical Co., Ltd. (西南合成製藥股份公司) (Stock code: 000788.SZ); from January 2006 to March 2010, a director and secretary to the board of directors of Chongqing Wanli New Energy Co., Ltd. (stock code 600847.SH, formerly known as Chongqing Wanli Storage Batteries Co., Ltd. (重慶萬里蓄電池股份有限公司)); from June 2005 to February 2010, the chairman of Chongqing Tiandi Pharmaceutical Co., Ltd. (重慶天地藥業有限公司). Mr. Jin Jingyu is now a member of Guiding Committee on Education of Financial Majors in Universities and Colleges of Ministry of Education (教育部高等學校金融學類專業教學指導委員會), a member of the China Investment Professional Construction Committee (中國投資專業建設委員會), a member of the Enterprises Operations Branch of the Operations Research Society of China, adjunct researcher of the Research Center of the Economy of the Upper Reaches of Yangtze River (a major research center of humanities and social science of the Ministry of Education), a member of the Evaluation Committee of Professional Titles, the Teaching Steering Committee and the School of Economics of Chongqing Technology and Business University.

Mr. Liu Wei, aged 50, has served as an independent non-executive director since September 2014. He is currently the head, professor and PhD candidate supervisor of the Business Management Department of the School of Economics and Business Administration of Chongqing University, the vice head of Business Administration and Economics

Development Research Centre of Chongqing University. He has concurrently served as an independent director of Chongqing Zaisheng Technology Company Limited (重慶再升科技股份有限公司) (603601.SH), Chongqing Guidance Fund for Technology Innovative Industries Venture Investment Co., Ltd (重慶科技創業風險投資引導基金有限公司) and Chongqing Technology Venture Investment Co., Ltd (重慶科技風險投資有限公司), an independent director of Chongqing Iron & Steel (Group) Company Limited and Chongqing Landscaping Construction Investment (Group) Company Limited (重慶園林綠化建設投資(集團)有限公司), and a member of Investment Decision-making Committee of Shanghai Zhongwei Venture Capital Fund (上海中衛創業風險投資基金). Mr. Liu served in Chongqing University since July 1990. He once served as the lecturer, associate professor and assistant to the head of department for Department of Mechanical Engineering, professor of College of Mechanical Engineering, and vice chief of the Industrial Engineering Research Institute. Mr. Liu graduated from Chongqing University with a bachelor's degree in Mining Machinery in July 1984, graduated from Chongqing University with a master's degree in Mechanics in July 1987, and graduated from Chongqing University with a doctorate degree in Mechanical Design and Theory in July 1990. He also conducted post-doctoral research in the University of Manchester Institute of Science and Technology from September 1996 to October 1997. He completed the training for independent directors of listed company by the Securities Association of China in December 2002.

SUPERVISORS

The following table sets out information regarding our Supervisory Committee:

Name	Age	Position
Yang Mingquan	60	Supervisor and Chairman of Supervisory Committee
Wang Pengcheng	47	Supervisor
Wu Yi	41	Independent Supervisor
Huang Hui	44	Independent Supervisor
Chen Qing	59	Employee Supervisor
Zhao Zicheng	44	Employee Supervisor

Directors, Supervisors and Senior Management (Continued)

Mr. Yang Mingquan, aged 60, has served as the Supervisor and Chairman of Supervisory Committee since April 2013. He has been the supervisor of Chongqing Qineng Aluminium Co., Ltd. (重慶旗能電鋁有限公司) since October 2012. Mr. Yang has over 30 years of experience in corporate management. From October 2012 to May 2014, he served as the chairman of the supervisory committee of the Parent Company and a supervisor of Chongqing Foreign Trade and Economic Cooperation (Group) Co., Ltd. (重慶外經貿集團有限公司). He served as the vice president of the Parent Company from October 2001 to September 2012. Mr. Yang was the director of Chongqing Changke Urban Rail Transit Vehicle Co., Ltd. (重慶長客城市軌道交通車輛有限責任公司) from February 2009 to October 2012 (during this period, he was the chairman of board of directors of Chongqing Changke Urban Rail Transit Vehicle Co., Ltd. from May 2010 to October 2012). He was a director and chairman of board of directors of Chongqing Machinery and Electric Holding (Group) Engineering Technology Co., Ltd. (重慶機電控股集團機電工程技術有限公司) from February 2010 to October 2012, and a director and chairman of the board of directors of Chongqing Machinery and Electric Holding (Group) Forging Co., Ltd. (重慶機電控股集團鑄造有限公司) from November 2010 to October 2012. He served as a director and vice chairman of Chongqing ABB Power Transformer Co., Ltd. from January 2004 to July 2007. He also served as the president assistant and the head of the planning and development department of the Parent Company from August 2000 to October 2001, the chief of the technology department of the Chongqing Machinery and Industrial Management Bureau (the predecessor of the Parent Company) from May 1991 to August 2000 and an engineer at the Chongqing Machinery and Industrial Management Bureau from July 1983 to May 1991. Mr. Yang is a professor-level senior engineer. He graduated from the Chongqing Machinery School in September 1976 majoring in machine manufacturing and from Yuzhou University (now known as Chongqing Technology and Business University) in September 1983 with a bachelor's degree in engineering.

Mr. Wang Pengcheng, aged 47, has served as a Supervisor of the Company since April 2013. He is a member of the Party Committee and deputy general manager of the Chongqing office of China Huarong Asset Management Co., Ltd. He has been a director of Chongqing Construction Engineering Group Co., Ltd. since August 2009 and the vice chairman and the Chief Supervisor of Southwest Aluminum (Group) Co. Ltd. (西南鋁業集團公司) respectively since May 2012. Mr. Wang Pengcheng is an economist with over 24 years of experience in finance. He acted as the senior deputy manager, senior manager and assistant to general manager of the Chongqing office of China Huarong Asset Management Co., Ltd. from January 2000 to August 2012, an accountant, head of the office of personnel, deputy chief of the personnel department, deputy chief of the organization department of the Chongqing branch of Industrial and Commercial Bank of China from July 1992 to December 1999. Mr. Wang Pengcheng graduated from Lanzhou University with a bachelor's degree in executive management in 1990 and obtained the MBA degree at Chongqing University in December 2013.

Ms. Wu Yi, aged 41, has been an independent supervisor of the Company since September 2014. She is currently the director of Chongqing Bestone Law Firm (重慶百事得律師事務所), a member of Chongqing Lawyers Association and the Specially-invited Member of the fourth Committee of Chinese People's Political Consultative Conference of Chongqing. Ms. Wu once served as the lawyer of Chongqing Dongfanglianhe Law Firm (重慶東方聯合律師事務所), Chongqing Zhongzhu Law Firm (重慶中柱律師事務所) and Chongqing Branch of Beijing Kaiwen Law Firm (北京凱文律師事務所重慶分所) from August 1997 to April 2008. Ms. Wu studied at the School of Economic Law of Southwest University of Political Science and Law from September 1993 to July 1997 and graduated with a bachelor's degree and at the Graduate School of Southwest University of Political Science and Law from September 2003 to July 2006 and graduated with a master's degree in Laws. She studied at Peking University HSBC School of Business from September 2008 to July 2009 and graduated with a master's degree in Finance.

Mr. Huang Hui, aged 44, has been an independent supervisor of the Company since September 2014. He is currently a professor, a tutor of postgraduates in School of Accountancy, and a director of the Department of Financial Management of Chongqing Technology and Business University. Mr. Huang was once a teacher in No.2 Senior High School in Xinxian County of Henan Province (河南省新縣第二高級中學) from September 1991 to July 1998. Since July 2002, he worked in School of Accountancy of Chongqing Technology and Business University. Mr. Huang graduated from the Department of Physics of Luoyang Normal College with a junior degree in 1991. He graduated from the Department of Politics and Laws of Henan College of Education (河南教育學院) with a bachelor's degree in 1996. He graduated from School of Economics and Management of Wuhan University of Technology with a master's degree in 2002. He graduated from the Management College of Huazhong University of Science and Technology with a doctor's degree in 2009. He was a visiting scholar in University of Missouri in US from April to May in 2010 and in the School of Economics and Management of Tsinghua University from September 2011 to July 2012. He completed his post-doctoral research in the Research Institute for Fiscal Science of the Ministry of Finance in 2013.

Directors, Supervisors and Senior Management (Continued)

Mr. Chen Qing, aged 59, has been an Employee supervisor of the Company since June 2010. He joined the Parent Group and the Group in June 1985. He has been the chairman and Secretary of the Party Committee of Chongqing Pump Industry Co., Ltd. since November 2002. Mr. Chen has over 20 years of experience in the industrial pump research and development and manufacturing industry. Mr. Chen served as the chairman of Chongqing General Industry (Group) Co., Ltd. and the chairman of Chongqing Pump Industry Co., Ltd. from September 2007 to February 2010. From November 2002 to September 2007, Mr. Chen was the general manager of Chongqing Pump Industry Co., Ltd. (formerly known as Chongqing Pump Plant). From June 1985 to September 2002, he was the deputy department chief, deputy plant manager and plant manager of Chongqing Pump Plant. From August 1982 to June 1985, he worked in the Guizhou Mountain Land Agricultural Machinery Research Institute (貴州山地農機研究所). From June 1978 to September 1978, he worked in the Chongqing Architectural Design Institute. From January 1976 to May 1978, he served in the Chinese People's Liberation Army. Mr. Chen is a senior engineer who graduated from Central China College of Technology (華中工學院) with a bachelor's degree in engineering, majoring in hydro power in August 1982. He completed the Senior Management Programme of the School of Economics and Management of Tsinghua University from February 1995 to July 1995.

Mr. Zhao Zicheng, aged 44, has served as an Employee Supervisor since April 2013. He is the chairman and secretary of the Party Committee of Chongqing Water Turbine Works Co., Ltd., the Company's wholly-owned subsidiary. Mr. Zhao Zicheng is a professor-level senior engineer with over 20 years of experience in engineering technology. He served as the general manager of Chongqing Pump Industry Co., Ltd. and a director and deputy general manager of Chongqing General Industry (Group) Co., Ltd. (both being the Company's wholly-owned subsidiaries) from October 2007 to January 2010, executive deputy general manager and member of the Party Committee of Chongqing Pump Industry Co., Ltd. from May 2003 to September 2007, deputy general manager of Chongqing Pump Industry Co., Ltd. from July 1998 to May 2003, technician at the tool workshop and second workshop and deputy chief and chief of the technique division of Chongqing Pump Plant from August 1991 to June 1998. Mr. Zhao Zicheng graduated from the Environmental and Chemical Engineering Institute of Chongqing University with a master of engineering degree in environmental engineering in July 2005 and from Southwest Jiaotong University in July 1991 with an associate degree in machine manufacturing process and equipment. He has been taking EMBA courses in Xiamen University since September 2011.

SENIOR MANAGEMENT

The following table sets out information regarding our senior management officers:

Name	Age	Position
Yu Gang	50	General Manager
Ren Yong	57	Vice General Manager
Xiang Hu	50	Secretary to the Board
Duan Caijun	50	Vice General Manager
Yang Quan	50	Vice General Manager
Chen Yu	45	Vice General Manager
Liu Yonggang	50	Vice General Manager
Kam Chun Ying	48	Qualified Accountant

Mr. Yu Gang, aged 50, is an executive Director and the General Manager of the Company. For details regarding Mr. Yu's experience, please refer to "Executive Directors" set out above.

Mr. Ren Yong, aged 57, is an executive Director and Vice General Manager of the Company. For details regarding Mr. Ren's experience, please refer to "Executive Directors" set out above.

Mr. Xiang Hu, aged 50, is an executive Director and the secretary of the Board of the Company. For details regarding Mr. Xiang's experience, please refer to "Executive Directors" set out above.

Mr. Duan Caijun, aged 50, is a Vice General Manager of the Company. He joined the Parent Group in July 1987. Mr. Duan has concurrently served as a director and vice chairman of Exedy (Chongqing) Driving System Co., Ltd. (愛思帝 (重慶) 驅動系統有限公司) since April 2011, a director of Chongqing Machine Tool (Group) Co, Ltd (重慶機床(集團)有限責任公司) since December 2011, and a director of Qijiang Gear Transmission Co., Ltd. from December 2012. Mr. Duan has over 20 years of experience in enterprise management. He served as the chairman and general manager of Chongqing Pigeon Electric Wires & Cables Co., Ltd. (重慶鴿牌電線電纜有限公司) from March 2001 to December 2011. From October 1998 to June 2003, he served as the general manager of Chongqing Electric Wire & Cable Co., Ltd. (重慶電線電纜有限責任公司). From July 1997 to October 1998, he was deputy general manager and general manager of Chongqing Electric Wire & Cable Co., Ltd.. From August 1995 to July 1997, He was deputy general manager of Chongqing Electricity

Directors, Supervisors and Senior Management (Continued)

Wire Plant (重慶電線總廠). From June 1992 to August 1995, he was the general manager of Chongqing Jiatai Enamelled Wire Company Limited (重慶嘉泰漆包線有限責任公司). Mr. Duan is a senior engineer. He graduated from Department of Electronic Engineering of Wuhan Institute of Technology with a bachelor's degree in July 1987 and from MBA Institute of Chongqing University with a MBA degree in 2003. He graduated from Senior MBA program Class No. 61 of College of Economics and Management of Tsinghua University in 2008, and obtained Senior Professional Manager Certificate in 2009. He studied for EU-China Business Development Certificate Program, which was jointly provided by Frankfurt School of Finance and Management and China Europe International Business School in 2010, and studied for EMBA in Xiamen University from November 2010. Mr. Duan currently serves as vice chairman of Chongqing Volunteers Association. Mr. Duan is a model worker of Chongqing City, winner of Chongqing "May 1st" labor medal, winner of the sixth contest for Top Ten Outstanding Young Entrepreneurs of Chongqing City, and the eight session of Chongqing Youth "May 4th" medal. He was the deputy of the third session of Chinese Party Committee in Chongqing and the deputy of the third session of Chongqing People's Congress. He was also recognised as a Paragon of Moral Rectitude of Chongqing and winner of an Honourable Mention Award in the first selection of National Paragon of Moral Rectitude.

Mr. Yang Quan, aged 50, Vice General Manager of the Company, has served as a Vice General Manager of the Company since May 2012. He has been a director of Chongqing Youyan Smelting New Material Co., Ltd. (重慶有研重冶新材料有限公司) since July 2014. He concurrently serves as a director of Chongqing Hongyan Fangda Automotive Suspension Co., Ltd. (重慶紅岩方大汽車懸架有限公司) from June 2013 up to now and a director of Precision Technology Investment and Development Co., Ltd. (精密技術投資發展有限公司) from April 2012 up to now, a director of Chongqing Huahao Smelting Co., Ltd. and Chongqing Gas Compressor Factory Co., Ltd. from December 2011 up to now, and an executive director and general manager of Chongqing Shengpu Materials Co., Ltd. from December 2011 up to now. Mr. Yang has over 20 years of experience in enterprise management, once served as the manager and assistant to general manager of the business management department of the Company from August 2007 to May 2012, the head of the economic operation department and head of the business management department of the securities work steering team of Chongqing Machinery and Electronics Holding (Group) Co., Ltd. from March 2004 to August 2007, the party branch secretary of the foundry workshop, deputy director of the ""five-initiative" reform office, secretary and deputy director of the hot plate workshop, chief of the equipment division, managing factory director, and chief economist of Chongqing No. 2 Machine Tools Factory (重慶第二機床廠) from July 1987 to March 2004. Mr. Yang is an engineer; he graduated from the College of Mechanical Engineering of Sichuan University with a bachelor's degree in foundry in July 1987, and studied for EMBA in Xiamen University from November 2011.

Mr. Chen Yu, aged 45, is a Vice General Manager of the Company. He joined the Group in July 1991. He has served as a Vice General Manager of the Company since June 2013. He has also served as a supervisor of Chongqing Water Turbine Works Co., Ltd., Qijiang Gear Transmission Co., Ltd., Chongqing CAFF Automotive Braking Co. Ltd. (重慶卡福汽車制動有限公司), Chongqing Shengpu Materials Co., Ltd. from December 2012 up to now. He concurrently serves as the financial controller of Chongqing Power Transformer Co., Ltd. (重慶變壓器有限責任公司) from March 2012 up to now. Mr. Chen serves as a supervisor and chairman of the supervisory committee of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. from January 2013 up to now. He has served as a director of Precision Technologies Group Limited from June 2013 up to now. Mr. Chen has more than 20 years' financial management experiences and once served as the manager of Financial Department, vice financial controller of the Company from December 2007 to June 2013. He served as the financial controller of Chongqing Machine Tools Group from December 2005 to December 2007, and held the positions of an accountant, deputy director of the financial section, assistant to the general accountant, general accountant and etc. of Chongqing No. 2 Machine Tools Factory (重慶第二機床廠) from July 1991 to December 2005. Mr. Chen graduated from the Trading Department of Southwestern University of Finance and Economics, majoring in price theory in June 1991 with a bachelor degree in economics. He has studied for EMBA in Xiamen University since July 2013.

Mr. Liu Yonggang, aged 50, has served as a Vice General Manager of the Company since January 2014 and a director of Chongqing Pump Industry Co., Ltd. (重慶水泵廠有限責任公司) since April 2014. He has concurrently served as a director of Chongqing Machinery and Electronics Holding (Group) Co., Ltd. from August 2013 up to now, the vice chairman of Chongqing Midea General Refrigeration Equipment Co., Ltd. (通用製冷設備有限公司) from January 2012 up to now, the chairman of Da'an Chenfei Wind-Power Equipment Co., Ltd. from September 2011 up to now, and the chairman of Chongqing General Industry (Group) Co., Ltd. from December 2011 up to now. Mr. Liu has over 20 years' experiences in corporate operation and management. He served as a general manager and secretary to the Party Committee of Chongqing General Industry (Group) Co., Ltd. from January 2006 to January 2014. From July 1988 to December 2005, he worked in Chongqing Machine Tools Plant Co., Ltd., holding the positions of cadre in the Safe Technology and Environmental Protection Office, General Office, Restructuring Management Office, the deputy executive and executive of Labour and Personnel Department, the deputy director in charge of personnel

Directors, Supervisors and Senior Management (Continued)

and education, the deputy secretary to the Party Committee, secretary to the discipline and inspection committee, the deputy director, secretary to the Party Committee. Mr. Liu is a senior economist, engineer, who graduated from Southwest Agriculture University, major in gardening in July 1988 with a bachelor degree in agronomy. From May 1998 to August 1998, he participated in the "Training Course for State-owned Enterprises Cadres" held by Chongqing Municipality Industrial Transportation Department. He participated in the business administration training course of Tsinghua University from February 2002 to June 2002, and a business administration training held by the China Europe International Business School in 2010. He has been taking EMBA courses in Xiamen University since December 2011.

Mr. Kam Chun Ying, Francis, aged 48, has been appointed as the qualified accountant of our Company since February 2008. He has served as the chief risk officer of Precision Technologies Group (PTG) Limited of UK since July 2013. Prior to joining the Company, Mr. Kam was the financial controller of TFH Management Limited, and was responsible for finance operations and corporate compliance in both the private and listed companies within that group. Between August 1986 and April 1989, Mr. Kam worked for Deloitte Touche Tohmatsu, previously known as Deloitte Haskins Sells, as a senior account assistant. He has over 20 years of experience in corporate and finance management. He has been a member of the Hong Kong Institute of Certified Public Accountants since June 1996 and a fellow of the Chartered Association of Certified Accountants since June 2001. Mr. Kam graduated from Heriot-Watt University in the United Kingdom in November 2004 with a master's degree in business administration.

Report of the Board of Directors

The Board is pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December 2014.

PRINCIPAL BUSINESS

The Group is principally engaged in designing, manufacturing and sales of automobile parts and components, power equipment, general machinery, CNC machine tools and trade & finance business. The principal businesses of its major subsidiaries are set out in Note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2014 are set out in the consolidated statement of comprehensive income in this annual report on pages 115 to 117.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.046 per share (tax inclusive) for the year ended 31 December 2014 (for the year ended 31 December 2013: RMB0.05 per share), which is calculated based on the total share capital of 3,684,640,154 shares for the year ended 31 December 2014, totalling RMB169,493,447.08 (totalling RMB184,232,007.70 for the year ended 31 December 2013). Subject to approval by shareholders at the Annual General Meeting to be convened on 18 June 2015, the proposed final dividend will be paid on or around 31 July 2015 to shareholders whose names appear on the Register of Members of the Company on 29 June 2015 ("Record Date").

In order to ascertain the entitlements of the shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Wednesday, 24 June 2015 to Monday, 29 June 2015 (both days inclusive), during which period no transfer of shares will be registered. All transfer documents accompanied by share certificates of the holders of H Shares of the Company must be lodged at our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 23 June 2015.

Report of the Board of Directors (Continued)

WITHHOLDING OF ENTERPRISE INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS

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

Any H shares registered in the name of non-individual shareholders will be treated as being held by non-resident corporate shareholders and hence the dividends payable to them will be subject to the withholding of enterprise income tax. Non-resident corporate shareholders may apply to the relevant taxation authorities for tax refunds in accordance with the applicable tax treaty (if any). The final dividends payable to natural person shareholders whose names appear on H Share Register of Members on the Record Date is not subject to the withholding of 10% enterprise income tax by the Company. For dividends payable to resident corporate shareholders whose names appear on H Share Register of Members on the Record Date, the Company will not withhold enterprise income tax on such dividends, provided that a legal opinion is provided by a resident corporate shareholder within the prescribed time period and confirmed by the Company.

If any resident enterprise (as defined in the EIT Law) whose name appears on the H Share Register of Members which is duly incorporated in the PRC or under the laws of a foreign country (or a territory) but with a PRC-based de facto management body does not wish to have the 10% enterprise income tax to be withheld by the Company, it should lodge all transfers with and submit a legal opinion issued by a PRC certified lawyer (with affixation of common seal of the law firm thereto) that establishes its resident enterprise status to the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 23 June 2015. Any natural person investor whose H shares are registered in the name of any such non-individual shareholders and who does not wish to have any enterprise income tax to be withheld by the Company, may consider transferring the legal title of the relevant H shares into his or her own name and lodging all relevant transfer instruments accompanied by the H share certificates with the Company's H Share Registrars for registration no later than 4:30 p.m. on 23 June 2015. Shareholders are recommended to consult their tax advisors regarding tax issues in respect of the ownership and disposal of H shares in the PRC and Hong Kong and other tax effects.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements of the shareholders to attend and vote on the Annual General Meeting, the register of members of the Company will be closed from Tuesday, 19 May 2015 to Thursday, 18 June 2015 (both days inclusive), during which period no transfer of shares will be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 18 May 2015.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31 December 2014, equity attributable to the shareholders of the Group amounted to approximately RMB5,844.5 million (31 December 2013: approximately RMB5,518.8 million), representing an increase of approximately RMB325.7 million or approximately 5.9%. During this Period, the Group's working capital was mainly internal working capital flow. As at 31 December 2014, the Group's gearing ratio (calculated as borrowings divided by total capital, total capital comprises equity and borrowings as shown in the consolidated balance sheets) was approximately 28.5% (31 December 2013: approximately 29.7%). The Group's current ratio (being the current assets as a percentage of current liabilities) was approximately 1.62 (31 December 2013: approximately 1.70:1).

As at 31 December 2014, cash, bank balances and time deposits (including restricted cash) were approximately RMB1,887.5 million, indicating a healthy financial position (31 December 2013: approximately RMB2,239.5 million).

FINANCIAL HIGHLIGHTS

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

INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group invested approximately RMB679.1 million in acquisition of non-current assets, such as property, plant and equipment, etc. for business expansion (for the year ended 31 December 2013: approximately RMB792.4 million). Details of the changes in investment properties, property, plant and equipment of the Group and the Company during this year are set out in Note 16 and Note 17 to the consolidated financial statements respectively.

SHARE CAPITAL

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

There was no change in the share capital of the Company as at 31 December 2014, details of which are set out in Note 25 to the consolidated financial statements.

BONDS

Details of the changes in bonds of the Company during the year under review are set out in Note 29 to the consolidated financial statements.

RESERVES

Details of changes in reserves of the Group and the Company during the year under review are set out in Note 26 to the consolidated financial statements.

CHARITY DONATIONS

During the Period, the Group's charity donation amounted to approximately RMB0.35 million (for the year ended 31 December 2013: approximately RMB0.24 million).

MAJOR CUSTOMERS AND SUPPLIERS

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

Chongqing Xinnanjie Aluminum Co., Ltd. (重慶新南傑鋁業有限公司)	5.26%
CSIC (Chongqing) Haizhuang Windpower Equipment Co., Ltd.	3.46%
Beijing Wanyuan Industrial Company Limited（北京萬源工業有限公司）	2.12%
Chongqing Electric Wire Plant Co., Ltd.（重慶電線廠有限公司）	2.07%
Zhengzhou Yutong Bus Co., Ltd	2.06%
Total amount of the top five customers	14.97%

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

Set out below are costs expensed for purchase of products and services from major suppliers as a percentage of the Group's total cost of sales during the reporting period:

Shenzhen Sitewai Industrial Co., Ltd. (深圳市斯特威實業有限公司)	5.99%
Chongqing Zhuoyue Industrial Development Co,, Ltd.	5.97%
A'ba Aluminum Plant（阿壩鋁廠）	3.91%
Gansu Jinyu Materials Co., Ltd.	3.26%
Chongqing Jiangong Group Logistics Co., Ltd. (重慶建工集團物流有限公司)	3.10%
Total amount of the top five suppliers	22.23%

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

Except for Chongqing Jiangong Group Logistics Co., Ltd. being a wholly-owned subsidiary of Chongqing Construction Engineering Group Co., Ltd., none of our Directors or their respective associates, or our substantial shareholders who, to the knowledge of the Board, own 5% or more of our share capital, has any beneficial interest in any of our top five customers and suppliers.

Report of the Board of Directors (Continued)

COMPETING INTEREST

For the year ended 31 December 2014, the non-competition agreement entered into between Chongqing Machinery and Electronics Holding (Group) Co., Ltd., the Parent Company, and the Company remained effective. Please refer to the Prospectus for details of such undertakings.

DIRECTORS AND SUPERVISORS

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

Executive Directors	**Appointment Date**
Wang Yuxiang	18 June 2013
Yu Gang	30 December 2010
Ren Yong	10 April 2013
Xiang Hu	18 June 2014
Non-executive Directors	
Huang Yong	27 July 2007
Wang Jiyu	30 December 2010
Yang Jingpu	9 August 2007
Deng Yong	10 April 2013
Independent Non-executive Directors	
Lo Wah Wai	10 January 2008
Ren Xiaochang	27 July 2007
Jin Jingyu	18 June 2012
Liu Wei	29 September 2014
Supervisors	
Yang Mingquan	10 April 2013
Wang Pengcheng	10 April 2013
Wu Yi	29 September 2014
Huang Hui	29 September 2014
Chen Qing	15 June 2010
Zhao Zicheng	10 April 2013

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTOR'S SERVICE CONTRACTS

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

Save as mentioned above, none of the Directors has entered into service contract with the Company which could not be terminated without compensation (other than statutory compensation) within 1 year.

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

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

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of Directors, Supervisors and senior management of the Company are set out on pages 39 to 54 of this annual report.

Report of the Board of Directors (Continued)

DIRECTORS' REMUNERATION

The Directors' fees of the Company are proposed by the Remuneration Committee, considered by the Board and approved by the Annual General Meeting. Other remunerations are determined by the Remuneration Committee based on the position and responsibility of each Director and the operating results of the Group. Please refer to Note 9 to the Consolidated Financial Statements set out on pages 186 to 194 of this annual report.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS AND CONNECTED TRANSACTIONS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the year ended 31 December 2014, none of the Group and its subsidiaries purchased, sold or redeemed any listed securities of the Company.

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

As at 31 December 2014, none of the directors, chief executive or supervisors of the Company had any interests or short positions in the shares, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the"SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND BONDS

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

SIGNIFICANT LITIGATION

During the year, the Group was not involved in material litigation and arbitration.

SIGNIFICANT EVENTS

Please refer to pages 36 to 37 of this annual report.

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

For the year ended 31 December 2014 so far as the Directors of the Company are aware, the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Report of the Board of Directors (Continued)

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

Name of shareholders	Number of Shares	Capacity	*Note*	Percentage of total issued domestic shares *(%)*	Percentage of total issued shares *(%)*
Chongqing Machinery and Electronics Holding (Group) Co., Ltd.	1,924,225,189	Beneficial Owner	(1)	74.46*(L)*	52.22
Chongqing Yufu Assets Management (Group) Co., Ltd.	232,132,514	Beneficial Owner	(1)	8.98*(L)*	6.30
Chongqing Construction Engineering Group Co., Ltd.	232,132,514	Beneficial Owner	(2)	8.98*(L)*	6.30
China Huarong Asset Management Co., Ltd.	195,962,467	Beneficial Owner	(3)	7.58*(L)*	5.32
State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government	2,388,490,217	Interest of controlled corporation	(1)	92.42*(L)*	64.82
Ministry of Finance of the People's Republic of China	195,962,467	Interest of controlled corporation	(3)	7.58*(L)*	5.32

(L) Long Position

H shares of RMB1.00 each of the Company

Name of shareholders	Number of Shares	Capacity	Note	Percentage of total issued H shares (%)	Percentage of total issued H shares (%)
Templeton Asset Management Ltd.	88,149,300*(L)*	Investment Manager		8.01*(L)*	2.39*(L)*
The Bank of New York Mellon	87,276,000*(L)*	Custodian		7.93*(L)*	2.37*(L)*
(formerly known as "The Bank of New York")	0*(P)*			0*(P)*	0*(P)*
The Bank of New York Mellon Corporation	87,276,000*(L)*	Interest of corporation		7.93*(L)*	2.37*(L)*
	87,276,000*(P)*	controlled by substantial shareholder	(4)	7.93*(P)*	2.37*(P)*
GE Asset Management Incorporated	75,973,334*(L)*	Investment manager		6.91*(L)*	2.06*(L)*

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

Note:

1. As Chongqing Machinery and Electronics Holding (Group) Co., Ltd. and Chongqing Yufu Assets Management Co., Ltd. were wholly owned by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government, State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government is deemed to be interested in 1,924,225,189 domestic shares and 232,132,514 domestic shares of the Company held by the two companies.

Report of the Board of Directors (Continued)

2. Chongqing Construction Engineering Group Co., Ltd. is held as to 92.46% by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government through its three wholly-owned subsidiaries and as to 3.68% by the Ministry of Finance of the People's Republic of China through China Huarong Asset Management Co., Ltd. *(中國華融資產管理股份有限公司), a wholly-owned subsidiary of the Ministry. Therefore, State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government and the Ministry of Finance of the People's Republic of China are deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Engineering Group Co., Ltd.

3. China Huarong Asset Management Co., Ltd. *(中國華融資產管理股份有限公司) is held as to 98.06% directly by the Ministry of Finance of the People's Republic of China and as to 1.94% indirectly by the Ministry of Finance of the People's Republic of China through China Life Insurance (Group) Company, a wholly-owned subsidiary of the Ministry. Therefore, the Ministry of Finance of the People's Republic of China is deemed to be interested in 195,962,467 domestic shares of the Company held by China Huarong Asset Management Co., Ltd.

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

Save as disclosed above, the Directors of the Company are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2014.

CONTINUING CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the Group shall disclose the following continuing connected transactions in the Company's annual report:

Master Sales Agreement

On 14 October 2013, a master sales agreement (the "Master Sales Agreement") was renewed by and between the Company and Chongqing Machinery and Electronics Holding (Group) Co., Ltd. (hereinafter refer to as the "Parent Company"). Pursuant to the Master Sales Agreement, the Company has agreed to sell certain products such as control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables (the "Products") to the Parent Company and its associates.

Additionally, in case where there are material fluctuations in the prices of any or all of the Products, the parties shall re-negotiate the terms of the Master Sales Agreement in good faith by way of entering into a supplemental agreement or a new master sales agreement. The Master Sales Agreement is valid for a period of three years from the date of the agreement and can be renewed by the Company for successive term of three years by giving notice at least three months prior to the expiry of the initial term. Pursuant to which, as approved at the Extraordinary General Meeting held on 30 December 2013, the approved annual caps of sales for 2014, 2015 and 2016 were set at RMB220 million, RMB250 million and RMB310 million respectively.

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

(i) according to the price set by the PRC Government (including the municipal government and other regulatory bodies which govern such transactions); or

(ii) if no such price has been set by the PRC Government, to be a price not lower than the guide prices set by the PRC Government for such transactions; or

(iii) if neither the price nor guide price has been set by the PRC Government, to be a price not lower than the publicly available market price between independent parties on normal commercial terms in comparable locality, or if there are no comparable localities, to be a price not lower than the publicly available market price between independent parties on normal commercial terms in the PRC generally; or

(iv) if neither the price nor guide price has been set by the PRC Government and in the absence of a publicly available market price for such transactions, the parties shall negotiate on normal commercial terms for such transactions based on the actual or reasonable costs of such transactions (whichever is lower) together with a reasonable profit. A “reasonable profit” is a profit that is agreed between the parties as being no less than the Group’s profit margins of the same products for the previous year.

For the year ended 31 December 2014, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB87.3 million (for the year ended 31 December 2013: RMB113.0 million).

Master Supplies Agreement

On 14 October 2013, a master supplies agreement (the “Master Supplies Agreement”) was renewed by and between the Company and the Parent Company. Pursuant to the Master Supplies Agreement, the Parent Company and its associates have agreed to supply the Company with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper (the “Supplies”).

Additionally, in case where there are material fluctuations in the prices of any or all of the products, the parties shall re-negotiate the terms of the Master Supplies Agreement in good faith by way of entering into a supplemental agreement or a new master supplies agreement. The Master Supplies Agreement is valid for successive term of three years from the date of the agreement and can be renewed by the Company for another three years by giving notice at least three months prior to the expiry of the initial term. Pursuant to which, as approved at the Extraordinary General Meeting held on 30 December 2013, the approved annual caps of supplies for 2014, 2015 and 2016 were set at RMB160 million, RMB84 million and RMB99 million respectively.

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

(i) according to the price set by the PRC Government (including the municipal government and other regulatory bodies which govern such transactions); or

(ii) if no such price has been set by the PRC Government, to be a price not lower than the guide prices set by the PRC Government for such transactions; or

(iii) if neither the price nor guide price has been set by the PRC Government, to be a price not higher than the publicly available market price between independent parties on normal commercial terms in comparable locality, or if there are no comparable localities, to be a price not higher than the publicly available market price between independent parties on normal commercial terms in the PRC generally; or

(iv) if neither the price nor guide price has been set by the PRC Government and in the absence of a publicly available market price for such transactions, the parties shall negotiate on normal commercial terms for such transactions based on the actual or reasonable costs of such transactions (whichever is lower) together with a reasonable profit. A "reasonable profit" is a profit that is agreed between the parties as being no more than the Group's profit margin of the same products for the previous year.

For the year ended 31 December 2014, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB81.1 million (for the year ended 31 December 2013: RMB67.1 million).

Master Leasing Agreement

On 14 October 2013, a master leasing agreement (the "Master Leasing Agreement") was entered into between the Company and the Parent Company for the leasing of land and buildings by the Parent Company and its associates to the Company for use as offices, production facilities, workshops and staff quarters.

The Parent Company leased land and buildings to the Company with a total area of 256,667.02 sq.m. and 242,740.15 sq.m. respectively. Pursuant to which, the annual caps of leasing amounts for 2014, 2015 and 2016 as approved by the Board were set at RMB42 million, RMB44 million and RMB45 million respectively.

For the year ended 31 December 2014, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB34.5 million (for the year ended 31 December 2013: RMB33.2 million).

FINANCIAL SERVICES FRAMEWORK AGREEMENT

(I) Parent Group Financial Services Framework Agreement

Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. (the "Finance Company"), a subsidiary of the Company entered into a financial services framework agreement (the "Parent Group Financial Services Framework Agreement") with the Parent Company on 14 October 2013, (i) as approved at the Extraordinary General Meeting held on 30 December 2013, the approved proposed annual caps for the transactions in respect of the loan services for the year ended/ending 31 December 2014, 2015 and 2016 was/is RMB1,570 million, RMB2,130 million and RMB2,500 million (including the corresponding accrued interests); (ii) as approved at the Extraordinary General Meeting held on 30 December 2013, the proposed annual caps for the transactions in respect of the guarantee services for each of the years ended/ending 31 December 2014, 2015 and 2016 was/is RMB618 million (including the corresponding accrued interests); (iii) the proposed annual caps for transactions in respect of other financial services for each of the years ended/ending 31 December 2014, 2015 and 2016 was/is RMB46 million.

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

Loan services

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

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

Guarantee services

The fees charged by the Finance Company for provision of guarantee services to the Parent Group will be not lower than the fees charged by any independent third party on the Parent Group for the same type of services or the fees charged by the Finance Company on any third party with the same credit rating for the same type of services.

The Company will choose at least two banks or guarantee institutions from the national commercial banks in the PRC as well as the local commercial banks or guarantee institutions in Chongqing that have business relations with the Company and make inquiries as to the guarantee services of the same type and under similar terms to the Parent Group and submit the results to the Finance Company. The Finance Company will then make the final assessments and determine the final price for guarantee services provided to the Parent Group by reference to the Parent Group's business risks, comprehensive returns, capital cost of the Finance Company and regulatory indictors and others factors, so as to ensure that the fees charged by the Finance Company are in line with the above pricing standards for guarantee services.

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

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

For the year ended 31 December 2014, pursuant to the financial services framework agreement, the daily maximum limit amount in respect of loan services provided by the Finance Company to the Parent Group was approximately RMB608.1 million, the transaction amount in respect of guarantee services was approximately RMB82.9 million and the transaction amount of other financial services was approximately RMB1.8 million.

(II) Group Financial Services Framework Agreement

The Finance Company entered into a financial services framework agreement (the "Group Financial Services Framework Agreement") with the Company on 14 October 2013, (i) as approved at the Extraordinary General Meeting held on 30 December 2013, the approved proposed annual caps for the transactions in respect of the deposit services for the year ended/ending 31 December 2014, 2015 and 2016 was/is RMB1,600 million, RMB1,840 million and RMB2,116 million (including the corresponding accrued interests); (ii) the proposed annual caps for transactions in respect of other financial services for each of the years ended/ending 31 December 2014, 2015 and 2016 was/is RMB52 million.

Report of the Board of Directors (Continued)

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

Deposit services

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

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

Other financial services

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

For the year ended 31 December 2014, pursuant to the financial services framework agreement, the daily maximum limit amount in respect of deposit services provided by the Finance Company to the Group was approximately RMB1,178.1 million and the daily maximum limit amount of other financial services was approximately RMB8.8 million.

Details of the said transactions are set out in Note 37 to the consolidated financial statements as prepared in accordance with the HKFRS.

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

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

(2) entered into in the ordinary and usual course of business of the Company;

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

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

Under Rule 14A.56 of the Listing Rules, the Company's auditor PricewaterhouseCoopers has performed certain agreed procedures for the above continuing connected transactions ("Transactions") in accordance with Hong Kong Standard on Related Services 4400 "Engagement to Perform Agreed-Upon Procedures Regarding Financial Information" issued by Hong Kong Institute of Certified Public Accountants, and reported that:

(1) the Transactions have been approved by the Board of the Company;

(2) the pricing of the Transactions, on a sample basis, are in accordance with the Company's pricing policies;

(3) the Transactions, on a sample basis, have been entered into in accordance with the terms of relevant agreements governing such Transactions; and

(4) the amounts of the Transactions have not exceeded the annual caps.

PRE-EMPTIVE RIGHTS

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

Report of the Board of Directors (Continued)

BOARD COMMITTEES

The Board of the Company has established Audit Committee, Remuneration Committee, Nomination Committee and Strategic Committee ("Board Committees"). Details of the Board Committees are set out in the section of Corporate Governance Report on pages 82 to 86 of this annual report.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2014, the Group had a total of 13,878 employees (31 December 2013: 15,595 employees). Their salaries were determined based on market trends and their performance. Welfare benefits included insurance and pension schemes, which were strictly executed in accordance with national regulations.

Remuneration of the Directors of the Company was determined by the Remuneration Committee, taking into consideration the operating results of the Company and comparable market statistics. Please refer to the Report of the Board of Directors set out on pages 55 to 75 in this annual report.

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

POST BALANCE SHEET DATE EVENTS

The Group has no significant events after the balance sheet date.

PUBLIC FLOAT

During the year ended 31 December 2014, the Company had 1,100,187,470 H shares in its total share capital of 3,684,640,154 shares. Therefore, public shareholding was 29.86%, indicating a sufficient public float throughout the year.

DISTRIBUTABLE RESERVES

According to the Articles of Association of the Company, the Company's reserves available for distribution based on the Company's profit are the lower of which is determined under HKFRS and China Accounting Standards for Business Enterprises ("CAS").

The Company's reserves available for distribution as at 31 December 2014 under HKFRS and CAS were RMB1,271,495,000 and RMB1,431,835,000 respectively. Thus, as at 31 December 2014, the Company's distributable reserve attributable to owners of the Company amounted to RMB1,271,495,000.

AUDITORS

The Company has appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the international and domestic auditors respectively for the year ended 31 December 2014. PricewaterhouseCoopers has performed audit on the Group's consolidated financial statements prepared in accordance with HKFRS. A resolution in respect of re-appointing PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP will be proposed at the forthcoming Annual General Meeting of the Company.

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

The annual results announcement has been published on the Company's website (http://www.chinacqme.com) and the Stock Exchange's website. The annual report will also be available on the Company's and the Stock Exchange's websites on or about 10 April 2015 and will be dispatched to the shareholders of the Company thereafter according to the means they chose to receive communications.

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

Chongqing, the PRC, 24 March 2015

Report of the Supervisory Committee

Dear Shareholders:

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

During the reporting period, the Supervisory Committee conducted supervision closely focusing on the annual business objectives and development strategy of the Company in accordance with the Rules of Procedures of the Supervisory Committee of the Company. In order to improve the effectiveness of supervision, the supervision conducted by the Supervisory Committee was based on the practical conditions of the Company, and the comprehensive and three-dimensional supervision was effectively implemented through strengthening the collaboration with the internal audit department and interacting with the supervisory committees of subsidiaries. During the year, the Supervisory Committee concentrated on conducting annual intensive inspections, specialized inspections on joint venture and cooperation projects, supervision and evaluation of effectiveness of internal control and the audit supervision of the economic liabilities of oversea subsidiaries, audit supervision of the assets of associated companies as well as major project tracking supervision. In respect of daily supervision, it reviewed the interim results and annual financial accounts, financial budget and profit distribution plans of the Company as well as participated in the review of the auditor's report and provided constructive advice through convening two special meetings of Supervisory Committee, attending two General Meetings, sitting in twelve Board meetings, carrying out audit supervision and conducting on-site inspections for relevant matters. The supervision procedures of the Supervisory Committee were carried out orderly with further enhancement in its supervisory effectiveness, facilitating the steady operation and improved management of the Company.

With respect to annual progress of the Company in 2014, the Supervisory Committee has the following views:

- The Supervisory Committee has supervised the operating activities of the Company and believed that the Company has already established a more thorough internal control system and a respective internal control management structure with much efforts to implement and improve such system and structure. The Company has established and revised 13 rules and regulations. These systems have been effectively implemented, which prevented operational risks for the Company.

- The Supervisory Committee has examined details of the implementation of financial management system and the financial reports of the Company. It confirms that the financial budget report, annual report and interim report are true and reliable and the auditing opinions presented by the auditors engaged by the Company are objective and fair.

- The Supervisory Committee has inspected the connected transactions of the Company. It believes that the significant connected transactions arising from the Company's operation during the reporting period are fair and impartial without damaging the interests of other shareholders and the Company.

- The Supervisory Committee has supervised duty fulfillment of the Directors and management of the Company. It confirms that the Directors, General Manager and other senior management members have exercised rights granted by shareholders and discharged their duties in strict compliance with the principle of diligence and good faith. The Committee is not aware of any abuse of authority which impairs our shareholders' interests and the legitimate rights of our employees as of the date of this report.

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

Report of the Supervisory Committee (Continued)

The Supervisory Committee is satisfied with the business activities conducted by the Company and the economic benefits thereof in 2014, and is confident in the development prospect of the Company.

The Supervisory Committee has duly reviewed and approved the report of the board of directors, audited financial report and other proposals to be proposed by the Board at the 2014 Annual General Meeting.

By Order of the Supervisory Committee
Chairman of the Supervisory Committee
Mr. Yang Mingquan

Chongqing, the PRC, 24 March 2015

Corporate Governance Report

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

None of the Directors are aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2014 in compliance with the code provisions under the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Individual confirmation has been obtained from all Directors to confirm compliance with the requirements under the Model Code during the year ended 31 December 2014.

THE BOARD

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

Corporate Governance Report (Continued)

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

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

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

The Board of the Company consists of 12 Directors, including 4 executive Directors, 4 non-executive Directors and 4 independent non-executive Directors.

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

ATTENDANCE OF DIRECTORS TO BOARD MEETINGS

From 1 January 2014 to 31 December 2014, the Board held 12 meetings.

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

Name of Director	Position	Number of meetings attended/total number of meetings held
Wang Yuxiang	Executive Director, Chairman of the Board	12/12
Yu Gang	Executive Director	12/12
Chen Xianzheng	Executive Director *(resigned on 18 June 2014)*	2/2
Xiang Hu	Executive Director *(appointed on 18 June 2014)*	10/10
Ren Yong	Executive Director	12/12
Huang Yong	Non-executive Director	12/12
Wang Jiyu	Non-executive Director	12/12
Yang Jingpu	Non-executive Director	12/12
Deng Yong	Non-executive Director	12/12
Lo Wah Wai	Independent Non-executive Director	12/12
Ren Xiaochang	Independent Non-executive Director	12/12
Jin Jingyu	Independent Non-executive Director	12/12
Yang Zhimin	Independent Non-executive Director *(resigned on 29 September 2014)*	7/7
Liu Wei	Independent Non-executive Director *(appointed on 29 September 2014)*	5/5

Biographical details of Directors are set out on pages 39 to 47 of this annual report.

THE TERM OF OFFICE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

All incumbent independent non-executive Directors of the Company were appointed at the General Meetings for a term of three years, and are eligible for re-election at the Annual General Meeting of the Company upon expiry of their term of office.

REMUNERATION COMMITTEE

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

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

The Remuneration Committee convened 2 meetings during the year and the attendance record is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Ren Xiaochang *(Chairman)*	Independent Non-executive Director	2/2
Lo Wah Wai	Independent Non-executive Director	2/2
Jin Jingyu	Independent Non-executive Director	2/2
Wang Jiyu	Non-executive Director	2/2

NOMINATION COMMITTEE

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

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

The Nomination Committee under the Board convened 3 meetings during the year and the attendance record is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Wang Yuxiang *(Chairman)*	Executive Director	3/3
Ren Xiaochang	Independent Non-executive Director	3/3
Jin Jingyu	Independent Non-executive Director	3/3
Yang Zhimin	Independent Non-executive Director *(resigned on 29 September 2014)*	3/3
Liu Wei	Independent Non-executive Director *(appointed on 29 September 2014)*	0/0
Huang Yong	Non-executive Director	3/3

AUDIT COMMITTEE

The Board of the Company established the Audit Committee in accordance with the requirements of the Corporate Governance Code. The committee has written terms of reference which is available on the websites of the Stock Exchange and the Company. The Audit Committee of the Company currently consists of 3 independent non-executive Directors and 1 non-executive Director, with the chairman being an independent non-executive Director. The major responsibilities of the Audit Committee are to supervise the relationship with external auditors, review the Group's reviewed and audited interim and annual financial reports, supervise the Company's compliance with relevant laws and regulations, and review the scope, depth and effectiveness of the Group's internal control.

The Audit Committee convened 5 meetings during the year and the attendance record is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Lo Wah Wai *(Chairman)*	Independent Non-executive Director	5/5
Jin Jingyu	Independent Non-executive Director	5/5
Yang Zhimin	Independent Non-executive Director *(resigned on 29 September 2014)*	4/4
Liu Wei	Independent Non-executive Director *(appointed on 29 September 2014)*	1/1
Deng Yong	Non-executive Director	5/5

During the year, the Audit Committee approved the 2013 Condensed Consolidated Financial Report and the 2014 Condensed Consolidated Interim Financial Report of the Company audited by PricewaterhouseCoopers, considered and discussed the accounting policies as set out in the financial reports and the Company's financial position and internal control with external auditors, qualified accountant and the management of the Company.

STRATEGIC COMMITTEE

In response to the Company's needs of building its internal control system, the Board of the Company has established a Strategic Committee. The committee has written terms of reference which are available on the websites of the Stock Exchange and the Company. The Strategic Committee of the Company currently consists of 4 executive Directors, 3 independent non-executive Directors and 1 non-executive Director, and was chaired by the Chairman. The major responsibilities of the Strategic Committee are to carry out research and propose suggestions on the Company's long-term development strategies and material investment decisions for the Board's reference in decision-making.

Corporate Governance Report (Continued)

The Strategic Committee convened 1 meeting during the year and the attendance record is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Wang Yuxiang *(Chairman)*	Executive Director	1/1
Yu Gang	Executive Director	1/1
Ren Yong	Executive Director	1/1
Chen Xianzheng	Executive Director *(resigned on 18 June 2014)*	0/0
Xiang Hu	Executive Director *(appointed on 18 June 2014)*	1/1
Huang Yong	Non-executive Director	1/1
Ren Xiaochang	Independent Non-executive Director	1/1
Jin Jingyu	Independent Non-executive Director	1/1
Yang Zhimin	Independent Non-executive Director *(resigned on 29 September 2014)*	1/1
Liu Wei	Independent Non-executive Director *(appointed on 29 September 2014)*	0/0

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises six supervisors, namely Mr. Yang Mingquan, Mr. Wang Pengcheng, Ms. Wu Yi, Mr. Huang Hui, Mr. Chen Qing, Mr. Zhao Zicheng. The Supervisory Committee of the Company is responsible for supervising the financial activities of the Company and the performance of duties of the Board and its members as well as the senior management so as to safeguard the interests of the shareholders. In 2014, the Supervisory Committee has examined the financial position and the legal compliance of the operations of the Company and conducted due diligence review of the senior management through convening Supervisory Committee's meetings and attending important meetings such as the Board meetings and General Meetings of the Company, and establishing duty performance files, etc. The Supervisory Committee undertakes its duties in a diligent and meticulous manner under the principle of prudence.

INTERNAL CONTROL

It is the Board's responsibility to develop and maintain an internal control system to effectively protect shareholders' interests and safeguard the Group's properties and assets by reviewing major control procedures for financial, regulatory and corporate risks management. Reliable and comprehensive financial information has been presented to the management and the internal control system has been improved in a continuous manner to ensure the identification and control of investment and business risks of the Group. However, it is not designed to completely eliminate the risk of failure to achieve the business objectives of the Group. Therefore it can only provide reasonable but not absolute assurance against material misstatement of the management as well as the financial information and records, or against financial fraud or losses.

The internal audit department of the Company is responsible for supervising the compliance with the policy for appropriate preservation of assets, evaluating the efficiency of economic operation, continuously inspecting business activities and management behaviours, identifying business risks and defects in internal control, formulating regular audit plans to determine the focus and frequency of audit and providing advice and suggestions for improvement.

During the Period, in strict compliance with the requirements of the Listing Rules of the Hong Kong Stock Exchange and the five ministries or commissions of the PRC including the Ministry of Finance, the Group strengthened the risk control and management of its domestic and overseas subsidiaries. Based on the foundation laid in 2013 which centred upon operation and rectification, the focus of internal control of the Group for the year has been shifted to a new phase featuring in-depth enhancement and continuous improvement. A norm of self-inspection, professional evaluation and continuous improvement has been established within the internal control system, In addition, a professional evaluation team was organised to evaluate the effectiveness of internal control of five subsidiaries of the Group, namely the Company, Chongqing Water Turbine, Chongqing Pigeon, Chongqing CAFF and Chongqing General, with the results concluding that the internal control of the

Corporate Governance Report (Continued)

above companies were all effective. The Group continued to carry out the regular revisions and adjustments of the "Internal Control Code" (《內控手冊》) and the "Compilation of Internal Control System" (《內控制度滙編》) so as to lay a solid foundation in terms of preventive and regulatory measures for the completeness of the internal control system execution and the effectiveness of the continuous revision and review system of the Group. Overall, the internal control system of the Group is effective.

RISK MANAGEMENT

Risk assessment on major projects of the Group were reinforced through adopting assessment via various hierarchies such as the business department, risk control and legal affairs department, external legal advisors and the management, so as to ensure effective prevention and control of risks. During the year, a total of 16 projects were assessed covering technological transformation, reform and tender. Monthly warning and control systems for important operating data, including revenue from principal business, trade receivables and inventory were established; and a quarterly collection, analysis, reporting and tracking and handling mechanism in relation to material legal risks were set up. Hence, serving the function of a firewall, risk management has become an integral part in corporate operation and management.

For the supervision on overseas subsidiaries, the Chief Risk Officer (CRO) of the Company was assigned to the PTG UK, who is responsible for the execution of assessment, establishment and supervision of the internal control process and system, monitoring operational activities and management behaviours, identifying business risks and rectifying deficiencies.

INTERNAL AUDIT

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

During the Period, the internal audit department strived to "manage assets" through asset audit and financial audit, "manage compliance" through inspection and investigation, "manage personnel" through economic responsibility audit, "manage matters" through project audit, "manage risk" through effectiveness assessment and strengthened the special and daily supervision functions of the Supervisory Committee. The Company executed 294 supervision projects in aggregate. The main tasks of the internal audit department included: first, it audited the economic responsibility of the CEO of PTG UK during his term of office for the first time to enhance the control over overseas investee companies; second, it audited the assets of associated companies for the first time; third, it independently completed the evaluation on the effectiveness of internal control; fourth, it participated in the joint working group of CCEC high-powered engine construction project and played a constructive role of direct supervision and control on behalf of shareholders. During the year, the internal audit department implemented 174 sporadic engineering project audits, 29 financial audits and 43 economic responsibility audits.

ACCOUNTABILITY AND AUDIT

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

The Company has appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the international and PRC auditors of the Company respectively. The fees for the services provided by the above auditors to the Group for the year ended 31 December 2014 amounted to approximately RMB4.7 million (2013: approximately RMB4.7 million).

GENERAL MEETINGS

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

Corporate Governance Report (Continued)

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

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

The Company has established a specific department responsible for handling investor relations. The Company also places strong emphasis on its communications with investors, and considers that maintaining an on-going and open communications with investors can promote investors' understanding of and confidence in the Company. During the year, the Company communicated with 107 institutional investors or investors in 69 meetings such as roadshows, investor presentations, on-site meetings, enterprise visits, and telephone conferences. The effective communication with investors strengthened the Group's relationship with investors and allowed them to have a better understanding and enhanced confidence in operations and developments of the Group.

In 2014, the Company strengthened the communications and promotions with a number of media including China Industry News, Hong Kong Wen Wei Po, Chongqing Daily, etc. To strengthen the relationship between the Company and investors, and improve the transparency of corporate operations, the Company promoted its development strategy and promising outlook by means of website, publicity pamphlet, image building videos, etc., to draw continuous attention from the public and investors on the growth of the Company.

TRAINING OF DIRECTOR

In accordance with the code provisions, the Company arranged 5 trainings on relevant laws and regulations including the Listing Rules for 56 Directors, supervisors and members of senior management of the Company through the Hong Kong Institute of Chartered Secretaries, securities regulatory institutions and special trainings, etc. During the year, the Company has received the written training records of all Directors.

Social Responsibility Report

GROUP PHILOSOPHY

The Group attaches great importance to corporate social responsibility, adhering to the business philosophy of "dedication, innovation, open-up and speed-up" to practise its core values of "integrity and win-win". With a cohesive corporate culture across our subsidiaries and employees, social responsibility has been rooted into our group-wide operation and management in achieving our vision to "Equip China, Advance towards the World".

WORKPLACE QUALITY

The Group embraces the talent concept of "paying respect to the dedicated, utilising the competent, fostering the aspiring and incentivising the innovative", seeking to provide a safe and sound working environment for employees and cultivating talents experienced in technology and management. By improving the remuneration system and designing career paths, we expect to establish a comprehensive incentive system based on physical, mental, emotional and growth motivations to carry forward the harmonious and stable employment relationship.

Working Environment

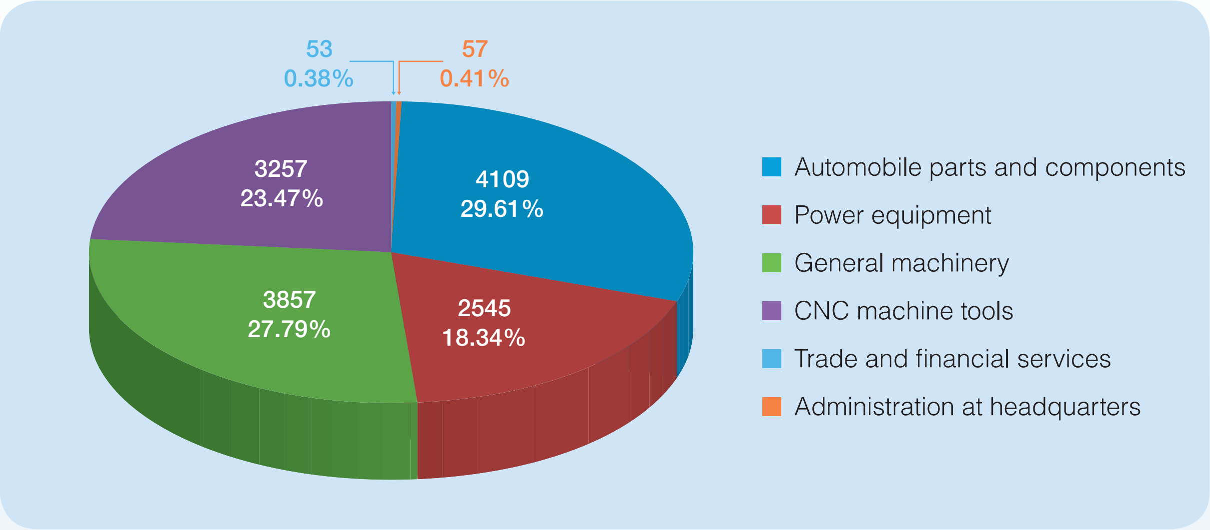
The Group places great emphasis on growth of employees in a harmonious internal atmosphere. To effectively tap on human resources, fully motivate employees' enthusiasm and creativity and encourage them performing fruitfully, the Group adheres to the approach of giving priority to efficiency with due consideration to fairness, focusing on both teamwork and individual performance and linking individual compensation to corporate profits. Employees are offered a competitive remuneration package, subject to annual adjustments based on individual performance, contribution and market conditions. Clinging to employment on an equality and standardised basis, we publicise details of candidates to be appointed and promoted to ensure transparent information, process and results. With work hours arranged in strict accordance with national labour laws, the Group pays full respect to employees' right to rest, providing paid leave and other leaves for marriage, maternity and bereavement in addition to statutory holidays.

Profile of Employees

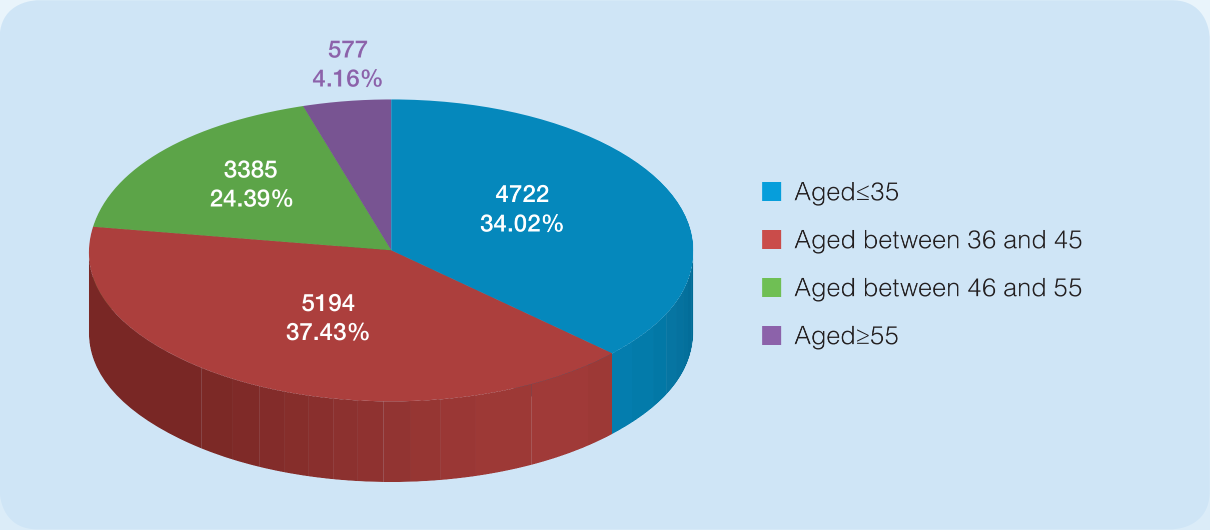
As at 31 December 2014, the Group had 13,878 dedicated employees with an improving age and specialty mix. The breakdown of the Group's employees by different criteria is set out as follows.

Social Responsibility Report (Continued)

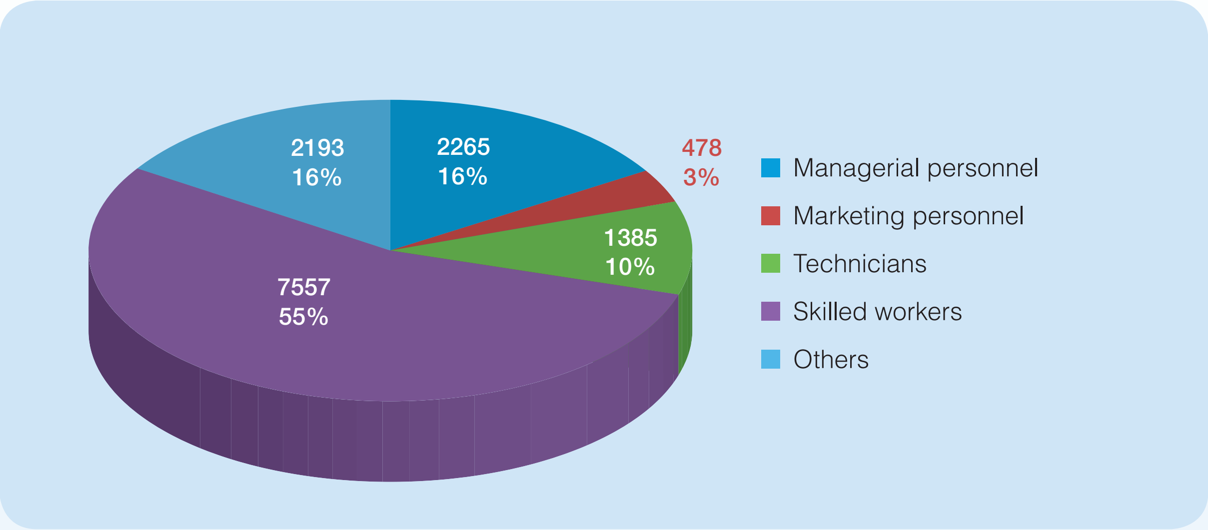
Employees by business segment



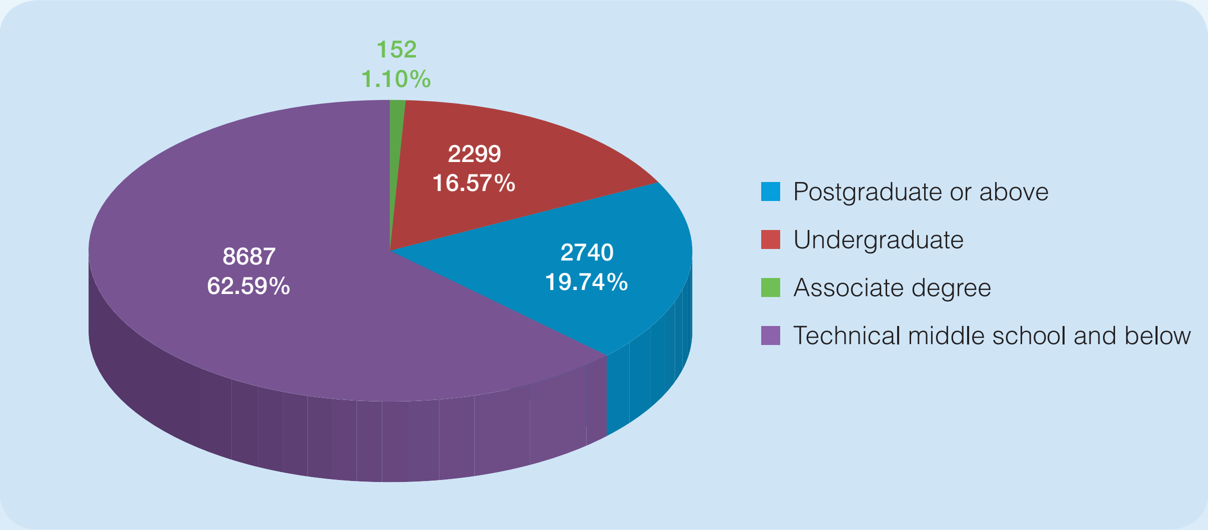
Employees by age



Employees by specialty



Employees by education

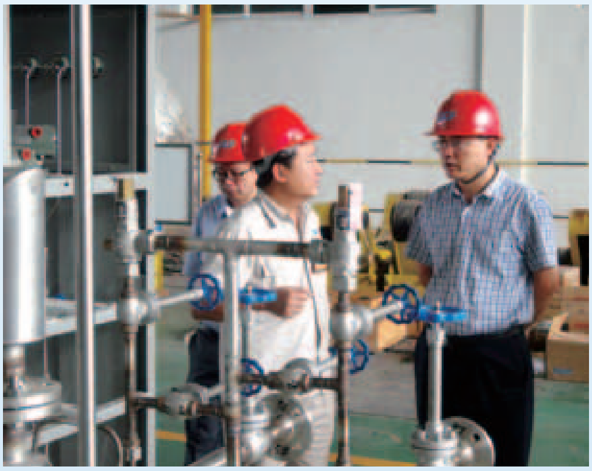


Social Responsibility Report (Continued)

Health and Safety

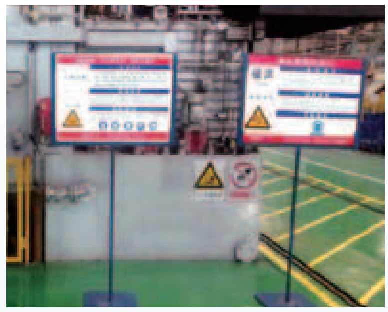
Occupational health and safety are a high priority within the Group. Sticking to the approach of "safety foremost, prevention-dominated and comprehensive treatment", we strictly implement the Basic Rules on Standardised Production Safety of Enterprises (AQ/T9006-2010) and have established a sound occupational safety and health management system. Non-scheduled inspections on production safety are conducted to eliminate safety hazards and ensure production safety. The Group has 23 subsidiaries qualified as enterprises with standardised production safety and 14 subsidiaries qualified as enterprise with standardised occupational health management, and 5 subsidiaries including Chongqing General and Chongqing Pump passed the ISO18000 occupational health and safety management system certification.

Employees at each business segment are furnished with dust masks, safety glasses, helmets, protective clothing and other special labour supplies to effectively improve individual protection. Work-related injury insurance and regular health checks also cover each employee to relieve their concerns. For the year ended 31 December 2014, the Group had no work-related death or serious injury, and the work-related minor injury rate was 1.1%, far below the control target of 4%. The special (hazardous) worker licensing rate, the special equipment inspection pass rate and the rectification rate of identified safety hazards were 100%, 100% and 96% respectively, and zero additional patient of occupational disease was recorded in the year.



Safety inspections on production site are conducted to eliminate safety hazards





Clear on-site warning signs

Credentials of standardised production safety and standardised occupational safety and health management

Development and Training

With an aim at a learning organisation, we took efforts centering on competency development and focusing on building a high-calibre team to design diversified career paths. Backed by an improving training management system, we seek to establish a sound platform for employee growth, together with a wealth of learning opportunities and a positive atmosphere for knowledge sharing.

During the Period, the Group held a total of 942 training sessions primarily covering business skills, expertise, lean manufacturing, corporate culture, employee safety and health, with 15,892 person-times of participation and average 38 training hours per person.

With its efforts in providing trainings for local labor workers to enhance their skills, Holroyd Precision Limited, a wholly-owned subsidiary of PTG UK, which in turn is a subsidiary of the Company, was granted the 2014 Employer Award for Best Personnel Training on 7 November 2014.

Social Responsibility Report (Continued)

A training course on the new accounting standards

A training course on the new accounting standards

Labour Standards

The Group strictly observes the Labour Law of the PRC, the Labour Contract Law of the PRC and the laws, regulations and policies against child labour or forced labour, to protect employees' rights and interests under the laws and create an impartial and legitimate workplace with due respect to human rights. Labour protection measures are in place for female employees in menstruation, pregnancy, maternity and lactation periods, and it is prohibited to arrange females in any work of the fourth-level physical intensity as specified in national regulations or other prohibited work. With well-established procedures in key areas such as employment and recruitment, we ensure compliance throughout the employment process and eliminate use of child labour in practices. Forced labour is prevented and the implementation of labour protection system is supervised by the labour union. During the year ended 31 December 2014, the Group did not involve any violation of standards, rules and regulations on child labour and forced labour.

Effectiveness of Human Resources

During the year ended 31 December 2014, the Group continued to offer job opportunities to the public and recruited a total of 579 persons. To give better play to human resources and fulfill its social responsibility, the Group has established a human resources management system and operational mechanism catering to knowledge economy, market economy, social responsibility and the Group's development strategy. Through designing career paths for employees, the Group granted incentives of approximately RMB214,500 on dual-channel talent introduction and cultivation and selected a total of 34 leaders in design, processing, quality, skilled work and technology. Differentiated remuneration policies were elaborated to further motivate employees, and a team of management, technology and skilled talents with proven competency has been established to provide strong talent and intelligence supports to our strategic goal.

ENVIRONMENTAL PROTECTION

In strict compliance with national environmental regulations, the Group proactively shoulders environmental responsibility by advancing technological innovations, enhancing resource utilisation efficiency and promoting energy conservation and emission reduction in its production and development, to explore on an approach featuring low consumption, low emission and high output. Six subsidiaries including Chongqing Pigeon and Chongqing CAFF passed the ISO14001 environmental management system certification; and eight subsidiaries including Qijiang Gear Transmission and Chongqing Machine Tools passed the clean production audit. All of our newly relocated enterprises have strictly implemented separation of sewage and rainwater as required. During the year ended 31 December 2014, the Group's pass rate for major pollutant emission indicators and hazardous waste disposal rate both reached 100%, and did not involve any environmental complaint or penalty by environmental authorities. All newly constructed, upgrade and expansion projects were in strict compliance with the national requirements on "simultaneous design, construction and commissioning" as scheduled.

Social Responsibility Report (Continued)

Emissions

The Group is principally engaged in manufacturing machinery and equipment and parts, without large quantity of direct emission of waste gas, greenhouse gas, wastewater and other hazardous wastes. The emission mainly comprises solid metal scraps from the machining process. The Group also takes initiatives for full recycling of waste materials to lessen the environmental impact. During the year ended 31 December 2014, the Group generated approximately 14,600 tonnes of metal scraps, which were sold for approximately RMB33 million through public auction.

Resource Utilisation

Responding to the government's call on environment protection and energy saving, the Group has closed several casting plants for accelerating the elimination and retirement of equipment with high energy consumption. Meanwhile, our new plants are constructed in full

Urban sewage treatment equipment manufactured by the Company: 4 models of centrifugal ventilators are included into the 2014 "Energy Efficiency Star" list

The Group's environmental protection facilities (sewage treatment tank and paint purification devices) compliance with environmental standards, including the design with new energy-efficient equipment and the wide use of green offices based on paperless and other technologies. For the year ended 31 December 2014, the Group's comprehensive energy consumption per RMB10,000 value addition decreased by 6% year-on-year.

Environment and Natural Resources

The Group also actively develops environmentally-friendly and energy-efficient products/businesses to fulfill its responsibility in environmental protection. For instance, the Group manufactured wind power rotor blades of 1,200MW in 2014, representing annual power generation of approximately 2.5 billion kWh, equivalent to saving standard coal of approximately 800,000 tonnes or reducing carbon dioxide emission by approximately 2.2 million tonnes. The waste heat recovery centrifugal heat-pump unit manufactured by Chongqing General, with large heating capacity per unit and hot water temperature up to 80˚C, ranks top among its peers and was granted a gold award by the "7th International Fluid Machinery Exhibition 2014". Chongqing General Group became the first fan manufacturers passing energy efficiency certification in the PRC. Chongqing General Group also invested approximately RMB55 million in constructing a sewage treatment plant in Chongqing Tongnan Industrial Park. A string of devices were rolled out to make contribution to environmental protection, including YE3120CNC7 series CNC high-speed dry cutting automatic hobbing machine developed by Chongqing Machine Tools, as well as the series kitchen waste treatment equipment, small sewage treatment plant, high concentration organic wastewater treatment plant, and DNT belt-type sludge thickening and dewatering plant developed by Chongqing Jiangbei Machinery.

Environmental Relocation

Pursuant to the plan of Chongqing municipal government on the 6th batch of environmental relocations, the Group embarked on 5 relocation projects (headquarters of Chongqing Machine Tools, Machine Tool Works, Yinhe Forging & Founding, Chongqing Water Turbine and Chongqing Jiangbei Machinery) with a total investment of approximately RMB2.7 billion. As at 31 December 2014, the headquarters of Chongqing Machine Tools completed the relocation and commenced trial production, and the remaining 4 projects will start relocation work in 2015. These environmental relocation projects, while eliminating obsolete production facilities to substantially upgrade production process and equipment, allowed our enterprises to relocate from living quarters to industrial parks, which supported urban construction and made a significant contribution to integrated planning and protection of urban environment.

Social Responsibility Report (Continued)

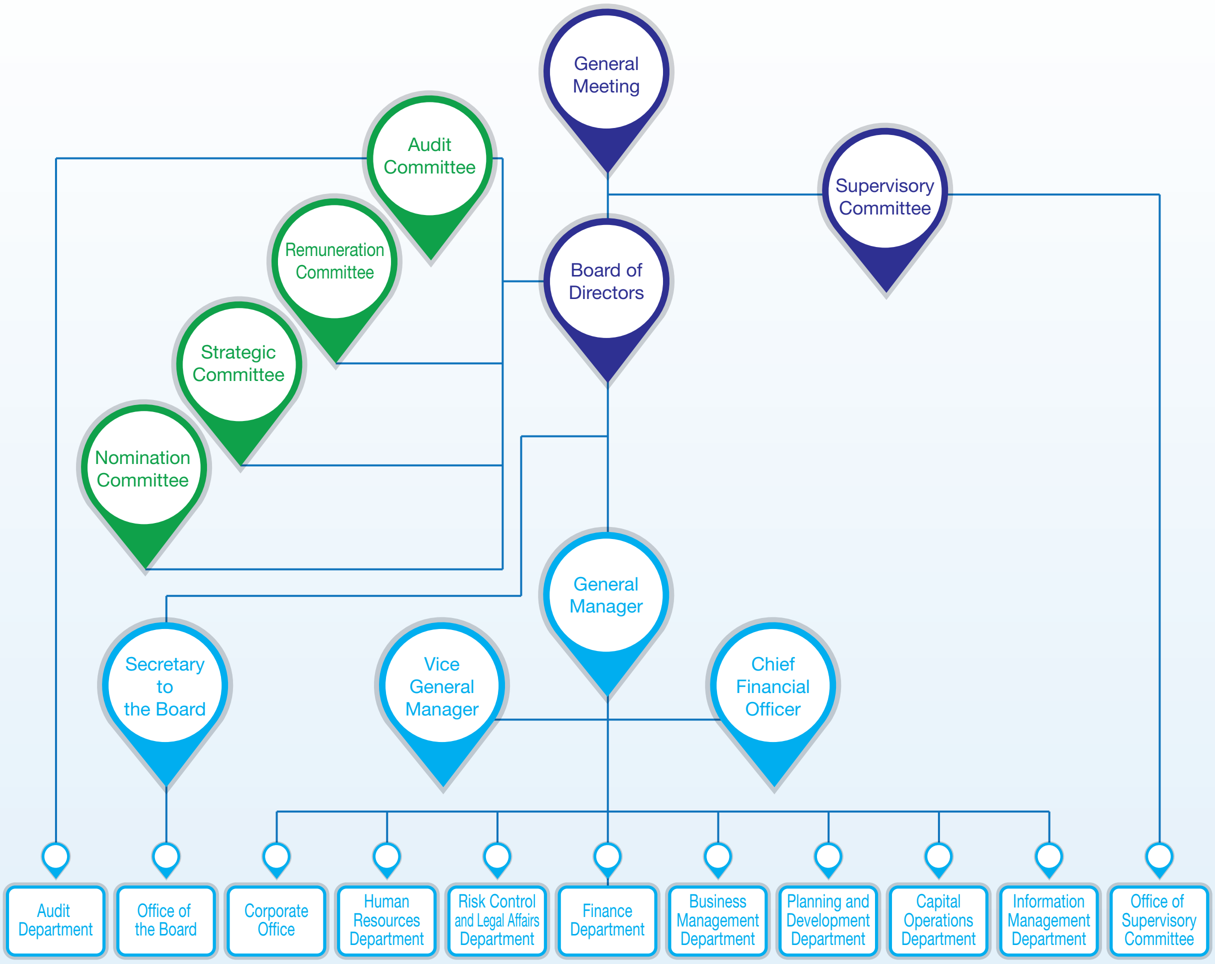
OPERATIONAL PRACTICES

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

Corporate Governance

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

Diagram of Corporate Governance Structure



Return to Shareholders

The Company holds analyst meetings, web conferences, road shows and other activities regularly or for major events, to enhance communication with investors and prospective investors; prepare statistics and analysis of the number, composition and change of investors and prospective investors and collect their opinions or suggestions; establish and maintain sound public relations with stock exchanges, industry associations, media, other listed companies and relevant institutions; and monitor online media to timely detect false reports on the Company and safeguard the Company's positive public image. A dividend model has been established with a view to our sustainable development and return to shareholders. Since our listing in June 2008 up to the end of 2014, the Company has distributed dividends totalling approximately RMB1.05 billion, providing an attractive return to its long-term shareholders through secondary market.

Social Responsibility Report (Continued)

Investors in a visit to the exhibition hall of Chongqing Cummins

Chairman and General Manager meeting investors from Hong Kong

A corner of results presentation

Customers

Adhering to the principle of “quality first, customer foremost”, the Group is committed to providing customers with superior products and services, and has witnessed improving brand image and customer satisfaction. During the Year, the Group entered into the “quality-empowered” strategic cooperation agreement with Chongqing Municipal Bureau of Quality and Technical Supervision, a government-enterprise collaboration on quality enhancement which is designed to improve our management and product quality, establish and safeguard our brand and sharpen our core competitiveness. During the year ended 31 December 2014, no product of the Group was recalled due to safety and health reasons.

Chongqing Machine Tools and Chongqing Pigeon, subsidiaries of the Group won quality awards of mayor and district chief respectively

Wang Yuxiang, Chairman of the Company, in signing the "quality-empowered" strategic cooperation agreement with Zhang Zongqing, head of Chongqing Municipal Bureau of Quality and Technical Supervision

Social Responsibility Report (Continued)

Suppliers

The Group is always open to mutual benefit through collaboration with upstream and downstream players in the industry chain. We adhere to open, fair and transparent criteria in selecting suppliers, to establish a supply chain platform with core competitiveness and vitality. We continue to assist suppliers in upgrading management and technologies, seeking to consolidate and optimise the sustainable supply chain system for mutual growth with our suppliers. The Group has established a centralised bidding and procurement platform for bulk materials including steel products and bearings. The centralised procurements for the latest 3 years amounted to approximately RMB750 million, representing direct cost reduction of more than RMB50 million. The Group has also established a supplier evaluation system in terms of price, quality, cost, delivery and after-sales service to facilitate effective communication and interaction with suppliers.

Intellectual Property

The Group attaches particular importance to maintenance and protection of intellectual property rights, and has entered into strategic partnership with the Intellectual Property Office of Chongqing Municipality to uplift its patent level. In 2014, the Group obtained 273 additional patents and expanded its patent pool to 1,366 patents, ranking top among the state-owned enterprises in Chongqing. The Group further strengthened the partnership with the Intellectual Property Office of Chongqing Municipality, including the Enterprise Patent Mining and Structuring Agreement, a special subsidy on the Group's patents, and collaboration with the public security bureau, the quality and technical supervision and the commerce and industry authorities to crack down on counterfeits infringing the Group's products. These intellectual property protection initiatives greatly assist the Group in consolidating market share and maintaining a fair market competition environment.

Information Security

To integrate human resources of information technology, the Company has established the Information Management Department to guide and promote informatisation progress at subsidiaries. Experts and professional advisors were engaged to design the technical solution on the Company's information system. With needs revamped, we expect to coordinate our information systems including office automation, financial management, human resource management, data centre and business intelligence, with an aim at ongoing innovations in integrated management functions, efficient utilisation of human resources and smooth management procedures across the Company. The improved management capability and practices will pave the way to quality and efficiency-driven transformation and upgrade of our subsidiaries.

Based on the Kingdee EAS system, the Group has basically realised information-based management in accounting, office collaboration and human resources. The EAS-based accounting for our 4 sub-groups, 8 subsidiaries and 10 third-tier subsidiaries helped to increase the efficiency of accounting, reporting flows and information disclosure, initially realising centralised management and effective control on financial data across the multitier organisation under a financial informatisation framework which is taking shape.

Network at our headquarters is equipped with mainstream firewall and intrusion detection system, allowing subsidiaries to access via VPN and leased line and hence ensuring external security as a whole. With a view to information security, the Company has developed a systematic solution with reference to the Basic Requirements on Classified Protection for Information System Security (national standards GB/T22239-2008).

Social Responsibility Report (Continued)

Anti-corruption and Internal Control

The Group attaches great importance to its responsibility in anti-corruption in order to maintain a fair and positive business environment. With zero tolerance for any form of corruption, the Group has formulated the Code of Ethics of Employees under which employees are required to abstain from accepting or offering any money, gift and hospitality that might affect their business decision or independent judgment, or exploiting their positions against the Company's interests. The Anti-fraud Procedures and Control System are designed to prevent falsification, concealment of truth, fraudulence and other illegal behaviours by insider or outsider in the Group's activities which might infringe interests of the State, the Company or other parties. In addition to an internal audit system in place to monitor and review all employees as to their compliance with anti-corruption laws and regulations, the Group has established whistle-blowing system and procedures, including dedicated email address and hotline to accept whistle-blowing. Whistle-blowers of verified cases will be rewarded accordingly. During the year ended 31 December 2014, the Group did not identify any corruption or bribe-taking case.

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

Pursuant to the Basic Rules on Internal Control of Enterprises jointly promulgated by five ministries and commission including the Ministry of Finance and the Code on Corporate Governance Practices for listed companies on the Stock Exchange of Hong Kong, the Group has established a sound internal control system which is extended to its wholly-owned and controlled subsidiaries. The internal control system has achieved normalised operation. In 2014, the Group evaluated effectiveness of internal control and provided risk warning for the headquarters and 4 subsidiaries including Chongqing Water Turbine. For the remaining enterprises, self-examinations and reviews were made in order to enhance their internal control capacity and fundamental management.

The Group has established an effective legal risk prevention and treatment framework comprising the Contract Management System, the Management Measures on Legal Affairs, the Management Measures on Legal Disputes and the Provisional Requirements on Engagement of Law Firms. Legal risk reviews are applied consistently for major projects and contracts. In 2014, the Group reviewed 80 major contracts and 16 major projects, and entered into framework cooperation agreements with 10 renowned law firms in the qualified list, leading to a significant improvement in its management capability for legal affairs.

CONNECTING WITH THE COMMUNITIES

As a responsible business, the Group extends active presence in community activities to support public welfare in addition to its efforts in delivering business growth. We listen to community needs, exerting ourselves to contribute to local economy, livelihood and a harmonious environment for mutual benefit.

Education

Chongqing Water Turbine, a subsidiary of the Group, conveyed its cares to college students by providing subsidies to 27 families at the "Golden Autumn Education Promotion" forum held in August 2014, and donated RMB6,000 for purchase of books to Banan District Primary and Middle School Charity in August 2014. The Group also provided financial aid to Hope Primary Schools to support the education cause.

Golden Autumn Education Promotion Programme

Social Responsibility Report (Continued)


A Hope Primary School among our donations

Environment

With active participation in tree planting each year to contribute to a green environment, the Company makes the afforestation activity a social responsibility education for family members, especially children of employees.


Tree planting activities

On 26 December 2014, our employees launched a garbage remediation activity themed "Protecting our Mother River for a Better Space" at the Fengtoxi Community, Dazhulin Street alongside the Jialing River.

Our employees collecting garbage at the riverside

On 25 April 2014, 22 employees of Qijiang Gear Transmission, a subsidiary of the Group, participated in a sanitation remediation activity themed "Pooling the efforts across 5 towns" in the Qijiang District.

Cleaning river garbage in a community

Social Responsibility Report (Continued)

Serving the Community

The Group's commitment to neighbouring community development is also mirrored in its cares to left-behind children and volunteer services under a one-one support mechanism for the families in need.

On 15 March 2014, approximately 80 employees of Qijiang Gear Transmission staged a large-scale youth volunteering community event, providing services of over 1,190 person-times including knife sharpening, tinkering, key making, bicycle (motorcycle) cleaning, ironing, shoe cleaning, computer maintenance, leather care, mobile phone filming, etc.. The event carried forward the spirit of Lei Feng to serve the people, which promoted the volunteering concept of "dedication, friendship, mutual aid and progress" through satisfactory services.

On 21 December 2014, members of the Communist Youth League of Chongqing Pigeon conveyed warmth and care to 16 five-guaranteed elderly persons in the Shuangfeng Nursing Home in Yubei District for celebrating the New Year's Day.

Caring for the elderly

Blood donation by employees of Chongqing Pigeon on the first National Memorial Day

Social Responsibility Report (Continued)

Blood donation by employees of Chongqing Pump

During the year ended 31 December 2014, the Group made charitable donations totalling approximately RMB0.35 million. The Group will continue to support and participate in a variety of public welfare activities.

羅兵咸永道

To the shareholders of Chongqing Machinery & Electric Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Chongqing Machinery & Electric Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 115 to 284, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report *(Continued)*

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2015

Consolidated Statement of Comprehensive Income

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Revenue	5	**9,485,570**	9,701,044
Cost of sales	8	**(8,420,794)**	(8,616,264)
Gross profit		**1,064,776**	1,084,780
Distribution costs	8	**(255,180)**	(266,446)
Administrative expenses	8	**(814,407)**	(749,257)
Other gains, net	6	**213,361**	94,914
Other income	7	**136,675**	124,775
Operating profit		**345,225**	288,766
Finance income		**21,368**	35,249
Finance costs		**(104,512)**	(136,707)
Finance costs, net	10	**(83,144)**	(101,458)
Share of post-tax profits of joint venture	12	**317,514**	353,816
Share of post-tax profits of associates	12	**51,084**	44,099
Profit before income tax		**630,679**	585,223
Income tax expense	13	**(66,906)**	(44,785)
Profit for the year		**563,773**	540,438

Consolidated Statement of Comprehensive Income

(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
	Note	**2014**	2013
		RMB'000	*RMB'000*
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefit obligations		**(2,322)**	(355)
Income tax relating to remeasurements of retirement benefit obligations		**110**	(63)
Share of other comprehensive income of investments accounted for using the equity method		**452**	–
Items that may be reclassified to profit or loss			
Fair value gains/(losses) on available-for-sale financial assets		**2,189**	(813)
Income tax relating to available-for-sale financial assets		**(328)**	122
Currency translation differences		**(2,179)**	(1,305)
Other comprehensive income for the year, net of tax		**(2,078)**	(2,414)
Total comprehensive income for the year		**561,695**	538,024
Profit attributable to:			
Owners of the Company		**511,943**	506,829
Non-controlling interests		**51,830**	33,609
		563,773	540,438

Consolidated Statement of Comprehensive Income

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Total comprehensive income attributable to:			
Owners of the Company		**509,865**	504,415
Non-controlling interests		**51,830**	33,609
		561,695	538,024
Earnings per share for profit attributable to the owners of the Company for the year (expressed in RMB per share)			
– Basic and diluted	14	**0.14**	0.14

The notes on pages 125 to 284 are an integral part of these financial statements.

	Note	2014 RMB'000	2013 RMB'000
Dividends proposed after the balance sheet date to all shareholders	33	**169,493**	184,232

Balance Sheets

(All amounts in RMB unless otherwise stated)

		Group		Company	
		As at 31 December		As at 31 December	
	Note	**2014**	2013	**2014**	2013
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	16	**3,105,368**	2,734,318	**6,540**	7,265
Investment properties	17	**29,828**	29,825	**–**	–
Lease prepayments	15	**466,672**	482,704	**–**	–
Intangible assets	18	**289,469**	286,872	**–**	–
Investments in associates	12	**540,112**	508,417	**209,206**	229,206
Investments in subsidiaries	11	**–**	–	**2,872,596**	2,826,027
Investment in joint venture	12	**316,169**	310,143	**200,929**	200,929
Trade and other receivables	19	**–**	–	**569,932**	224,155
Deferred income tax assets	31	**72,515**	74,819	**–**	–
Available-for-sale financial assets		**8,029**	2,840	**20,000**	–
Other non-current assets		**24,263**	11,425	**–**	–
		4,852,425	4,441,363	**3,879,203**	3,487,582
Current assets					
Inventories	22	**1,700,880**	1,669,709	**–**	–
Trade and other receivables	19	**4,187,371**	3,877,374	**334,348**	570,722
Dividend receivable		**313,426**	157,464	**313,526**	171,164
Amount due from customers for contract work	20	**498,025**	464,871	**–**	–
Financial assets at fair value through profit or loss	23	**194,939**	–	**194,808**	–
Restricted cash	21	**684,039**	447,163	**5,092**	5,074
Cash and cash equivalents	24	**1,203,508**	1,792,359	**727,791**	1,052,989
		8,782,188	8,408,940	**1,575,565**	1,799,949
Total assets		**13,634,613**	12,850,303	**5,454,768**	5,287,531

(All amounts in RMB unless otherwise stated)

		Group		Company	
		As at 31 December		**As at 31 December**	
	Note	**2014**	2013	**2014**	2013
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
EQUITY					
Capital and reserves attributable to owners of the Company					
Share capital	25	**3,684,640**	3,684,640	**3,684,640**	3,684,640
Reserves	26	**(723,987)**	(752,910)	**(701,275)**	(732,276)
Retained earnings					
– Proposed final dividend	33	**169,493**	184,232	**169,493**	184,232
– Others	26	**2,714,332**	2,402,883	**1,102,002**	998,659
		5,844,478	5,518,845	**4,254,860**	4,135,255
Non-controlling interests		**406,491**	367,420	**–**	–
Total equity		**6,250,969**	5,886,265	**4,254,860**	4,135,255
LIABILITIES					
Non-current liabilities					
Trade and other payables	27	**30,000**	–	**–**	–
Borrowings	29	**1,421,986**	1,489,258	**997,431**	1,021,064
Deferred income	30	**410,617**	475,757	**–**	–
Deferred income tax liabilities	31	**50,279**	21,786	**–**	–
Long-term employee benefit obligations	32	**50,451**	37,003	**–**	–
		1,963,333	2,023,804	**997,431**	1,021,064

Balance Sheets *(Continued)*

(All amounts in RMB unless otherwise stated)

		Group		Company	
		As at 31 December		As at 31 December	
	Note	**2014**	2013	**2014**	2013
		RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current liabilities					
Trade and other payables	27	**4,200,117**	3,828,431	**177,319**	106,093
Dividend payable		**27,175**	25,381	**–**	–
Amount due to customers for contract work	20	**15,239**	8,568	**–**	–
Current income tax liabilities		**44,599**	50,796	**–**	–
Borrowings	29	**1,072,975**	996,881	**25,158**	25,119
Deferred income	30	**32,206**	–	**–**	–
Current portion of long-term employee benefit obligations	32	**11,605**	9,316	**–**	–
Provisions for warranty	28	**16,395**	20,861	**–**	–
		5,420,311	4,940,234	**202,477**	131,212
Total liabilities		**7,383,644**	6,964,038	**1,199,908**	1,152,276
Total equity and liabilities		**13,634,613**	12,850,303	**5,454,768**	5,287,531
Net current assets		**3,361,877**	3,468,706	**1,373,088**	1,668,737
Total assets less current liabilities		**8,214,302**	7,910,069	**5,252,291**	5,156,319

The financial statements on pages 115 to 284 were approved by the Board of Directors on 24 March 2015 and were signed on its behalf

Director

Director

The notes on pages 125 to 284 are an integral part of these financial statements.

Consolidated Statement of Changes in Equity

(All amounts in RMB unless otherwise stated)

	Attributable to owners of the Company				Non-controlling interests	Total equity
	Share capital *RMB'000*	Other reserves *RMB'000* *Note 26*	Retained earnings *RMB'000* *Note 26*	Total *RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2013	3,684,640	(787,733)	2,246,485	5,143,392	338,799	5,482,191
Comprehensive income						
Profit for the year	–	–	506,829	506,829	33,609	540,438
Other comprehensive income						
Changes in fair value of available-for-sales financial assets, net of tax	–	(691)	–	(691)	–	(691)
Remeasurements of retirement benefit obligations, net of tax	–	(418)	–	(418)	–	(418)
Currency translation differences	–	(1,305)	–	(1,305)	–	(1,305)
Total other comprehensive income	–	(2,414)	–	(2,414)	–	(2,414)
Total comprehensive income	–	(2,414)	506,829	504,415	33,609	538,024
Total contributions by and distributions to owners of the Company recognised directly in equity						
Dividends relating to 2012	–	–	(128,962)	(128,962)	–	(128,962)
Dividends to non-controlling interests	–	–	–	–	(4,988)	(4,988)
Total contributions by and distributions to owners of the Company	–	–	(128,962)	(128,962)	(4,988)	(133,950)
Transfer to reserves	–	37,237	(37,237)	–	–	–
Total transactions with owners	–	37,237	(166,199)	(128,962)	(4,988)	(133,950)
Balance at 31 December 2013	3,684,640	(752,910)	2,587,115	5,518,845	367,420	5,886,265

Consolidated Statement of Changes in Equity *(Continued)*

(All amounts in RMB unless otherwise stated)

	Attributable to owners of the Company				Non-	
	Share capital *RMB'000*	Other reserves *RMB'000* *Note 26*	Retained earnings *RMB'000* *Note 26*	Total *RMB'000*	controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2014	3,684,640	(752,910)	2,587,115	5,518,845	367,420	5,886,265
Comprehensive income						
Profit for the year	–	–	511,943	511,943	51,830	563,773
Other comprehensive income						
Changes in fair value of available-for-sale financial assets, net of tax	–	1,861	–	1,861	–	1,861
Remeasurements of retirement benefit obligations, net of tax	–	(2,212)	–	(2,212)	–	(2,212)
Share of other comprehensive income of investments accounted for using the equity method	–	452	–	452	–	452
Currency translation differences	–	(2,179)	–	(2,179)	–	(2,179)
Total other comprehensive income	–	(2,078)	–	(2,078)	–	(2,078)
Total comprehensive income	–	(2,078)	511,943	509,865	51,830	561,695
Total contributions by and distributions to owners of the Company recognised directly in equity						
Dividends relating to 2013	–	–	(184,232)	(184,232)	–	(184,232)
Total contributions by and distributions to owners of the Company	–	–	(184,232)	(184,232)	–	(184,232)
Transfer to reserves	–	31,001	(31,001)	–	–	–
Dividends to non-controlling interests	–	–	–	–	(7,482)	(7,482)
Other deductions	–	–	–	–	(5,277)	(5,277)
Total transactions with owners	–	31,001	(215,233)	(184,232)	(12,759)	(196,991)
Balance at 31 December 2014	3,684,640	(723,987)	2,883,825	5,844,478	406,491	6,250,969

The notes on pages 125 to 284 are an integral part of these financial statements.

Consolidated Statement of Cash Flows

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Cash flows from operating activities			
Cash generated from operations	34	**120,502**	72,859
Interest paid		**(105,225)**	(156,004)
Income tax paid		**(42,634)**	(51,168)
Net cash used in operating activities		**(27,357)**	(134,313)
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss		**(229,991)**	(714,000)
Proceeds from return of financial assets at fair value through profit or loss		**40,280**	723,986
Proceeds from government grants related to assets		**11,277**	12,025
Purchase of property, plant and equipment and investment properties		**(718,092)**	(549,542)
Purchase of intangible assets		**(8,806)**	(32,636)
Investments in associates		**(1,375)**	(94,439)
Proceeds from disposal of property, plant and equipment and lease prepayment	34	**305,365**	3,409
Interest received		**21,368**	35,249
Dividends received		**209,885**	329,326
Increase in lease prepayments		**(9,627)**	(34,347)
Gain on disposal of investments		**460**	2,800
Net cash used in investing activities		**(379,256)**	(318,169)

Consolidated Statement of Cash Flows *(Continued)*

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Cash flows from financing activities			
Proceeds from borrowings		**1,248,462**	1,667,192
Repayments of borrowings		**(1,238,246)**	(1,812,093)
Finance lease paid		**(1,395)**	(1,758)
Dividends paid to company's shareholders		**(184,232)**	(128,962)
Dividends paid to non-controlling interests		**(5,688)**	(4,988)
Net cash used in from financing activities		**(181,099)**	(280,609)
Net decrease in cash and cash equivalents		**(587,712)**	(733,091)
Cash and cash equivalents at beginning of the year		**1,792,359**	2,525,881
Exchange losses on cash and cash equivalents		**(1,139)**	(431)
Cash and cash equivalents at end of the year	24	**1,203,508**	1,792,359

The notes on pages 125 to 284 are an integral part of these financial statements.

1. GENERAL INFORMATION

Chongqing Machinery & Electric Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in manufacturing and sales of automobile parts and components, general machinery, machinery tools and power equipment. The Group has operations mainly in the People's Republic of China (the "PRC" or "China").

The Company was established in the PRC on 27 July 2007 as a joint stock company with limited liability as part of the reorganisation of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. ("CQMEHG") in preparation for a listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited. CQMEHG is a state-owned enterprise established in the PRC and has been directly under the administration and control of the State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government. The address of the Company's registered office is No. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing 401123, the PRC.

The H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 13 June 2008.

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 24 March 2015.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
(All amounts in RMB unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Chongqing Machinery & Electric Co., Ltd. have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the valuation of financial assets at fair value through profit or loss and available-for-sale financial assets which are carried at fair value.

The consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Group*

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014:

- Amendment to HKAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the group financial statements.

- Amendments to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in HKAS 36 by the issue of HKFRS 13.

- Amendment to HKAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under HKAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Group has applied the amendment and there has been no significant impact on the group financial statements as a result.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
(All amounts in RMB unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(a) *New and amended standards adopted by the Group (continued)*

- HK(IFRIC) 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of HKAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(b) *New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2014, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. The complete version of HKFRS 9 was issued in July 2014. It replaces the guidance in HKAS 39 that relates to the classification and measurement of financial instruments. HKFRS 9 retains but simplifies the mixed measurement model and establishes three primary measurement categories for financial assets: amortised cost, fair value through OCI and fair value through P&L. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. Investments in equity instruments are required to be measured at fair value through profit or loss with the irrevocable option at inception to present changes in fair value in OCI not recycling. There is now a new expected credit losses model that replaces the incurred loss impairment model used in HKAS 39. For financial liabilities there were no changes to classification and measurement except for the recognition of changes in own credit risk in other comprehensive income, for liabilities designated at fair value through profit or loss. HKFRS 9 relaxes the requirements for hedge effectiveness by replacing the bright line hedge effectiveness tests. It requires an economic relationship between the hedged item and hedging instrument and for the 'hedged ratio' to be the same as the one management actually use for risk management purposes.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
(All amounts in RMB unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(b) New standards and interpretations not yet adopted (continued)

Contemporaneous documentation is still required but is different to that currently prepared under HKAS 39. The standard is effective for accounting periods beginning on or after 1 January 2018. Early adoption is permitted. The Group is yet to assess HKFRS 9's full impact.

- HKFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of HKFRS 15.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Subsidiaries

2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the group has control. The group controls an entity when the group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former equity holders of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by HKFRS.

Acquisition-related costs are expensed as incurred.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
(All amounts in RMB unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(a) *Business combinations (continued)*

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If the total of consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. When necessary, amounts reported by subsidiaries have been adjusted to conform with the group's accounting policies.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(b) *Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) *Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.2 Subsidiaries *(continued)*

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.3 Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investment in associates includes goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.3 Associates *(continued)*

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of associates' in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associate are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gains or losses on dilution of equity interest in associates are recognised in profit or loss.

Notes to the Consolidated Financial Statements *(Continued)*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.4 Joint arrangements

The Group has applied HKFRS 11 to all joint arrangements. Under HKFRS 11 investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint ventures), the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealised gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the operating management committee that makes strategic decisions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Renminbi ("RMB"), which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the statement of comprehensive income within 'finance income or cost'. All other foreign exchange gains and losses are presented in the statement of comprehensive income within 'other (losses)/gains – net'.

Changes in fair value of monetary securities denominated in foreign currency classified as available-for-sale are analysed between translation differences resulting from changes in the amortised cost of the security and other changes in the carrying amount of the security. Translation differences related to changes in amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
(All amounts in RMB unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.6 Foreign currency translation *(continued)*

(b) Transactions and balances *(continued)*

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets, such as equities classified as available-for-sale, are included in other comprehensive income.

(c) Group companies

The results and financial position of the group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate. Exchange differences arising are recognised in other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.6 Foreign currency translation *(continued)*

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or joint ventures that do not result in the group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

Notes to the Consolidated Financial Statements *(Continued)*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.7 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to profit or loss during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

– Buildings and plants	20 – 50 years
– Equipment and machinery	3 – 28 years
– Motor vehicles	6 – 12 years

For the moulds included in equipment machinery, the depreciation is calculated using the unit-of-production method to allocate their cost to their residual values over their estimated frequency of use, as follows:

	Estimated production units	**Depreciation rate per unit**
– Moulds	300 – 500	0.1% – 0.2%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.7 Property, plant and equipment *(continued)*

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains – net' in profit or loss.

Assets under construction represent buildings under construction and plant and equipment pending for installation, and are stated at cost. Costs include construction and acquisition costs. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

2.8 Investment properties

Investment properties, comprising buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful life of 45 years. The residual values and useful lives of investment properties are reviewed and adjusted as appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in profit or loss.

Notes to the Consolidated Financial Statements *(Continued)*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.9 Lease prepayments

Lease prepayments represent upfront prepayments made for the land use rights. Lease payments are stated at cost or, in case of restructuring, at valuation which represented the deemed cost to the Group, and are expensed in profit or loss on a straight-line basis over the period of the land use rights or when there is impairment, the impairment is expensed in profit or loss.

2.10 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.10 Intangible assets *(continued)*

(b) Technical know-how

Separately acquired technical know-how is shown at historical cost. Technical know-how acquired in a business combination is recognised at fair value at the acquisition date. Technical know-how has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technical know-how over its estimated useful life of 6 to 10 years.

(c) Brand and customer relationships

Brand and customer relationships acquired in a business combination are recognised at fair value at the acquisition date. Brand has an indefinite useful life and is tested annually for impairment and carried at cost less accumulated impairment losses. Customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of customer relationships over their estimated useful lives of 10 – 12 years.

(d) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 to 10 years.

Notes to the Consolidated Financial Statements *(Continued)*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.10 Intangible assets *(continued)*

(e) Concession assets

The Group engages in certain service concession arrangements in which the Group carries out construction work for the granting authority and receive in exchange a right to operate the assets concerned in accordance with the pre-established conditions set by the granting authority. In accordance with HK(IFRIC) 12, "Service concession arrangements", the assets under the concession arrangements may be classified as intangible assets or financial assets. The assets are classified as intangible assets if the operator receives a right (a licence) to charge user of the public service, or as financial assets if paid by the granting authority. If intangible assets model is applicable, the Group classifies the non-current assets linked to the long-term investment in these concession arrangements as "concession assets" within intangible assets classification on the consolidated balance sheets. Once the underlying infrastructure of the concession arrangements has been completed, the concession assets will be amortised over the term of the concession period on the straight-line basis under the intangible assets model. If financial assets model is applicable, the Group classifies the assets in relation to these concession arrangements within financial assets classification on the consolidated balance sheet. Once the underlying infrastructure of the concession arrangements have been completed, the interest of financial assets will be calculated using effective interest rate method and related gain/(loss) will be charged to the profit or loss accordingly over the concession period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.11 Impairment of non-financial assets

Assets that have an indefinite useful life – for example, goodwill and brand – are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.12 Financial assets

2.12.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

Notes to the Consolidated Financial Statements *(Continued)*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.12 Financial assets *(continued)*

2.12.1 Classification *(continued)*

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'restricted cash' and 'cash and cash equivalents' in the balance sheets (Notes 2.17 and 2.18).

(c) *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment maturities or management intends to dispose of it within 12 months of the end of the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.12 Financial assets *(continued)*

2.12.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in profit or loss within 'other gains/(losses) – net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in profit or loss as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

Notes to the Consolidated Financial Statements *(Continued)*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.12 Financial assets *(continued)*

2.12.2 Recognition and measurement *(continued)*

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss as part of other income. Dividends on available-for-sale equity instruments are recognised in profit or loss as part of other income when the Group's right to receive payments is established.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.14 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or a group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

Notes to the Consolidated Financial Statements *(Continued)*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.14 Impairment of financial assets *(continued)*

(a) Assets carried at amortised cost *(continued)*

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the profit or loss.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is removed from equity and recognised in profit or loss. Impairment losses recognised in the profit or loss on equity instruments are not reversed through the profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.15 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group does not have any derivative instruments that qualifying for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in profit or loss.

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.17 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

Notes to the Consolidated Financial Statements *(Continued)*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.18 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

2.19 Share capital

Share capital is classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.20 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.21 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost, any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.21 Borrowings *(continued)*

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.22 Borrowings costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Notes to the Consolidated Financial Statements *(Continued)*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.23 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date where the Company and its subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.23 Current and deferred income tax *(continued)*

(b) Deferred income tax *(continued)*

Inside basis differences (continued)

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Notes to the Consolidated Financial Statements *(Continued)*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.23 Current and deferred income tax *(continued)*

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.24 Employee benefits

(a) Pension obligations

The Group's subsidiaries in the PRC contribute on a monthly basis to various defined contribution retirement schemes managed by the PRC Government. The contributions to the schemes are charged to profit or loss as and when incurred. The Group's obligations are determined at a certain percentage of the salaries of the employees.

The Group also provided supplementary pension subsidies to certain retired employees. Such supplementary pension subsidies are considered as under defined benefit plans. The liability recognised in the balance sheet in respect of these defined benefit plans is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities which have maturity approximating to the terms of the related pension liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.24 Employee benefits *(continued)*

(a) Pension obligations *(continued)*

The current service cost of the defined benefit plan, recognised in the profit or loss in employee benefit expense, except where included in the cost of an asset, reflects the increase in the defined benefit obligation results from employee service in the current year, benefit changes, curtailments and settlements.

Past-service costs are recognised immediately in profit or loss.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

The Group's subsidiaries in the United Kingdom operate a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the companies. The annual contributions payable are charged to profit or loss.

(b) Other post-employment obligations

Some group companies provided post-retirement medical benefits to their retired employees. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. These obligations are valued annually by independent qualified actuaries.

Notes to the Consolidated Financial Statements *(Continued)*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.24 Employee benefits *(continued)*

(c) Early retirement benefits

Some companies within the Group bore certain benefits obligation to the qualified early retired staff. Early retirement benefits are for staffs who have retired before the retirement age as specified by the national rules. The Group provides various benefits, including early retirement subsidies, continuous contribution of the medical and other welfare benefits to the local governmental authorities up to the retirement age as specified by the national rules. Such benefits are considered as under defined benefit plans. These obligations are valued annually by independent qualified actuaries. The liability recognised in the balance sheet is the present value of the defined obligation at the balance sheet date. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income over the expected average remaining lives of the related employees.

(d) Housing fund and other benefits

All full-time employees of the Group's subsidiaries in the PRC are entitled to participate in various government-sponsored housing and other benefits funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

(e) Bonus entitlement

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.24 Employee benefits *(continued)*

(f) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.25 Provisions

Provisions, mainly warranty costs, are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.26 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of assets are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.27 Construction contracts

Contract costs are recognised as expenses by reference to the stage of the contract of activity at the end of reporting period.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.27 Construction contracts *(continued)*

The Group uses the 'percentage of completion method' to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the end of the reporting period as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

2.28 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Notes to the Consolidated Financial Statements *(Continued)*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.28 Revenue recognition *(continued)*

(a) Sales of goods

Revenue from the sales of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the ultimate customers or dealers, as appropriate (normally in the form of delivery of goods to ultimate customers, dealers or parties designated by the dealers), and the ultimate customers, dealers or parties designated by the dealers have accepted the products and collectability of the related receivables is reasonably assured.

(b) Revenue from construction contracts

Revenue from construction contracts is recognised under the percentage of completion method, when the contract has progressed to a stage where the stage of completion and expected profit on the contract can be reliably determined and is measured mainly by reference to the proportion of contract costs incurred for work performed to date to estimated total contract costs. Anticipated losses are fully provided on contracts when identified.

(c) Sales of services

For sales of services, revenue is recognised in the accounting period in which the services are rendered, by reference to stage of completion of the specific transaction and assessed on the basis of actual services provided as a proportion of the total service to be provided.

(d) Rental income

Rental income is recognised in profit or loss on a straight-line basis over the term of the lease.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.28 Revenue recognition *(continued)*

(e) Interest income

Interest income from the segment of financial service is recorded in revenue, interest income from other segments is recorded in financial income.

2.29 Interest income

Interest income is recognised using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivable are recognised using the original effective interest rate.

2.30 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.31 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Notes to the Consolidated Financial Statements *(Continued)*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.31 Leases *(continued)*

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

2.32 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(b) management intends to complete the intangible asset and use or sell it;

(c) there is an ability to use or sell the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.32 Research and development *(continued)*

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

2.33 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.34 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of subsidiaries or associates to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms, and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial amount, less amortisation of fees recognised in accordance with HKAS 18, and the best estimate of the amount required to settle the guarantee. These estimates are determined based on experience of similar transactions and history of past losses, supplemented by management's judgement. The fee income earned is recognised on a straight-line basis over the life of the guarantee. Any increase in the liability relating to guarantees is reported in profit or loss within 'other gains – net'.

Notes to the Consolidated Financial Statements *(Continued)*

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.34 Financial guarantee contracts *(continued)*

Where guarantees in relation to loans or other payables of subsidiaries or associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment in the financial statements of the company.

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge the risk exposures.

Risk management is carried out by finance department under policies approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar ("USD"). Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity's functional currency. Management has set up a policy to require the group companies to manage their foreign exchange risk against their functional currency.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(i) Foreign exchange risk (continued)

As at 31 December 2014, if RMB had weakened/strengthened by 1% (2013: 1%) against USD with all other variables held constant, the Group's net profit for the year then ended would have been approximately RMB392,000 (2013: RMB921,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of USD-denominated bank deposits and trade receivables and foreign exchange losses/gains on translation of USD-denominated bank borrowings and trade and other payables.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from interest bearing bank deposits and borrowings. Bank deposits and borrowings at variable rates expose the Group to cash flow interest rate risk. Bank deposits and borrowings at fixed rates expose the Group to fair value interest rate risk. The Group determines the related proportions of its fixed and variable rate contracts depending on the prevailing market conditions. During 2014 and 2013, the Group's bank deposits and borrowings at variable rates were denominated in RMB/USD/EUR/HKD/UK pound. The Group currently does not hedge its exposure to interest rate risk.

As at 31 December 2014, if the interest rate of the Group's cash at bank had been increased/decreased by 10% (2013: 10%) and all other variables were held constant, the Group's post-tax profit for the year then ended would have been increased/decreased by approximately RMB5,996,000 (2013: RMB2,333,000).

Notes to the Consolidated Financial Statements *(Continued)*

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3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(ii) Cash flow and fair value interest rate risk (continued)

As at 31 December 2014, the Group's bank borrowings at variable rates and at fixed rates are as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Borrowings at variable rates	**280,164**	257,624
Borrowings at fixed rates	**1,212,830**	1,221,500
	1,492,994	1,479,124

As at 31 December 2014, the weighted average interest rates of bank borrowings at variable rates is 3.32% (2013: 4.61%). If the interest rate of the Group's bank borrowings at variable rates had been increased/decreased by 10% (2013: 10%) and all other variables were held constant, the Group's profit before income tax for the year then ended would have been decreased/increased by approximately RMB929,000 (2013: RMB1,187,000).

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(b) Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash, trade and other receivables and amount due from customers for contract work shown on balance sheets.

As at 31 December 2014 and 2013, substantially all the Group's bank deposits are deposited in major banks which are state-owned entities incorporated in the PRC, which management believes are of high credit quality without significant credit risk. The Group's bank deposits as at 31 December 2014 and 2013 were as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Big four commercial banks *(i)*	**318,632**	861,776
Other listed banks	**1,443,187**	1,150,078
Other non-listed banks	**123,332**	226,481
	1,885,151	2,238,335

(i) Big four commercial banks include Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China and Bank of China.

Notes to the Consolidated Financial Statements *(Continued)*

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3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

All the Group's trade and other receivables have no collateral. However, the Group has policies in place to ensure that sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group assesses the credit quality of each customer by taking into account its financial position, past experience and other factors. Credit limit and terms are reviewed on periodic basis, and the financial department is responsible for such monitoring procedures. In determining whether provision for impairment of receivables is required, the Group takes into consideration the future cash flows, ageing status and the likelihood of collection. In this regards, the directors of the Company are satisfied that the risks are minimal and adequate provision for impairment of receivables, if any, has been made in the financial statements after assessing the collectibility of individual debts. Further quantitative disclosures in respect of the impairment of trade and other receivables are set out in Note 19.

Maximum exposure to credit risk before collateral held or other credit enhancements:

	Group maximum exposure	
	2014	2013
	RMB'000	*RMB'000*
Credit risk exposure relating to off-balance sheet items		
Financial guarantees	**82,900**	177,826
At 31 December	**82,900**	177,826

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

The Group has guaranteed the bank loans of related parties (Note 37). Under the terms of financial guarantee contracts, the Group will make payments to reimburse the lenders upon failure of the guaranteed entities to make payments when due.

The Group has no other significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

(c) Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations, borrowings from financial institutions, as well as equity financing through shareholders.

The table below analyses the Group's and Company's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

Notes to the Consolidated Financial Statements *(Continued)*

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3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

Group	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2014				
Bank borrowings	**1,108,987**	**175,644**	**298,196**	**–**
Other borrowings	**3,100**	**–**	**–**	**–**
Corporate bonds	**65,900**	**1,065,900**	**–**	**–**
Finance lease liabilities	**1,447**	**72**	**–**	**–**
Trade and other payables	**3,217,906**	**31,159**	**–**	**–**
Financial guarantee contracts	**–**	**–**	**82,900**	**–**
At 31 December 2013				
Bank borrowings	1,044,051	419,530	17,448	88,252
Other borrowings	3,489	4,900	–	–
Corporate bonds	65,900	65,900	1,065,900	–
Finance lease liabilities	2,087	1,033	–	–
Trade and other payables	2,989,135	–	–	–
Financial guarantee contracts	–	–	127,826	50,000

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

Company	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2014				
Bank borrowings	**25,794**	**–**	**–**	**–**
Corporate bonds	**65,900**	**1,065,900**	**–**	**–**
Trade and other payables	**176,533**	**–**	**–**	**–**
Financial guarantee contracts	**148,773**	**–**	**–**	**–**
At 31 December 2013				
Bank borrowings	26,650	25,786	–	–
Corporate bonds	65,900	65,900	1,065,900	–
Trade and other payables	80,559	–	–	–
Financial guarantee contracts	276,578	104,507	–	–

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Notes to the Consolidated Financial Statements *(Continued)*

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3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.2 Capital management *(continued)*

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as borrowings divided by total capital. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus borrowings. The Group aims to maintain the gearing ratio at a reasonable level.

The gearing ratios at 31 December 2014 and 2013 were as follows:

	31 December 2014 *RMB'000*	31 December 2013 *RMB'000*
Total borrowings	**2,494,961**	2,486,139
Total equity	**6,250,969**	5,886,265
Total capital	**8,745,930**	8,372,404
Gearing ratio	**29%**	30%

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2014.

	Level 1 *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Assets				
Financial assets at fair value through profit or loss				
– Forward foreign exchange contracts	–	131	–	131
– Investments in bond securities	–	–	194,808	194,808
Available-for-sale financial assets				
– Equity securities	5,029	–	–	5,029
Total assets	5,029	131	194,808	199,968

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2013.

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Assets				
Available-for-sale financial assets				
– Equity securities	2,840	–	–	2,840
Total assets	2,840	–	–	2,840

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3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(continued)*

There were no transfers between levels during the year.

(a) Financial instruments in level 1

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investments classified as trading securities or available-for-sale.

(b) Financial instruments in level 2

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(continued)*

(c) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2014.

	Investment in bond securities at fair value through profit or loss *RMB'000*	**Total** *RMB'000*
Balance at 1 January	–	–
Additions	229,992	229,992
Changes in fair value recognised in profit or loss	4,807	4,807
Disposals	(39,991)	(39,991)
Balance at 31 December	194,808	194,808
Total gains for the period including in profit or loss for assets held at the end of the reporting period	4,807	4,807

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted cash, trade and other receivables and amount due from customers for contract work; and financial liabilities including trade and other payables, short-term borrowings, approximate their fair values due to their short maturities. The fair value of non-current financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments as disclosed in Note 29.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Taxation

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

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

As at 31 December 2014, the Group has deferred tax assets of approximately RMB72,515,000. To the extent that it is probable that taxable profit will be available against which the deductible temporary differences will be utilised, deferred tax assets are recognised for temporary differences arising from provision for impairment of assets, deferred income, retirement and termination benefit obligations, and warranty and other accrued expenses.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

(b) Impairment of non-financial assets

Non-financial assets are reviewed for impairment in accordance with the accounting policy stated in Note 2.11. The recoverable amount of an asset or a cash-generating unit is the higher of an asset's or a cash-generating unit's fair value less costs to sell and value-in-use. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, which has been prepared on the basis of management's assumptions and estimates. Detailed sensitivity analyses have been performed and management is confident that the carrying amount of the relevant assets will be recovered in full.

(c) Pension benefits

The present value of the pension obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 32.

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4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

(d) Provisions for warranty

The Group provides warranties on their products and undertakes to repair or replace items that fail to perform satisfactorily based on certain pre-determined conditions. Management estimates the related warranty claims based on historical warranty claim information including level of repairs and returns as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality controls, as well as parts and labor costs. Any increase or decrease in the provision would affect profit or loss in future years.

5. SEGMENT INFORMATION

Management has determined the operating segments based on the reports reviewed by the operating management committee that are used to make strategic decisions.

The operating management committee considers the business from a product perspective. From a product perspective, management assesses the performance of engines, gear boxes, hydroelectric generation equipment, electrical wires and cables, general machinery, financial services, machinery tools, high-voltage transformers and materials sales. The results of other products operations are included in the "all other segments" column.

The operating management committee assesses the performance of the operating segments based on a measure of operating profit. Interest income and expense are not included in the result for each operating segment that is reviewed by operating management committee.

Sales between segments are carried out in the ordinary course of business and in accordance with the term of the underlying agreements. The revenue from external parties reported to the operating management committee is measured in a manner consistent with that in the statement of comprehensive income.

5. SEGMENT INFORMATION *(CONTINUED)*

The segment information provided to the operating management committee for the reportable segments for the year ended 31 December 2014 is as follows:

	Engines *RMB'000*	Gear boxes *RMB'000*	Hydroelectric generation equipment *RMB'000*	Electrical wires and cables *RMB'000*	General machinery *RMB'000*	Financial services *RMB'000*	Machinery tools *RMB'000*	High-voltage transformers *RMB'000*	Material sales *RMB'000*	All other segments *RMB'000*	Total Group *RMB'000*
Total segment revenue	–	735,065	407,454	2,449,903	1,109,236	121,705	1,159,435	–	3,620,441	1,250,357	10,853,596
Inter-segment revenue	–	(1,295)	–	–	–	(34,771)	(277,122)	–	(1,054,838)	–	(1,368,026)
Revenue from external customers	–	733,770	407,454	2,449,903	1,109,236	86,934	882,313	–	2,565,603	1,250,357	9,485,570
Operating profit	–	(4,781)	123,385	83,610	65,031	55,229	76,609	–	7,809	(61,667)	345,225
Finance income	–	1,722	1,793	1,657	7,634	–	3,906	–	290	4,366	21,368
Finance costs	–	(1,039)	(3,781)	(25,929)	(12,709)	–	(26,665)	–	(3,289)	(31,100)	(104,512)
Share of post-tax profits of associates and joint venture	317,514	560	–	–	6,400	8,951	–	15,748	–	19,425	368,598
Profit before income tax											630,679
Income tax expense	–	(2,200)	(14,506)	(7,627)	(4,654)	(13,545)	(10,980)	–	(17)	(13,377)	(66,906)
Profit for the year											563,773
Other items											
Depreciation on property, plant and equipment and investment properties	–	27,401	11,551	16,709	44,136	121	42,737	–	424	48,431	191,510
Amortisation of lease prepayments and intangible assets	–	4,428	849	676	5,607	114	10,333	–	113	3,463	25,583
(Write back)/write down of inventories	–	(12)	–	(4,024)	734	–	(1,406)	–	–	5,661	953
(Reversal of)/provision for impairment on trade and other receivables	–	(944)	1,342	(1,564)	7,223	1,611	12,672	–	(46)	6,273	26,567
Impairment loss of property, plant and equipment	–	–	–	–	–	–	–	–	–	8,162	8,162
Total assets	316,169	1,351,741	1,154,868	905,604	2,115,648	1,592,228	2,848,870	159,259	390,382	2,799,844	13,634,613
Total assets include:											
Investments in associates and joint venture	316,169	6,621	11,339	–	72,080	102,055	6,994	159,259	–	181,764	856,281
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	262,335	58,869	11,770	100,570	66	194,467	–	17	50,972	679,066

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5. SEGMENT INFORMATION *(CONTINUED)*

The segment information for the year ended 31 December 2013 is as follows:

	Engines RMB'000	Gear boxes RMB'000	Hydroelectric generation equipment RMB'000	Electrical wires and cables RMB'000	General machinery RMB'000	Financial services RMB'000	Machinery tools RMB'000	High-voltage transformers RMB'000	Material sales RMB'000	All other segments RMB'000	Total Group RMB'000
Total segment revenue	–	845,278	351,288	2,584,169	704,820	94,099	1,368,711	–	4,039,635	1,652,888	11,640,888
Inter-segment revenue	–	–	(2,862)	(1,080)	(196)	(28,087)	(433,135)	–	(1,462,149)	(12,335)	(1,939,844)
Revenue from external customers	–	845,278	348,426	2,583,089	704,624	66,012	935,576	–	2,577,486	1,640,553	9,701,044
Operating profit	–	19,528	44,729	95,337	37,059	34,709	55,002	–	12,494	(10,092)	288,766
Finance income	–	1,056	1,593	1,680	6,050	–	10,137	–	94	14,639	35,249
Finance costs	–	(1,755)	(5,865)	(33,981)	(5,762)	–	(34,781)	–	(3,254)	(51,309)	(136,707)
Share of post-tax profits of associates and joint venture	353,816	1,729	680	–	2,212	3,967	1,090	21,557	–	12,864	397,915
Profit before income tax											585,223
Income tax expense	–	(4,952)	(5,021)	(9,451)	(277)	(16,261)	(8,312)	–	(214)	(297)	(44,785)
Profit for the year											540,438
Other items											
Depreciation on property, plant and equipment and investment properties	–	28,197	10,959	19,211	28,929	121	43,960	–	293	40,628	172,298
Amortisation of lease prepayments and intangible assets	–	4,428	1,018	711	4,276	114	10,142	–	16	3,425	24,130
Write down/(write back) of inventories	–	56	–	5,575	455	–	(354)	–	–	336	6,068
(Reversal of)/provision for impairment on trade and other receivables	–	(215)	(7,414)	331	14	2,791	(549)	–	340	9,022	4,320
Total assets	310,143	1,329,946	1,119,986	881,227	1,579,141	1,987,212	2,671,388	163,020	67,437	2,740,803	12,850,303
Total assets include:											
Investments in associates and joint venture	310,143	4,871	10,545	–	91,570	93,967	2,971	163,020	–	141,473	818,560
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	135,392	25,026	8,289	89,538	1,951	472,511	–	980	58,694	792,381

5. SEGMENT INFORMATION *(CONTINUED)*

Except Holroyd Precision Limited, Precision Components Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited, PTG Deutschland GmbH ("PTG six entities"), Precision Technologies Group Investment Development Company Limited ("PTGHK") and Precision Technologies Group (PTG) Limited, the other entities of the Group are domiciled in the PRC. The result of the Group's revenue from external customers in the PRC for the year ended 31 December 2014 is approximately RMB9,102,593,000 (2013: RMB9,362,389,000), and the total of its revenue from external customers from other countries is approximately RMB382,977,000 (2013: RMB338,655,000).

The total of non-current assets other than financial instruments and deferred income tax assets located in the PRC was RMB4,545,972,000 (2013: RMB4,130,217,000), and the total of non-current assets located in other countries was RMB225,909,000 (2013: RMB233,487,000).

6. OTHER GAINS, NET

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Gain on disposals of lease prepayment, property, plant and equipment	**169,461**	37,696
Gain on disposals of financial assets at fair value through profit or loss	**5,227**	9,986
Compensation on termination of contract	**20,000**	–
Gain on reversal of borrowings from independent third party	**–**	27,701
Gain on disposals of investments	**460**	2,800
Reversal of liabilities	**7,008**	7,780
Others	**11,205**	8,951
	213,361	94,914

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
(All amounts in RMB unless otherwise stated)

7. OTHER INCOME

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Government grants in relation to		
– Tax refunds *(a)*	**20,847**	28,754
– Further development of manufacturing technology *(b)*	**31,542**	33,042
– Relocation for environmental protection *(b)*	**71,939**	56,006
– Others	**12,347**	6,973
	136,675	124,775

(a) These tax refunds were granted by local tax authorities in relation to the sales of the Group's certain products.

(b) During the years ended 31 December 2014 and 2013, the Group received certain grants from local government for the compensation of the Group's expenditures on further development of manufacturing technology and relocation for environmental protection.

8. EXPENSES BY NATURE

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Depreciation on property, plant and equipment *(Note 16)*	**187,904**	169,297
Depreciation on investment properties *(Note 17)*	**3,606**	3,001
Amortisation of lease prepayments *(Note 15)*	**11,500**	11,328
Amortisation of intangible assets *(Note 18)*	**14,083**	12,802
Amortisation of deferred income *(Note 30)*	**(306)**	(306)
Employee benefit expense *(Note 9)*	**984,660**	996,917
Changes in inventories of finished goods and work in progress	**25,696**	(40,495)
Raw materials and consumables used	**7,511,280**	7,682,947
Transportation	**81,872**	85,020
Research and development costs	**134,373**	105,655
Utilities	**109,732**	112,906
Repairs and maintenance expenditure on property, plant and equipment	**32,317**	30,037
Operating lease rentals *(Note 16)*	**27,054**	32,429
Write down of inventories *(Note 22)*	**953**	6,068
Provision for impairment of receivables *(Note 19)*	**26,567**	4,320
Provision for impairment of property, plant and equipment *(Note 16)*	**8,162**	–
Provision for warranty *(Note 28)*	**34,141**	42,041
Auditors' remuneration		
– Audit fee	**4,700**	4,700
– Other services fee	**800**	300
Other expenses	**291,287**	373,000
Total cost of sales, distribution costs and administrative expenses	**9,490,381**	9,631,967

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
(All amounts in RMB unless otherwise stated)

9. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**679,272**	728,141
Contributions to pension plans *(a)*	**101,174**	106,577
Supplemental pension benefits to qualified employees through profit or loss *(b) (Note 32)*		
– Interest cost	**1,822**	1,038
– Additions on termination benefit obligations	**21,380**	–
Housing benefits *(c)*	**49,158**	43,726
Welfare, medical and other expenses	**131,854**	117,435
	984,660	996,917

(a) The employees of the Group's subsidiaries in the PRC participate in various retirement benefit plans organised by the relevant municipal and provincial government in the PRC under which the Group is required to make monthly contributions to these plans at rates ranging from 17% to 25%, depending on the applicable local regulations, of the employees' basic salary for the years ended 31 December 2014 and 2013.

The Group's subsidiaries in the United Kingdom operate a defined contributions pension scheme. The assets of the scheme are held separately from those of the companies in an independently administered fund. The pension charge represents contribution payable by the companies and is charged to profit or loss.

(b) The Group provided supplemental pension and other post-employment benefits to certain retired employees. The costs of providing these benefits are charged to profit or loss so as to spread the service cost over the average service lives of the retirees. For details, please refer to Note 32.

9. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

(c) These represent contributions to the government-sponsored housing funds (at rates ranging from 7% to 15% of the employees' basic salary) in the PRC.

(d) Directors', supervisors' and senior management's emoluments

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Directors and supervisors		
– Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,977**	1,467
– Contributions to pension plans	**587**	402
– Discretionary bonuses	**2,716**	2,061
	5,280	3,930
Senior management		
– Basic salaries, housing allowances, other allowances and benefits-in-kind	**881**	549
– Contributions to pension plans	**391**	332
– Discretionary bonuses	**1,307**	1,134
	2,579	2,015
	7,859	5,945

The emoluments received by individual directors, supervisors and senior management are presented as below.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
(All amounts in RMB unless otherwise stated)

9. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

(d) Directors', supervisors' and senior management's emoluments *(continued)*

(i) For the year ended 31 December 2014:

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
Directors and supervisors				
Mr. Wang Yuxiang	204	–	265	469
Mr. Yu Gang	227	104	514	845
Mr. Chen Xianzheng *(Resigned from June 2014)*	138	69	500	707
Mr. Ren Yong	207	104	372	683
Mr. Xiang Hu *(Appointed from June 2014)*	207	104	399	710
Mr. Huang Yong	48	–	–	48
Mr. Wang Jiyu	48	–	–	48
Mr. Yang Jingpu	48	–	–	48
Mr. Lu Huawei	114	–	–	114
Mr. Ren Xiaochang	68	–	–	68
Mr. Liu Xing *(Resigned from September 2014)*	27	–	–	27
Mr. Chen Qing	170	103	313	586
Mr. Jin Jingyu	68	–	–	68
Mr. Yang Mingquan	48	–	–	48
Mr. Zhao Zicheng	170	103	353	626
Mr. Deng Yong	48	–	–	48
Mr. Wang Pengcheng	24	–	–	24
Mr. Yang Zhimin *(Resigned from September 2014)*	51	–	–	51
Mr. Du Chengrong *(Resigned from September 2014)*	27	–	–	27
Mr. Huang Hui *(Appointed from September 2014)*	9	–	–	9
Ms. Wu Yi *(Appointed from September 2014)*	9	–	–	9
Mr. Liu Wei *(Appointed from September 2014)*	17	–	–	17
	1,977	587	2,716	5,280

9. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

(d) Directors', supervisors' and senior management's emoluments *(continued)*

(i) For the year ended 31 December 2014: *(continued)*

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
Senior management				
Mr. Duan Caijun	207	104	372	683
Mr. Yang Quan	207	104	395	706
Mr. Chen Yu	207	104	246	557
Mr. Liu Yonggang *(Appointed from January 2014)*	260	79	294	633
	881	391	1,307	2,579
	2,858	978	4,023	7,859

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
(All amounts in RMB unless otherwise stated)

9. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

(d) Directors', supervisors' and senior management's emoluments *(continued)*

(ii) For the year ended 31 December 2013:

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
Directors and supervisors				
Mr. Wang Yuxiang	65	–	98	163
Mr. Xie Huajun	60	84	316	460
Mr. Yu Gang	140	84	406	630
Mr. Chen Xianzheng	116	84	325	525
Mr. Ren Yong	116	–	325	441
Mr. Huang Yong	48	–	–	48
Mr. Wang Jiyu	48	–	–	48
Mr. Yang Jingpu	48	–	–	48
Mr. Liu Liangcai	16	–	–	16
Mr. Lu Huawei	115	–	–	115
Mr. Ren Xiaochang	68	–	–	68
Mr. Kong Weiliang	34	–	–	34
Mr. Duan Rongsheng	16	–	–	16
Ms. Wang Rongxue	18	–	–	18
Mr. Liu Xing	36	–	–	36
Mr. Wang Xuqi	8	75	–	83
Mr. Chen Qing	153	–	302	455
Mr. Jin Jingyu	68	–	–	68
Mr. Yang Mingquan	36	75	–	111
Mr. Zhao Zicheng	147	–	289	436
Mr. Deng Yong	36	–	–	36
Mr. Wang Pengcheng	18	–	–	18
Mr. Yang Zhimin	37	–	–	37
Mr. Du Chengrong	20	–	–	20
	1,467	402	2,061	3,930

9. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

(d) Directors', supervisors' and senior management's emoluments *(continued)*

(ii) For the year ended 31 December 2013: *(continued)*

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
Senior management				
Mr. Duan Caijun	116	84	325	525
Mr. Gong Wei	49	33	241	323
Mr. Yang Quan	116	78	263	457
Mr. Xiang Hu	116	74	199	389
Mr. Chen Yu	152	63	106	321
	549	332	1,134	2,015
	2,016	734	3,195	5,945

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
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9. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

(d) Directors', supervisors' and senior management's emoluments *(continued)*

The emoluments of the directors, supervisors and senior management of the Company fell within the following bands:

	Number of individuals Year ended 31 December	
	2014	2013
Directors and supervisors		
– Nil to HKD1,000,000 (equivalent to approximately RMB788,900)	**21**	24
– HKD1,000,001 – HKD1,500,000 (equivalent to approximately RMB788,901 – RMB1,183,350)	**1**	–
	22	24
Senior management		
– Nil to HKD1,000,000 (equivalent to approximately RMB788,900)	**4**	5
	26	29

For the years ended 31 December 2014 and 2013, no directors, supervisors or senior management of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors, supervisors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

9. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

(e) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2013: none) director whose emolument is reflected in the analysis presented above. The emoluments payable to the remaining four (2013: five) individuals during the year are as follows:

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
– Basic salaries, housing allowances, other allowances and benefits-in-kind	**4,503**	3,053
– Contributions to pension plans	**403**	404
– Discretionary bonuses	**4,567**	2,390
	9,473	5,847

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
(All amounts in RMB unless otherwise stated)

9. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

(e) Five highest paid individuals *(continued)*

The emoluments fell within the following bands:

	Number of individuals Year ended 31 December	
	2014	2013
Nil to HKD1,000,000 (equivalent to approximately RMB788,900)	–	2
HKD1,000,001 – HKD1,500,000 (equivalent to approximately RMB788,901 – RMB1,183,350)	–	2
HKD1,500,001 – HKD3,500,000 (equivalent to approximately RMB1,183,351- RMB2,761,150)	3	1
HKD3,500,001 – HKD6,000,000 (equivalent to approximately RMB2,761,151- RMB4,733,400)	1	–
	4	5

10. FINANCE COSTS, NET

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Finance income		
– Interest income on short-term bank deposits	**21,368**	35,249
Finance cost:		
– Bank borrowings wholly repayable within five years	**(102,390)**	(89,481)
– Corporate bonds	**(67,200)**	(67,200)
– Finance lease liabilities	**(229)**	(1,420)
– Net exchange gain	**1,041**	874
Less: amounts capitalized on qualifying assets	**64,266**	20,520
	(104,512)	(136,707)
Net finance costs	**(83,144)**	(101,458)

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11. INVESTMENTS IN SUBSIDIARIES – COMPANY

	2014	2013
	RMB'000	*RMB'000*
Investments, at cost:		
Unlisted shares	**2,872,596**	2,826,027

All the subsidiaries are unlisted.

For the year ended 31 December 2014, the Company injected capital of RMB100,000,000 into certain subsidiaries.

As at the date of this report, the particulars of the Group's principal subsidiaries are set out in Note 38.

Material non-controlling interests

The total non-controlling interest for the period is approximately RMB51,830,000, of which approximately RMB33,228,000 is for Chongqing Machinery and Electronics Holding Group Finance Company Limited (CMEFC) and approximately RMB10,258,000 is attributed to Chongqing Pigeon Electric Wire & Cable Co., Ltd (Pigeon Wire). The total non-controlling interest at the end of 31 December 2014 is approximately RMB406,491,000, of which approximately RMB351,132,000 is for CMEFC and approximately RMB34,655,000 is for Pigeon Wire. The non-controlling interests in respect of other subsidiaries are not material.

11. INVESTMENTS IN SUBSIDIARIES – COMPANY (CONTINUED)

Summarised financial information on subsidiaries with material non-controlling interests

Set out below are the summarised financial information for each subsidiary that has non-controlling interests that are material to the Group.

Summarised balance sheet

	CMEFC		Pigeon Wire	
	As at 31 December		As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current				
Assets	**2,465,504**	2,201,584	**604,963**	631,121
Liabilities	**(1,751,886)**	(1,556,425)	**(601,874)**	(774,318)
Total current net assets/(liabilities)	**713,618**	645,159	**3,089**	(143,197)
Non-current				
Assets	**2,978**	3,625	**295,812**	337,300
Liabilities	**–**	–	**(165,611)**	(43,340)
Total non-current net assets	**2,978**	3,625	**130,201**	293,960
Net assets	**716,596**	648,784	**133,290**	150,763

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
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11. INVESTMENTS IN SUBSIDIARIES – COMPANY *(CONTINUED)*

Summarised statement of comprehensive income

	CMEFC		Pigeon Wire	
	Year ended 31 December		Year ended 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	**121,705**	94,099	**2,459,254**	2,593,293
Profit before income tax	**81,356**	62,797	**52,387**	50,230
Income tax expense	**(13,545)**	(16,261)	**(12,932)**	(9,217)
Profit for the year	**67,811**	46,536	**39,455**	41,013
Other comprehensive income	**–**	–	**–**	–
Total comprehensive income	**67,811**	46,536	**39,455**	41,013
Total comprehensive income allocated to non-controlling Interests	**33,228**	22,802	**10,258**	10,663
Dividends paid to non-controlling Interests	**–**	–	**(7,482)**	4,988

11. INVESTMENTS IN SUBSIDIARIES – COMPANY (CONTINUED)

Summarised cash flows

	CMEFC		Pigeon Wire	
	Year ended 31 December		Year ended 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash flows from operating activities				
Cash generated from operations	**412,861**	705,710	**141,767**	83,104
Interest paid	**(89,333)**	(91,996)	**(33,162)**	(26,859)
Income tax paid	**(20,019)**	(6,821)	**(9,116)**	(7,281)
Net cash generated from operating activities	**303,509**	606,893	**99,489**	48,964
Net cash used in investing activities	**(66)**	(4,112)	**(840)**	(1,702)
Net cash used in financing activities	**–**	–	**(142,047)**	(45,000)
Net increase/(decrease) in cash and cash equivalents	**303,443**	602,781	**(43,398)**	2,262
Cash and cash equivalents at beginning of year	**1,214,815**	612,034	**81,789**	79,527
Cash and cash equivalents at end of year	**1,518,258**	1,214,815	**38,391**	81,789

The information above is the amount before inter-company eliminations.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
(All amounts in RMB unless otherwise stated)

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the balance sheet are as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
– Associates	**540,112**	508,417
– Joint venture	**316,169**	310,143
	856,281	818,560

The amounts recognised in profit or loss are as follows:

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
– Associates	**51,084**	44,099
– Joint venture	**317,514**	353,816
	368,598	397,915

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investment in associates

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of the year	**508,417**	384,734	**229,206**	209,206
Additions	**33,200**	94,439	**–**	20,000
Share of profit	**51,084**	44,099	**–**	–
Share of other comprehensive income of investment accounted for using equity method	**452**	–	**–**	–
Transfer to available for sale financial assets	**–**	–	**(20,000)**	–
Dividend declared	**(53,041)**	(14,855)	**–**	–
At end of the year	**540,112**	508,417	**209,206**	229,206

(a) For the year ended 31 December 2014, the Group has not recognised loss amounting to approximately RMB4,331,000 (2013: gain amounting to approximately RMB133,000) for Chongqing Ji'en Smelting Co., Ltd. The total accumulated losses not recognised was approximately RMB10,023,000 (2013: RMB5,692,000).

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12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investment in associates *(continued)*

(b) As at the date of this report, the particulars of the Group's principal associates are set out in Note 38. There are no contingent liabilities relating to the Group's interest in the associates.

(c) Chongqing Power Transformer Co., Ltd. ("Power Transformer"), Chongqing New North Zone Machinery, Electronic Microcredit Co., Ltd. ("CQMEM"), Chongqing Midea Tongyong Refrigeration Equipment Co., Ltd. ("Midea Tongyong"), Chongqing Hongyan Fangda Automobile Spring Co., Ltd. ("Hongyan") and Exedy Chongqing Co., Ltd. ("Exedy") are associates of the Group as at 31 December 2014, which, in the opinion of the directors, are material to the Group.

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investment in associates *(continued)*

Summarised financial information for associates

Set out below are the summarised financial information for Power Transformer, CQMEM, Midea Tongyong, Hongyan and Exedy which are accounted for using the equity method.

Summarised balance sheet

	Power Transformer As at 31 December		CQMEM As at 31 December		Midea Tongyong As at 31 December		Hongyan As at 31 December		Exedy As at 31 December	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Current										
Cash and cash equivalents	**40,839**	40,894	**5,380**	20,297	**12,756**	83,492	**86,523**	28,967	**18,260**	29,739
Other current assets (excluding cash)	**300**	–	**332,098**	282,133	**210,421**	171,641	**299,402**	252,631	**293,432**	276,677
Total current assets	**41,139**	40,894	**337,478**	302,430	**223,177**	255,133	**385,925**	281,598	**311,692**	306,416
Financial liabilities (excluding trade payables)	**–**	–	**(100,000)**	(90,000)	**(88,179)**	(45,996)	**(241,874)**	(151,295)	**(81,897)**	(116,064)
Other current liabilities (including trade payables)	**(46)**	(81)	**(12,145)**	(2,489)	**(227,608)**	(268,758)	**(82,896)**	(120,824)	**(95,405)**	(99,948)
Total current liabilities	**(46)**	(81)	**(112,145)**	(92,489)	**(315,787)**	(314,754)	**(324,770)**	(272,119)	**(177,302)**	(216,012)
Non-current										
Assets	**201,347**	207,353	**1,456**	956	**227,590**	239,677	**131,170**	144,357	**199,905**	187,129
Financial liabilities	**–**	–	**–**	–	**–**	–	**–**	–	**(77,758)**	(22,620)
Other liabilities	**–**	–	**–**	–	**–**	–	**(23,563)**	(9,363)	**(251)**	–
Total non-current liabilities	**–**	–	**–**	–	**–**	–	**(23,563)**	(9,363)	**(78,009)**	(22,620)
Net assets	**242,440**	248,166	**226,789**	210,897	**134,980**	180,056	**168,762**	144,473	**256,286**	254,913

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
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12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investment in associates *(continued)*

Summarised statement of comprehensive income

	Power Transformer Year ended 31 December		CQMEM Year ended 31 December		Midea Tongyong Year ended 31 December		Hongyan Year ended 31 December		Exedy Year ended 31 December	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	**–**	–	**69,718**	22,666	**1,165,664**	989,588	**533,864**	564,575	**469,004**	443,062
Depreciation and amortisation	**(41)**	(51)	**(186)**	(52)	**(27,119)**	(29,650)	**(17,080)**	(14,130)	**21,684**	20,779
Interest income	**1,161**	916	**–**	–	**343**	312	**522**	–	**60**	44
Interest expense	**–**	–	**–**	–	**(211)**	(1,693)	**(9,837)**	–	**(10,032)**	(7,345)
Share of profit of associates	**23,503**	32,579	**–**	–	**–**	–	**–**	–	**–**	–
Profit before income tax	**24,131**	32,902	**23,412**	13,067	**15,446**	4,263	**30,152**	24,332	**17,639**	32,224
Income tax expense	**(157)**	(85)	**(3,520)**	(2,170)	**(1,223)**	(580)	**(5,863)**	(6,287)	**(2,272)**	(4,348)
Profit for the year	**23,974**	32,817	**19,892**	10,897	**14,223**	3,682	**24,289**	18,044	**15,367**	27,876
Other comprehensive income	**–**	–	**–**	–	**1,003**	–	**–**	–	**–**	–
Total comprehensive income	**23,974**	32,817	**29,273**	10,897	**15,226**	3,682	**24,289**	18,044	**15,367**	27,876
Dividends received from associate	**19,510**	11,561	**1,800**	–	**27,136**	–	**–**	–	**3,778**	2,720

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investment in associates *(continued)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in associate.

Summarised financial information

	Power Transformer Year ended 31 December		CQMEM Year ended 31 December		Midea Tongyong Year ended 31 December		Hongyan Year ended 31 December		Exedy Year ended 31 December	
	2014	2013	**2014**	2013	**2014**	2013	**2014**	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Opening net assets 1 January	**248,166**	232,949	**210,897**	–	**180,056**	176,372	**144,473**	126,429	**254,913**	237,110
Capital injection	**–**	–	**–**	200,000	**–**	–	**–**	–	**–**	–
Profit for the period	**23,974**	32,817	**19,892**	10,897	**14,223**	3,682	**24,289**	18,044	**15,367**	27,876
Other comprehensive income	**–**	–	**–**	–	**1,003**	–	**–**	–	**–**	–
Dividend declared	**(29,700)**	(17,600)	**(4,000)**	–	**(60,302)**	–	**–**	–	**(13,994)**	(10,073)
Closing net assets	**242,440**	248,166	**226,789**	210,897	**134,980**	180,054	**168,762**	144,473	**256,286**	254,913
Interest in associates (65.69%/45%/45%/44%/27%) *(Note 38)*	**159,259**	163,020	**102,055**	94,904	**60,741**	81,025	**74,255**	63,568	**69,197**	68,826
Carrying value	**159,259**	163,020	**102,055**	94,904	**60,741**	81,025	**74,255**	63,568	**69,197**	68,826

Notes to the Consolidated Financial Statements *(Continued)*

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12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investment in associates *(continued)*

(d) The other amounts (except Power Transformer, CQMEM, Hongyan, Media Tongyong and Exedy) recognised in the balance sheet are as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
– Associates	**74,606**	37,074

The other amounts (except Power Transformer, CQMEM, Hongyan, Media Tongyong and Exedy) recognised in profit or loss are as follows:

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
– Associates	**5,148**	515

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investment in joint venture

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of the year	**310,143**	366,689	**200,929**	200,929
Share of profit	**317,514**	353,816	**–**	–
Dividend declared	**(311,488)**	(410,362)	**–**	–
At end of the year	**316,169**	310,143	**200,929**	200,929

As at the date of this report, the particulars of the Group's joint venture, Chongqing Cummins Engine Co., Ltd. ("CQ Cummins") is set out in Note 38. The joint venture is unlisted. There are no contingent liabilities relating to the Group's interest in the joint venture.

Notes to the Consolidated Financial Statements *(Continued)*

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12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investment in joint venture *(continued)*

Summarised financial information for joint venture

Set out below is the summarised financial information for CQ Cummins which is accounted for using the equity method.

Summarised balance sheet

	CQ Cummins As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Current		
Cash and cash equivalents	**315,991**	340,213
Other current assets (excluding cash)	**1,335,207**	1,147,974
Total current assets	**1,651,198**	1,488,187
Financial liabilities (excluding trade payables)	**–**	–
Other current liabilities (including trade payables)	**(1,399,822)**	(1,111,703)
Total current liabilities	**(1,399,822)**	(1,111,703)
Non-current		
Assets	**380,961**	243,803
Financial liabilities	**–**	–
Other liabilities	**–**	–
Total non-current liabilities	**–**	–
Net assets	**632,337**	620,287

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investment in joint venture ***(continued)***

Summarised statement of comprehensive income

	CQ Cummins	
	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Revenue	**3,139,663**	3,164,813
Depreciation and amortisation	**(25,125)**	(18,748)
Interest income	**5,948**	2,847
Interest expense	**(1,905)**	(4)
Profit before income tax	**746,507**	828,151
Income tax expense	**(111,479)**	(120,518)
Profit for the year	**635,028**	707,633
Other comprehensive income	**–**	–
Total comprehensive income	**635,028**	707,633
Dividends received from joint venture	**311,488**	314,386

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
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12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(CONTINUED)*

Investment in joint venture *(continued)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in the joint venture.

Summarised financial information

	CQ Cummins	
	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Opening net assets 1 January	**620,287**	733,377
Profit for the period	**635,028**	707,633
Other comprehensive income	**–**	–
Dividend declared	**(622,976)**	(820,723)
Closing net assets	**632,339**	620,287
Interest in joint venture @50%	**316,169**	310,143
Carrying value	**316,169**	310,143

13. TAXATION

(a) Income tax expense

(i) On 6 April 2012, State Taxation Administration issued Notice 12(2012) ("the Notice") in respect of favorable corporate income tax policy applicable to qualified enterprises located in western China. The directors of the Company are of the opinion that those group entities previously entitled to the 15% preferential income tax rate during the period from 2001 to 2011, will continue to be qualified under the new policy for the 15% preferential income tax rate from 2012 to 2020.

13. TAXATION *(CONTINUED)*

(a) Income tax expense *(continued)*

(ii) Pursuant to the certificated issued by the Department of Science and Technology in Jilin province on 25 July 2012, Jilin Chong Tong Chengfei New Material Co., Ltd (formerly known as Chong Tong Group Chengfei (Da'an) Wind-Power Equipment Co., Ltd.) ("Chongtong Chengfei") is qualified as high technology company and can enjoy the 15% preferential income tax rate from 2012 to 2014.

(iii) Other than the abovementioned group entities, the following group entities are not entitled to the benefit of abovementioned favourable corporate income tax policy and subject to Corporate Income Tax ("CIT") rate of 25% for the years ended 31 December 2013 and 2014:

- the Company;
- Chongqing Huijiang Machine Tools Founding Co., Ltd.;
- Chongqing General Group Bingyang Air Conditioner Equipment Installation Co., Ltd.;
- Chongqing Shengpu Materials Co., Ltd;
- Chongqing Yinhe Forging & Founding Co., Ltd;
- Tong Kang Water Affairs Co., Ltd;
- Chongqing Holroyd Precision Rotors Manufacturing Co., Ltd.;
- CMEFC; and
- Xilinhaote Chenfei Wind Power Equipment Co., Ltd..

(iv) The income tax rate of Holroyd Precision Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited and Precision Technologies Group (PTG) Limited is 21.5% (2013: 23.25%). The income tax rate of Precision Components Limited is 21.5% (2013: 23.25%). The income tax rate of PTG Deutschland GmbH is 29.6% (2013: 31.06%). The income tax rate of Precision Technologies Group Investment Development Company Limited ("PTGHK") is 16.5% (2013: 16.5%)

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
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13. TAXATION *(CONTINUED)*

(a) Income tax expense *(continued)*

The amount of income tax expense charged to profit or loss represents:

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Current income tax	**36,327**	48,791
Deferred tax *(Note 31)*	**30,579**	(4,006)
Income tax expense	**66,906**	44,785

13. TAXATION *(CONTINUED)*

(a) Income tax expense *(continued)*

The difference between the actual income tax charge in profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Profit before income tax	**630,679**	585,223
Tax calculated at statutory tax rates applicable to each group entities	**127,041**	133,499
Income not subject to tax		
– share of profit of associates and joint venture	**(88,215)**	(96,131)
Tax concessions	**(8,138)**	(8,110)
Expenses not deductible for tax purposes	**2,691**	2,893
Utilisation of previously unrecognised deferred tax assets	**(66)**	(5,412)
Tax losses for which no deferred income tax asset was recognised	**33,593**	18,046
Tax expense	**66,906**	44,785

The weighted average applicable tax rate for the year ended 31 December 2014 is 20% (2013: 23%).

Notes to the Consolidated Financial Statements *(Continued)*

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13. TAXATION *(CONTINUED)*

(a) Income tax expense *(continued)*

The tax (charge)/credit relating to components of other comprehensive income is as follows:

	2014			2013		
	Before tax	**Tax (charge)/ credit**	**After tax**	Before tax	Tax credit/ (charge)	After tax
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Fair value gains/(losses) on available-for-sale financial assets	**2,189**	**(328)**	**1,861**	(813)	122	(691)
Actuarial loss on retirement benefit obligations	**(2,322)**	**110**	**(2,212)**	(355)	(63)	(418)
Other comprehensive income	**(133)**	**(218)**	**(351)**	(1,168)	59	(1,109)
Current tax		**–**			–	
Deferred tax *(Note 31)*		**(218)**			59	

(b) Value-added tax (''VAT'') and related taxes

All companies now comprising the Group in the PRC are subject to output VAT generally calculated at 17% of the product selling prices. An input credit is available whereby input VAT previously paid on purchases of goods and equipment can be used to offset the output VAT to determine the net VAT payable.

13. TAXATION *(CONTINUED)*

(c) Withholding tax ("WHT") for dividend paid to foreign investors

According to the new CIT law and the detailed implementation regulations, foreign shareholders are subject to a 10% WHT for the dividend repatriated by the Company starting from 1 January 2008. For certain treaty jurisdictions such as Hong Kong which has signed tax treaties with the PRC, the WHT rate is 5%.

WHT will be levied on the foreign shareholders for the dividends relating to 2014 (Note 33).

14. EARNINGS PER SHARE

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Profit attributable to equity holders of the Company *(RMB'000)*	**511,943**	506,829
Weighted average number of ordinary shares in issue *(thousands)*	**3,684,640**	3,684,640
Basic and diluted earnings per share *(RMB per share)*	**0.14**	0.14

Diluted earnings per share is equal to basic earnings per share as there was no potential dilutive ordinary shares outstanding for all years presented.

Notes to the Consolidated Financial Statements *(Continued)*

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15. LEASE PREPAYMENTS

Most of the lease prepayments represent the Group's interests in land use rights which are held on leases of between 30 to 50 years in the PRC. The movement is as follows:

Group

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
At beginning of the year		
Cost	**558,751**	526,797
Accumulated amortisation	**(76,047)**	(64,719)
Net book amount	**482,704**	462,078
For the year		
Opening net book amount	**482,704**	462,078
Additions	**9,628**	34,347
Disposals	**(14,160)**	(2,393)
Amortisation charge	**(11,500)**	(11,328)
Closing net book amount	**466,672**	482,704
At end of the year		
Cost	**554,219**	558,751
Accumulated amortisation	**(87,547)**	(76,047)
Net book amount	**466,672**	482,704

(a) All of the amortisation of the Group's land use rights was charged to administrative expenses.

(b) As at 31 December 2014, bank borrowings were secured by certain Group's land use rights with an aggregate carrying value of approximately RMB167,225,000 (2013: RMB116,483,000) (Note 29).

16. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and plants RMB'000	Equipment machinery and moulds RMB'000	Motor vehicles RMB'000	Assets under construction RMB'000	Total RMB'000
At 1 January 2013					
Cost	866,974	1,986,269	92,201	494,498	3,439,942
Accumulated depreciation and impairment	(231,629)	(967,078)	(55,927)	(2,558)	(1,257,192)
Net book amount	635,345	1,019,191	36,274	491,940	2,182,750
Year ended 31 December 2013					
Opening net book amount	635,345	1,019,191	36,274	491,940	2,182,750
Transfers	63,022	136,595	3,340	(202,957)	–
Transfer from investment properties *(Note 17)*	180	–	–	–	180
Additions	1,474	34,616	2,334	686,974	725,398
Transfers to intangible assets *(Note 18)*	–	–	–	(911)	(911)
Disposals *(Note 34)*	(749)	(1,846)	(453)	–	(3,048)
Other deductions	(653)	(101)	–	–	(754)
Depreciation charge	(25,992)	(134,490)	(8,815)	–	(169,297)
Closing net book amount	672,627	1,053,965	32,680	975,046	2,734,318
At 31 December 2013					
Cost	930,248	2,155,533	97,422	977,604	4,160,807
Accumulated depreciation and impairment	(257,621)	(1,101,568)	(64,742)	(2,558)	(1,426,489)
Net book amount	672,627	1,053,965	32,680	975,046	2,734,318
Year ended 31 December 2014					
Opening net book amount	672,627	1,053,965	32,680	975,046	2,734,318
Transfers	458,965	101,646	6,195	(566,806)	–
Transfer to investment properties *(Note 17)*	(3,609)	–	–	–	(3,609)
Additions	7,579	90,576	3,104	551,789	653,048
Transfers to intangible assets *(Note 18)*	–	–	–	(431)	(431)
Disposals *(Note 34)*	(37,172)	(3,126)	(858)	–	(41,156)
Other deductions	(754)	(7,849)	(308)	–	(8,911)
Investment in associate	–	(31,825)	–	–	(31,825)
Depreciation charge	(24,205)	(154,284)	(9,415)	–	(187,904)
Impairment charge	(1,599)	(2,514)	(393)	(3,656)	(8,162)
Closing net book amount	1,071,832	1,046,589	31,005	955,942	3,105,368
At 31 December 2014					
Cost	1,355,257	2,304,955	105,555	962,156	4,727,923
Accumulated depreciation and impairment	(283,425)	(1,258,366)	(74,550)	(6,214)	(1,622,555)
Net book amount	1,071,832	1,046,589	31,005	955,942	3,105,368

Notes to the Consolidated Financial Statements *(Continued)*

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16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Company

	Equipment and machinery RMB'000	Motor vehicles RMB'000	Assets under construction RMB'000	Total RMB'000
At 1 January 2013				
Cost	2,237	3,767	4,155	10,159
Accumulated depreciation	(1,154)	(1,361)	–	(2,515)
Net book amount	1,083	2,406	4,155	7,644
Year ended 31 December 2013				
Opening net book amount	1,083	2,406	4,155	7,644
Additions	71	310	–	381
Depreciation charge	(288)	(472)	–	(760)
Closing net book amount	866	2,244	4,155	7,265
At 31 December 2013				
Cost	2,308	4,077	4,155	10,540
Accumulated depreciation	(1,442)	(1,833)	–	(3,275)
Net book amount	866	2,244	4,155	7,265
Year ended 31 December 2014				
Opening net book amount	**866**	**2,244**	**4,155**	**7,265**
Additions	**51**	**–**	**100**	**151**
Disposals	**–**	**(133)**	**–**	**(133)**
Depreciation charge	**(286)**	**(457)**	**–**	**(743)**
Closing net book amount	**631**	**1,654**	**4,255**	**6,540**
At 31 December 2014				
Cost	**2,359**	**3,944**	**4,255**	**10,558**
Accumulated depreciation	**(1,728)**	**(2,290)**	**–**	**(4,018)**
Net book amount	**631**	**1,654**	**4,255**	**6,540**

16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(a) Depreciation of the property, plant and equipment has been charged to profit or loss as follows:

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost of sales	**155,585**	135,553	**–**	–
Administrative expenses	**31,627**	32,589	**743**	760
Selling expenses	**692**	1,155	**–**	–
	187,904	169,297	**743**	760

All the impairment provisions have been charged to cost of sales in profit or loss.

(b) Bank borrowings were secured by certain Group's property, plant and equipment with an aggregate carrying value of approximately RMB51,984,000 as at 31 December 2014 (2013: RMB611,822,000) (Note 29).

(c) Lease rental expenses amounting to approximately RMB27,054,000 (2013: RMB32,429,000) relating to the lease of property were included in profit or loss (Note 8).

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16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(d) Equipment and machinery includes the following amounts where the Group is a lessee under a finance lease:

Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Cost – capitalised finance leases	**3,338**	8,212
Accumulated depreciation	**(346)**	(851)
Net book amount	**2,992**	7,361

The Group leases various equipment and machinery under non-cancellable finance lease agreements. All the lease terms are below 5 years.

(e) For the year ended 31 December 2014, interest expense of approximately RMB64,266,000 (2013: RMB20,520,000) arising from borrowings has been capitalized in the cost of property, plant and equipment at the weighted average interest rate of 6.27% (2013: 6.27%) per annum.

17. INVESTMENT PROPERTIES

Group

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
At beginning of year		
Cost	**58,164**	58,344
Accumulated depreciation	**(28,339)**	(25,338)
Net book amount	**29,825**	33,006
For the year		
Opening net book amount	**29,825**	33,006
Transfers from/(to) owner-occupied property *(Note 16)*	**3,609**	(180)
Depreciation charge	**(3,606)**	(3,001)
Closing net book amount	**29,828**	29,825
At end of year		
Cost	**61,773**	58,164
Accumulated depreciation	**(31,945)**	(28,339)
Net book amount	**29,828**	29,825
Fair value at end of the year	**230,234**	224,559

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
(All amounts in RMB unless otherwise stated)

17. INVESTMENT PROPERTIES *(CONTINUED)*

(a) Amounts recognised in profit and loss for investment properties

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Rental income	**12,985**	13,575
Direct operating expenses from property that generated rental income	**(3,606)**	(3,001)

(b) Depreciation of the Group's investment properties has been charged to profit or loss as follows:

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Cost of sales	**3,606**	3,001

As at 31 December 2013 and 2014, the Group had no unprovided contractual obligations for future repairs and maintenance.

(c) The Group's investment properties are analysed as follows:

As at 31 December 2013 and 2014, the fair value of investment property is measured using significant unobservable inputs (Level 3).

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers between Levels 1, 2 and 3 during the years of 2013 and 2014.

17. INVESTMENT PROPERTIES *(CONTINUED)*

(c) The Group's investment properties are analysed as follows: *(continued)*

Valuation techniques

The valuation of investment properties are determined using the direct comparison approach. Sales prices of comparable properties in close proximity are adjusted for property's size and the ageing degree.

The significant unobservable inputs adopted include:

Recent market price	–	Based on the actual market selling price of the properties;
Property's size	–	Based on the size of the properties;
The ageing degree	–	Based on the years of the properties used.

Description – Office building	**Fair value** *RMB'000*	**Valuation technique**	**Unobservable inputs**
At 31 December 2013	224,559	Direct comparison approach	RMB4,500-RMB75,000 per square meter
At 31 December 2014	230,234	Direct comparison approach	RMB4,500-RMB75,000 per square meter

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
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17. INVESTMENT PROPERTIES *(CONTINUED)*

(d) Leasing arrangements

Certain investment properties are leased to tenants under long-term operating leases with rental payable at regular intervals during the year based on the payment terms. Minimum lease receipts under non-cancellable operating leases of investment properties not recognised in the consolidated financial statements are receivable as follows:

Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Not later than 1 year	**9,529**	10,725
Later than 1 year and not later than 5 years	**12,111**	14,943
	21,640	25,668

Bank borrowings were secured by the investment properties with an aggregate carrying value of approximately RMB12,663,000 as at 31 December 2014 (2013: RMB33,274,000) (Note 29).

18. INTANGIBLE ASSETS

Group

	Goodwill	Technical know-how	Computer software	Brand	Customer relationships	Concession assets	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013								
Cost	143,018	58,694	19,897	28,556	73,345	16,926	12,664	353,100
Accumulated amortisation	–	(44,149)	(13,041)	–	(18,434)	–	(11,349)	(86,973)
Net book amount	143,018	14,545	6,856	28,556	54,911	16,926	1,315	266,127
Year ended 31 December 2013								
Opening net book amount	143,018	14,545	6,856	28,556	54,911	16,926	1,315	266,127
Transfer from assets under construction *(Note 16)*	–	–	911	–	–	–	–	911
Additions	–	3,506	1,735	–	–	26,803	592	32,636
Amortisation charge	–	(2,382)	(2,743)	–	(6,377)	–	(1,300)	(12,802)
Closing net book amount	143,018	15,669	6,759	28,556	48,534	43,729	607	286,872
At 31 December 2013								
Cost	143,018	62,200	22,543	28,556	73,345	43,729	13,256	386,647
Accumulated amortisation	–	(46,531)	(15,784)	–	(24,811)	–	(12,649)	(99,775)
Net book amount	143,018	15,669	6,759	28,556	48,534	43,729	607	286,872
Year ended 31 December 2014								
Opening net book amount	143,018	15,669	6,759	28,556	48,534	43,729	607	286,872
Transfer from assets under construction *(Note 16)*	–	–	–	–	–	–	431	431
Additions	–	7,443	109	–	–	8,435	403	16,390
Other deductions	–	–	(141)	–	–	–	–	(141)
Amortisation charge	–	(3,425)	(1,372)	–	(6,377)	(2,252)	(657)	(14,083)
Closing net book amount	143,018	19,687	5,355	28,556	42,157	49,912	784	289,469
At 31 December 2014								
Cost	143,018	69,643	22,511	28,556	73,345	52,164	14,090	403,327
Accumulated amortisation	–	(49,956)	(17,156)	–	(31,188)	(2,252)	(13,306)	(113,858)
Net book amount	143,018	19,687	5,355	28,556	42,157	49,912	784	289,469

Notes to the Consolidated Financial Statements *(Continued)*

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18. INTANGIBLE ASSETS *(CONTINUED)*

(a) All the amortisation of the Group's intangible assets was charged to administrative expenses.

(b) Approximately RMB7,443,000 of development cost was capitalized by the Group during the year ended 31 December 2014 (2013: nil).

(c) Brand is treated as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely.

(d) Impairment tests for goodwill and brand

As set out in HKAS 36 "Impairment of Assets", a cash-generating unit is the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of cash flows from other assets or groups of assets. For the purpose of impairment testing of goodwill, goodwill is allocated to the Group's cash-generating unit (CGU), Chongqing CAFF Automotive Braking & Steering System Co. Ltd. ("CAFF"), and PTG six entities identified according to the business acquired. The amounts allocated to CGU are as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
CAFF	**15,368**	15,368
PTG six entities	**127,650**	127,650
	143,018	143,018

18. INTANGIBLE ASSETS *(CONTINUED)*

(d) Impairment for goodwill and brand *(continued)*

Brand is allocated to the Group's cash-generating unit (CGU), Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear"), and PTG six entities identified according to the business acquired. The amounts allocated to CGU are as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Qijiang Gear	**16,300**	16,300
PTG six entities	**12,256**	12,256
	28,556	28,556

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the manufacturing of automobile relating products and machinery tools in which the CGU operates.

Notes to the Consolidated Financial Statements *(Continued)*

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18. INTANGIBLE ASSETS *(CONTINUED)*

(d) Impairment for goodwill and brand *(continued)*

The key assumptions used for value-in-use calculations in 2014 are as follows:

	CAFF	**Qijiang Gear**	**PTG six entities**
Compound annual volume growth rate	**5%**	**5%**	**22%**
Sales price (% annual growth rate)	**0%**	**0%**	**0%**
Gross margin (% of revenue)	**15-16%**	**22%**	**40-42%**
Long term growth rate	**0%**	**0%**	**0%**
Pre-tax discount rate	**18%**	**18%**	**22%**
Recoverable amount of the CGUs	**N/A**	**N/A**	**N/A**

The key assumptions used for value-in-use calculations in 2013 are as follows:

	CAFF	Qijiang Gear	PTG six entities
Compound annual volume growth rate	9%	11%	7%
Sales price (% annual growth rate)	0%	0%	0%
Gross margin (% of revenue)	13-15%	22%	38-40%
Long term growth rate	0%	0%	0%
Pre-tax discount rate	18%	17%	23%
Recoverable amount of the CGUs	N/A	N/A	N/A

18. INTANGIBLE ASSETS *(CONTINUED)*

(d) Impairment for goodwill and brand *(continued)*

These assumptions have been used for the analysis of the CGU within the business.

The compound annual volume growth rate is based on past performance and management's expectations of market development.

Sales price is the average annual growth rate over the five-year forecast period. Based on the current market trend, the sales price is estimated to be stable during the forecast period.

Gross margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels.

The long term growth rates used are consistent with the forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments. According to the test results, no sign of impairment for goodwill and brand is shown.

Notes to the Consolidated Financial Statements

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19. TRADE AND OTHER RECEIVABLES

	Group		Company	
	As at 31 December		As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and bills receivables *(a)*	**3,436,583**	3,365,881	**21,672**	1,881
Less: provision for impairment of trade receivables	**(263,281)**	(249,715)	**–**	–
Trade and bills receivables – net	**3,173,302**	3,116,166	**21,672**	1,881
Deposits paid	**74,148**	76,698	**–**	–
Less: provision for impairment of deposits paid	**(11,296)**	(10,683)	**–**	–
Deposits paid – net	**62,852**	66,015	**–**	–
Prepayments	**400,837**	273,124	**–**	–
Staff advances	**14,383**	24,124	**205**	251
Loans	**442,485**	254,230	**–**	–
Less: provision for impairment of loans	**(4,425)**	(2,542)	**–**	–
Loans – net	**438,060**	251,688	**–**	–
Others	**120,780**	170,770	**882,404**	792,745
Less: provision for impairment of receivables other than trade receivables, loans and deposits paid	**(22,843)**	(24,513)	**–**	–
	4,187,371	3,877,374	**904,281**	794,877
Less: long-term other receivables	**–**	–	**(569,933)**	(224,155)
Current portion	**4,187,371**	3,877,374	**334,348**	570,722

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

As at 31 December 2014, all loans were provided to related parties (Note 37). The maturity of the above loans were within one year. The effective interest rates of these loans ranged from 4.20% to 6.90% for the year ended 31 December 2014 (2013: 4.20% to 7.02%).

(a) Ageing analysis of the trade and bills receivables at respective balance sheet dates are as follows:

Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Less than 30 days	**440,468**	484,306
31 days to 90 days	**924,431**	530,460
91 days to 1 year	**1,376,832**	1,699,720
1 year to 2 years	**335,534**	308,064
2 years to 3 years	**114,351**	124,233
Over 3 years	**244,967**	219,098
	3,436,583	3,365,881

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2014
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19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(a) Ageing analysis of the trade and bills receivables at respective balance sheet dates are as follows: *(continued)*

As at 31 December 2014, trade and bills receivables of approximately RMB1,732,834,000 (2013: RMB2,054,874,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The analysis of ageing, which were counted from the day of recognition of trade receivables, is as follows:

Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
91 days to 1 year	**1,367,477**	1,687,485
1 year to 2 years	**321,551**	281,902
2 years to 3 years	**43,806**	85,487
	1,732,834	2,054,874

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(a) Ageing analysis of the trade and bills receivables at respective balance sheet dates are as follows: *(continued)*

As at 31 December 2014, trade receivables of RMB338,850,000 (2013: RMB294,873,000) were impaired. The amount of provision was RMB263,281,000 as at 31 December 2014 (2013: RMB249,715,000). The individually impaired receivables mainly relate to certain customers, which are in difficult financial situations. It was assessed that a portion of the receivables is expected to be recovered based on the past collection history under similar circumstances. The ageing of these receivables is as follows:

Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
91 days to 1 year	**9,355**	12,236
1 year to 2 years	**13,983**	24,794
2 years to 3 years	**70,545**	38,745
Over 3 years	**244,967**	219,098
	338,850	294,873

(b) There is no concentration of credit risk with respect to the Group's trade receivables, as the Group has a large number of customers which are internationally dispersed.

(c) The carrying amounts of the current portion of trade and other receivables approximate their fair value.

Notes to the Consolidated Financial Statements *(Continued)*

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19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(d) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
RMB	**4,005,922**	3,675,879
UK pound ("UKP")	**101,894**	176,574
USD	**3,880**	6,431
EUR	**75,675**	2,713
HKD	**–**	15,777
	4,187,371	3,877,374

(e) Movement on the provision for impairment of trade and other receivables is as follows:

Group

Trade receivables

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
At beginning of the year	**249,715**	249,922
Provision for impairment of receivables	**25,720**	1,677
Receivables written off during the year as uncollectible	**(12,154)**	(1,884)
At end of the year	**263,281**	249,715

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(e) Movement on the provision for impairment of trade and other receivables is as follows: *(continued)*

Deposits paid

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
At beginning of the year	**10,683**	10,639
Provision for impairment of receivables	**613**	44
At end of the year	**11,296**	10,683

Loans

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
At beginning of the year	**2,542**	–
Provision for impairment of receivables	**1,883**	2,542
At end of the year	**4,425**	2,542

Notes to the Consolidated Financial Statements *(Continued)*

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19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(e) Movement on the provision for impairment of trade and other receivables is as follows: *(continued)*

Others

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
At beginning of the year	**24,513**	24,456
Provision for impairment of receivables	**(1,649)**	57
Receivables written off during the year as uncollectible	**(21)**	–
At end of the year	**22,843**	24,513

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in profit or loss (Note 8).

(f) The general credit period granted to customers is up to 90 days.

(g) Refer to Note 37 for Group's trade and other receivables due from related parties.

(h) As at 31 December 2013, Group's trade and bills receivables of RMB53,920,000 were secured for the Group's borrowings (Note 29).

(i) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

20. CONTRACT WORK-IN-PROGRESS

Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Contract cost incurred plus recognised profit less recognised losses	**1,639,409**	1,622,385
Less: progress billings	**(1,156,623)**	(1,166,082)
Contract work-in-progress	**482,786**	456,303
Representing:		
Amount due from customers for contract work	**498,025**	464,871
Amount due to customers for contract work	**(15,239)**	(8,568)
	482,786	456,303

Group

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Contract revenue recognised as revenue in the year	**345,601**	322,020

Notes to the Consolidated Financial Statements *(Continued)*

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21. RESTRICTED CASH

	Group		Company	
	As at 31 December		As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Restricted cash denominated in RMB	**684,039**	447,163	**5,092**	5,704

The restricted cash held in dedicated bank accounts was pledged as security for the bills payable and issuance of letters of credit.

22. INVENTORIES

Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Raw materials	**390,248**	330,234
Work in progress	**544,241**	590,134
Finished goods	**747,409**	724,392
Consumables	**18,982**	24,949
	1,700,880	1,669,709

For the year ended 31 December 2014, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB7,536,976,000 (2013: RMB7,642,452,000).

22. INVENTORIES *(CONTINUED)*

For the year ended 31 December 2014, write-down of inventories recognised in cost of sales in profit or loss amounted to approximately RMB953,000 (2013: RMB6,068,000).

As at 31 December 2014, the provision for inventory write-down was approximately RMB90,862,000 (2013: RMB93,119,000).

As at 31 December 2013, inventories of RMB117,000,000 were pledged for the Group's borrowings (Note 29).

23. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Group		Company	
	As at 31 December		As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Investments in bond securities	**194,808**	–	**194,808**	–
Forward foreign exchange contracts	**131**	–	**–**	–
	194,939	–	**194,808**	–

For the year ended 31 December 2014, the Group entered into an investment agreement (the "Investment Agreement") in relation to the investment in a portfolio of bond securities financial products managed by Southwest Securities Company, Ltd. and Chongqing Gold Exchange Company, Ltd.

Changes in fair values of financial assets at fair value through profit or loss are recorded in 'Other gains, net' (Note 6).

The fair value of the investments in bond securities is measured by the discounted cash flow model with key assumptions including expected return rate, counter-parties' credit risk and market interest rate.

Notes to the Consolidated Financial Statements *(Continued)*

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24. CASH AND CASH EQUIVALENTS

	Group		Company	
	As at 31 December		As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash on hand	**2,396**	1,187	**69**	103
Cash at bank	**484,349**	190,358	**552**	6,146
Short-term bank deposits *(a)*	**716,763**	1,600,814	**727,170**	1,046,740
Cash and cash equivalents	**1,203,508**	1,792,359	**727,791**	1,052,989
Cash and cash equivalents denominated in the following currencies:				
– RMB	**1,162,959**	1,779,450	**727,660**	1,052,817
– HKD	**69**	69	**69**	69
– USD	**11,986**	1,974	**–**	–
– UKP	**24,059**	7,275	**30**	66
– European dollar ("EUR")	**4,435**	3,591	**32**	37
	1,203,508	1,792,359	**727,791**	1,052,989

(a) Short-term bank deposits can be withdrawn at the discretion of the Group without any restriction or significant compensation to the bank.

25. SHARE CAPITAL

	Number of Shares *In thousand*	Domestic shares *In thousand*	H shares *In thousand*	Total shares *In thousand*
Registered, issued and fully paid				
At 1 January 2013 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640
At 31 December 2013 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640
At 31 December 2014 (nominal value of RMB1.00 each)	**3,684,640**	**2,584,453**	**1,100,187**	**3,684,640**

All the domestic shares and H shares are rank pari passu in all aspects.

Notes to the Consolidated Financial Statements *(Continued)*

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26. RESERVES

Group

	Other reserves							
	Capital reserve	Investment revaluation reserve	Remeasurements of retirement benefit reserve	Statutory reserve fund	Currency translation	Total	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013	(999,909)	2,173	(2,824)	211,699	1,128	(787,733)	2,246,485	1,458,752
Profit for the year	–	–	–	–	–	–	506,829	506,829
Dividends	–	–	–	–	–	–	(128,962)	(128,962)
Changes in fair value of available-for-sales financial assets, net of tax	–	(691)	–	–	–	(691)	–	(691)
Remeasurements of retirement benefit obligations, net of tax	–	–	(418)	–	–	(418)	–	(418)
Currency translation differences	–	–	–	–	(1,305)	(1,305)	–	(1,305)
Transfer to reserves	–	–	–	37,237	–	37,237	(37,237)	–
At 31 December 2013	(999,909)	1,482	(3,242)	248,936	(177)	(752,910)	2,587,115	1,834,205
At 1 January 2014	**(999,909)**	**1,482**	**(3,242)**	**248,936**	**(177)**	**(752,910)**	**2,587,115**	**1,834,205**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**511,943**	**511,943**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**(184,232)**	**(184,232)**
Changes in fair value of available-for-sales financial assets, net of tax	**–**	**1,861**	**–**	**–**	**–**	**1,861**	**–**	**1,861**
Share of other comprehensive income of investments accounted for using equity method	**–**	**452**	**–**	**–**	**–**	**452**	**–**	**452**
Remeasurements of retirement benefit obligations, net of tax	**–**	**–**	**(2,212)**	**–**	**–**	**(2,212)**	**–**	**(2,212)**
Currency translation differences	**–**	**–**	**–**	**–**	**(2,179)**	**(2,179)**	**–**	**(2,179)**
Transfer to reserves	**–**	**–**	**–**	**31,001**	**–**	**31,001**	**(31,001)**	**–**
At 31 December 2014	**(999,909)**	**3,795**	**(5,454)**	**279,937**	**(2,356)**	**(723,987)**	**2,883,825**	**2,159,838**

26. RESERVES *(CONTINUED)*

Statement of changes in equity of the Company for the year ended 31 December 2014.

Company

	Other reserves				
	Capital reserve	Statutory reserve fund	Total	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013	(981,212)	211,699	(769,513)	935,613	166,100
Profit for the year *(Note 40)*	–	–	–	413,477	413,477
Dividends *(Note 33)*	–	–	–	(128,962)	(128,962)
Transfer to reserves	–	37,237	37,237	(37,237)	–
At 31 December 2013	(981,212)	248,936	(732,276)	1,182,891	450,615
At 1 January 2014	**(981,212)**	**248,936**	**(732,276)**	**1,182,891**	**450,615**
Profit for the year *(Note 40)*	**–**	**–**	**–**	**303,837**	**303,837**
Dividends *(Note 33)*	**–**	**–**	**–**	**(184,232)**	**(184,232)**
Transfer to reserves	**–**	**31,001**	**31,001**	**(31,001)**	**–**
At 31 December 2014	**(981,212)**	**279,937**	**(701,275)**	**1,271,495**	**570,220**

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26. RESERVES *(CONTINUED)*

In accordance with the relevant laws and regulations in the PRC and the Articles of Association of the Company, it is required to appropriate 10% of its annual net profit, after offsetting any prior years' losses as determined under the PRC Accounting Standards for Business Enterprises, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the Company's share capital, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholders or by increasing the par value of the shares currently held by them. The fund is non-distributable except for liquidation situation.

Pursuant to the Articles of Association of the Company, approximately RMB31,001,000 was appropriated to the statutory surplus reserve fund from the net profit for the year ended 31 December 2014 (2013: RMB37,237,000).

27. TRADE AND OTHER PAYABLES

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current				
Deposit taking *(a)*	**30,000**	–	**–**	–
Current				
Deposit taking	**607,579**	442,967	**–**	–
Trade and bills payables *(b)*	**2,392,201**	2,172,868	**–**	–
Other taxes payables	**94,256**	105,633	**201**	190
Other payables	**188,931**	372,834	**151,793**	80,559
Interest payables	**27,221**	26,893	**24,740**	24,740
Accrued payroll and welfare	**71,663**	84,546	**585**	604
Advances from customers	**818,266**	622,690	**–**	–
	4,200,117	3,828,431	**177,319**	106,093
Total trade and other payables	**4,230,117**	3,828,431	**177,319**	106,093

27. TRADE AND OTHER PAYABLES *(CONTINUED)*

As at 31 December 2014, all deposit taking were due to related parties (Note 37). The effective interest rate of non-current deposit taking is 3.94% and the effective interest rate of current deposit taking ranged from 0.35% to 3.30% for the year ended 31 December 2014 (2013: 0.37% to 3.30%).

(a) The carrying amounts of current deposit taking approximates its fair value.

The carrying value and fair value of non-current deposit taking is set out as follows:

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amount	**30,000**	–	**–**	–
Fair value	**30,334**	–	**–**	–

(b) As at 31 December 2014 and 2013, the ageing analysis of the trade and bills payables of the Group was as follows:

Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Less than 30 days	**583,177**	574,192
31 days than 90 days	**565,432**	531,698
91 days to 1 year	**1,085,117**	804,383
1 year to 2 years	**63,155**	150,861
2 years to 3 years	**32,521**	71,194
Over 3 years	**62,799**	40,540
	2,392,201	2,172,868

(c) Refer to Note 37 for payables due to related parties.

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28. PROVISIONS FOR WARRANTY

Provisions for warranty represents the warranty costs for after-sale services of certain vehicle parts and components, which are estimated based on present after-sale service policies and prior years' experiences on the incurrence of such costs. Such provision for warranty was charged to 'cost of sales' in profit or loss.

	Provision for warranty *RMB'000*
At 1 January 2013	22,003
Charged to cost of sales *(Note 8)*	42,041
Utilised during the year	(43,183)
At 31 December 2013	20,861
Charged to cost of sales *(Note 8)*	34,141
Utilised during the year	(38,607)
At 31 December 2014	16,395

29. BORROWINGS

	Group		Company	
	As at 31 December		As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current				
Borrowings *(1)*	**1,421,945**	1,488,293	**997,431**	1,021,064
Finance lease liabilities *(2)*	**41**	965	**–**	–
	1,421,986	1,489,258	**997,431**	1,021,064
Current				
Borrowings *(1)*	**1,071,580**	994,828	**25,158**	25,119
Finance lease liabilities *(2)*	**1,395**	2,053	**–**	–
	1,072,975	996,881	**25,158**	25,119
Total borrowings	**2,494,961**	2,486,139	**1,022,589**	1,046,183

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29. BORROWINGS *(CONTINUED)*

(1) Borrowings

	Group		Company	
	As at 31 December		As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current				
Long-term bank borrowings – secured *(a)*	**267,508**	195,890	**–**	–
Long-term bank borrowings – unsecured *(b)*	**157,006**	291,506	**–**	25,067
Corporate bonds *(d)*	**997,431**	995,997	**997,431**	995,997
	1,421,945	1,483,393	**997,431**	1,021,064
Other unsecured borrowings – due to non-controlling interests *(c)*	**–**	4,900	**–**	–
Total non-current borrowings	**1,421,945**	1,488,293	**997,431**	1,021,064

29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

	Group As at 31 December		Company As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current				
Bank borrowings				
– secured *(a)*	**104,000**	302,974	**–**	–
– unsecured *(b)*	**964,480**	688,754	**25,158**	25,119
	1,068,480	991,728	**25,158**	25,119
Other unsecured borrowings – due to independent third parties *(c)*	**3,100**	3,100	**–**	–
Total current borrowings	**1,071,580**	994,828	**25,158**	25,119
	2,493,525	2,483,121	**1,022,589**	1,046,183

(a) As at 31 December 2014, all these bank borrowings were secured by certain Group's land use rights, property, plant and equipment and investment properties with net book value of RMB167,225,000, RMB51,984,000 and RMB12,663,000, respectively (Notes 15,16 and 17).

As at 31 December 2013, all these bank borrowings were secured by certain Group's land use rights, property, plant and equipment, investment properties, trade and other receivables and inventories with net book value of RMB116,483,000, RMB661,822,000, RMB33,274,000, RMB53,920,000 and RMB117,000,000, respectively (Notes 15,16,17,19 and 22).

Notes to the Consolidated Financial Statements *(Continued)*

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29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(b) As at 31 December 2014 and 2013, bank borrowings of approximately RMB182,164,000 and RMB271,085,000 were guaranteed by the following party:

	Group		Company	
	As at 31 December		As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
CQMEHG	**182,164**	271,085	**25,158**	50,186

(c) As at 31 December 2014 and 2013, borrowings due to independent third parties (RMB3,100,000) were to support the Group's construction of certain production facilities.

(d) The Company issued RMB1 billion corporate bonds in August 2011, with annual interest rate of 6.59% and maturity of 5 years. As at 31 December 2014, the bond is measured at RMB997,431,000 at the amortised cost.

29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(e) The maturities of the Group's borrowings at respective balance sheet dates are set out as follows:

	Group		Company	
	As at 31 December		As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Total borrowings				
– Within 1 year	**1,071,580**	994,828	**25,158**	25,119
– Between 1 and 2 years	**1,154,437**	382,296	**997,431**	–
– Between 2 and 5 years	**267,508**	1,020,997	**–**	1,021,064
– Above 5 years	**–**	85,000	**–**	–
	2,493,525	2,483,121	**1,022,589**	1,046,183

(f) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Group		Company	
	As at 31 December		As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**2,261,587**	2,291,799	**997,431**	995,997
UK Pound	**157,006**	79,438	**–**	–
EUR	**12,977**	–	**–**	–
USD	**61,955**	111,884	**25,158**	50,186
	2,493,525	2,483,121	**1,022,589**	1,046,183

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29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(g) The weighted average effective interest rates at respective balance sheet dates are set out as follows:

	Group		Company	
	As at 31 December		As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings	**5.39%**	5.87%	**2.68%**	3.05%
Corporate bonds	**6.59%**	6.59%	**6.59%**	6.59%

29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(h) The carrying amounts of current portion of long-term and short-term borrowings approximate their fair values.

The carrying value and fair value of non-current borrowings are set out as follows:

	Group		Company	
	As at 31 December		As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amount				
Bank borrowings	**424,514**	487,396	**–**	25,067
Other loans	**–**	4,900	**–**	–
Corporate bonds	**997,431**	995,997	**997,431**	995,997
	1,421,945	1,488,293	**997,431**	1,021,064
Fair value				
Bank borrowings	**428,177**	490,483	**–**	25,067
Other loans	**–**	4,914	**–**	–
Corporate bonds	**1,032,848**	1,018,418	**1,030,560**	1,018,418
	1,461,025	1,513,815	**1,030,560**	1,043,485

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at respective balance sheet dates, ranged from 1.87% to 6.55% (2013: 1.90% to 7.80%) and are within level 2 of the fair value hierarchy.

Notes to the Consolidated Financial Statements *(Continued)*

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29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(i) At each balance sheet date, the Group had the following undrawn borrowing facilities:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Fixed rate		
– Expiring within 1 year	**799,228**	1,814,208
– Expiring beyond 1 year	**1,197,492**	281,171
	1,996,720	2,095,379

(2) Finance lease liabilities

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	**1,447**	2,087
Later than 1 year and no later than 5 years	**72**	1,033
	1,519	3,120
Unrecognised future finance charges on finance leases	**(83)**	(102)
Present value of finance lease liabilities	**1,436**	3,018

29. BORROWINGS *(CONTINUED)*

(2) Finance lease liabilities *(continued)*

The present value of finance lease liabilities is analysed as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
– Within 1 year	**1,395**	2,053
– Later than 1 year and no later than 5 years	**41**	965
	1,436	3,018

30. DEFERRED INCOME

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Non-current		
– Government grants *(a)*	**408,558**	473,086
– Deferred income on sell and leaseback transaction *(b)*	**2,059**	2,671
	410,617	475,757
Current		
– Government grants *(a)*	**31,900**	–
– Deferred income on sell and leaseback transaction *(b)*	**306**	–
	32,206	–
	442,823	475,757

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30. DEFERRED INCOME *(CONTINUED)*

(a) Government grants

Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
At beginning of the year	**473,086**	517,831
Additions		
– government grants related to assets	**13,378**	12,025
Created to profit or loss	**(46,006)**	(56,770)
At end of the year	**440,458**	473,086

(i) In prior years, certain subsidiaries of the Group received grants of approximately RMB687,304,000 from the local government in respect of compensations for relocation of their manufacturing plants, which included compensation for relocation expenses, purchase of new land use rights and construction of new production plants and properties. After completion of these relocations, the net of grants received and relocation expenses spent was recorded as deferred income. Up to 31 December 2010, all these relocations were completed, and in total RMB353,148,000 was recognised as deferred income, which is amortized on a straight-line basis throughout the period of the useful lives of the underlying assets ranging from 4 to 40 years.

30. DEFERRED INCOME (CONTINUED)

(a) Government grants (continued)

(ii) For the year ended 31 December 2014, the Group obtained grants of approximately RMB13,378,000 (2013: RMB12,025,000) from local government, in relation to strengthening and improving the quality of certain of the Group's machinery and equipment. As such, these government grants were accounted for as deferred income and amortised over the estimated useful life of the related machinery and equipment which ranged from 2 to 20 years.

(b) Deferred income on sale and leaseback transaction

Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
At beginning of the year	**2,671**	2,977
Amortisation *(Note 8)*	**(306)**	(306)
At end of the year	**2,365**	2,671

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31. DEFERRED INCOME TAX

(a) The analysis of deferred tax assets and deferred tax liabilities is as follows:

Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Deferred tax assets		
– Deferred tax assets to be recovered after more than 12 months	**60,608**	26,098
– Deferred tax assets to be recovered within 12 months	**11,907**	48,721
	72,515	74,819
Deferred tax liabilities		
– Deferred tax liabilities to be recovered more than 12 months	**(48,452)**	(14,991)
– Deferred tax liabilities to be recovered within 12 months	**(1,827)**	(6,795)
	(50,279)	(21,786)
Deferred tax assets (net)	**22,236**	53,033

The gross movement on the deferred income tax is set out as follows:

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
At beginning of the year	**53,033**	49,086
Recognised in profit or loss *(Note 13)*	**(30,579)**	4,006
Recognised in other comprehensive income *(Note 13)*	**(218)**	(59)
At end of the year	**22,236**	53,033

31. DEFERRED INCOME TAX *(CONTINUED)*

(b) The movement in the deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

Deferred tax assets

	Provision for impairment of assets *RMB'000*	Deferred income *RMB'000*	Retirement and termination benefit obligations *RMB'000*	Warranty and other accrued expenses *RMB'000*	Total *RMB'000*
At 1 January 2013	41,760	9,579	5,090	17,183	73,612
Recognised in other comprehensive income	–	–	63	–	63
Recognised in profit or loss	(1,704)	(2,057)	(2,156)	7,061	1,144
At 31 December 2013	40,056	7,522	2,997	24,244	74,819
Recognised in other comprehensive income	**–**	**–**	**110**	**–**	**110**
Recognised in profit or loss	**4,439**	**2,452**	**(786)**	**(8,519)**	**(2,414)**
At 31 December 2014	**44,495**	**9,974**	**2,321**	**15,725**	**72,515**

Notes to the Consolidated Financial Statements *(Continued)*

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31. DEFERRED INCOME TAX *(CONTINUED)*

(b) The movement in the deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows: *(continued)*

Deferred tax liabilities

	Recognition of fair value change relating to acquisition of subsidiary	Changes in fair value of available-for-sales financial assets	Gain on disposals of lease prepayments and property, plant and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2013	(24,179)	(347)	–	(24,526)
Recognised in other comprehensive income	–	(122)	–	(122)
Recognised in profit or loss	2,862	–	–	2,862
At 31 December 2013	(21,317)	(469)	–	(21,786)
Recognised in other comprehensive income	**–**	**(328)**	**–**	**(328)**
Recognised in profit or loss	**2,223**	**–**	**(30,388)**	**(28,165)**
At 31 December 2014	**(19,094)**	**(797)**	**(30,388)**	**(50,279)**

31. DEFERRED INCOME TAX *(CONTINUED)*

(c) In accordance with the relevant tax law or other tax regulations applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. As at 31 December 2014, the Group did not recognise deferred tax assets of approximately RMB61,975,000 (2013: RMB30,764,000) in respect of losses amounting to approximately RMB339,423,000 (2013: RMB193,144,000), as management believes it is more than likely that such tax losses would not be utilised before they expire. As at 31 December 2014 and 2013, the tax losses carried forward are as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Year of expiry		
– 2014	**–**	28,212
– 2015	**10,672**	10,672
– 2016	**18,514**	18,514
– 2017	**67,965**	67,965
– 2018	**57,548**	57,548
– 2019	**154,858**	–
	309,557	182,911
No expiry date	**29,866**	10,233
	339,423	193,144

Notes to the Consolidated Financial Statements *(Continued)*

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32. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

The amount of retirement and termination benefit obligation recognised in the balance sheet is determined as follows:

Group

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Non-current		
Retirement benefit obligations	**39,358**	20,281
Termination benefit obligations	**11,093**	16,722
	50,451	37,003
Current		
Retirement benefit obligations	**5,012**	1,629
Termination benefit obligations	**6,593**	7,687
	11,605	9,316
	62,056	46,319

Group

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Present value of defined benefits obligations	**62,056**	46,319
Less: current portion	**(11,605)**	(9,316)
	50,451	37,003

32. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS *(CONTINUED)*

The movements of retirement and termination benefit obligations for the years ended 31 December 2014 and 2013 are as follows:

Group

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
At beginning of the year	**46,319**	55,874
For the year		
– Interest cost	**1,822**	1,038
– Remeasurement effects recognized in other comprehensive income	**2,322**	355
– Additions on termination benefit obligations	**21,380**	–
– Payments	**(9,787)**	(10,948)
At end of the year	**62,056**	46,319

The above obligations were actuarially determined by an independent actuarial firm using the projected unit credit method.

Notes to the Consolidated Financial Statements *(Continued)*

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32. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS *(CONTINUED)*

(a) The material actuarial assumptions used in valuing these obligations are as follows:

– Discount rates adopted (per annum):

	As at 31 December	
	2014	2013
Discount rates	**3.75%**	4.50%

The effect of above changes in discount rate was reflected as actuarial gains and losses and charged to OCI or profit or loss in the period of change.

– Trend rate: 6% – 8% (2013: 5% – 8%);

– Mortality: Average life expectancy of residents in the PRC;

– Medical costs paid to early retirees are assumed to continue until the death of the retirees.

32. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS *(CONTINUED)*

(a) The material actuarial assumptions used in valuing these obligations are as follows: *(continued)*

– Expected maturity analysis of undiscounted pension benefits:

At 31 December 2014	Less than a year	Between 1-2 years	Between 2-5 years	Over 5 years	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Long-term employee benefit obligations	11,605	9,188	15,582	25,681	62,056

Based on the assessment and HKAS 19, the Group estimated that, at 31 December 2014, a provision of approximately RMB62,056,000 is sufficient to cover all future retirement-related obligations.

Obligation in respect of retirement benefits of approximately RMB62,056,000 is the present value of the unfunded obligations, of which the current portion amounting to approximately RMB11,605,000 (2013: RMB9,316,000) has been included under current liabilities.

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

	Change in assumption	Impact on overall liability
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 4.0%/4.4%
Average salary increase rate	Increase/decrease by 0.5%	Increase/decrease by 1.7%/1.5%
Rate of mortality	Increase/decrease by 1 year	Decrease/increase by 2.4%/2.5%

In 2014, approximately RMB23,202,000 were charged in administrative expenses (2013: RMB1,038,000 were charged in administrative expenses), and approximately RMB2,322,000 were charged in other comprehensive income (2013: RMB355,000).

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33. DIVIDENDS

The dividends paid in 2014 and 2013 were RMB184,232,000 (RMB0.05 per share) and RMB128,962,000 (RMB0.035 per share) respectively. A dividend in respect of the year ended 31 December 2014 of RMB0.046 per share, amounting to a total dividend of RMB169,493,000 is to be proposed at the annual general meeting on 18 June 2015. These financial statements do not reflect this dividend payable.

	2014	2013
	RMB'000	*RMB'000*
Interim dividend	**–**	–
Proposed final dividend of RMB0.046 (2013: RMB0.05) per share	**169,493**	184,232

The aggregate amounts of the dividends paid and proposed during 2013 and 2014 have been disclosed in the consolidated financial statements in accordance with the Hong Kong Companies Ordinance.

34. CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended 31 December 2014 RMB'000	2013 RMB'000
Profit before income tax	**630,679**	585,223
Adjustments for:		
– Depreciation of property, plant and equipment and investment properties	**191,510**	172,298
– Amortisation of intangible assets and lease prepayments	**25,583**	24,130
– Amortisation of deferred income	**(46,312)**	(57,076)
– Amortisation of non-current assets	**2,364**	2,423
– Write-down of inventories	**953**	6,068
– Provision for impairment of property, plant and equipment	**8,162**	–
– Gain on disposal of investments	**(460)**	(2,800)
– Interest income	**(21,368)**	(35,249)
– Interest expense	**104,512**	136,707
– Share of profit from associates and joint venture	**(368,598)**	(397,915)
– Gain on disposals of property, plant and equipment and lease prepayments	**(169,461)**	(37,696)
– Provision for impairment of receivables	**26,567**	4,320
– Gain from financial assets at fair value through profit or loss	**(5,227)**	(9,986)
	378,904	390,447
Changes in working capital:		
– Inventories	**(28,914)**	(29,700)
– Trade and other receivables	**(286,368)**	(426,060)
– Contract work-in-progress	**(26,483)**	(114,115)
– Restricted cash	**(236,876)**	(203,304)
– Retirement and termination benefit obligations	**13,525**	(18,187)
– Trade and other payables	**306,714**	473,778
	(258,402)	(317,588)
Cash generated from operations	**120,502**	72,859

Notes to the Consolidated Financial Statements *(Continued)*

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34. CASH GENERATED FROM OPERATIONS *(CONTINUED)*

(b) Proceeds from disposal of property, plant and equipment and lease prepayment

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Net book amount of property, plant and equipment and lease prepayments	**55,316**	5,441
Gain on disposals of property, plant and equipment and lease prepayments	**169,461**	37,696
Advance or settled amount from disposal of property, plant and equipment and lease prepayments	**195,440**	–
Prepayment on disposal of property, plant and equipment and lease prepayments	**(114,852)**	–
Unsettled amount from disposal of property, plant and equipment and lease prepayments	**–**	(39,728)
Proceeds from disposal of property, plant and equipments	**305,365**	3,409

(c) Non-cash transaction

In 2014, the principal non-cash transaction was the use of bills receivable of approximately RMB21,240,000 (2013: RMB154,289,000) to purchase property, plant and equipment.

35. CONTINGENCIES

The Group has certain legal claims arising in the ordinary course of business as at 31 December 2014. Based on the legal opinion provided by the lawyers, the Directors are of the opinion that no material liabilities will arise from those legal claims.

36. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the report period but not yet incurred for Group is as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Property, plant and equipment	**485,109**	554,247
Intangible assets	**5,481**	5,386
	490,590	559,633

Capital expenditure of property, plant and equipment which contracted for as at 31 December 2014 but not yet incurred for CQ Cummins amounted to RMB61,278,000 (2013: RMB41,151,000).

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36. COMMITMENTS *(CONTINUED)*

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
No later than 1 year	**33,052**	24,028
Later than 1 year and no later than 5 years	**6,789**	13,578
	39,841	37,606

37. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence on making financial and operating decisions. Parties are also considered to be related if they are subject to common control. According to HKAS 24 (revised), government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group.

The Company's parent company is CQMEHG, a state-owned enterprise established in the PRC and is controlled by the PRC government that owns a significant portion of the productive assets in the PRC. Accordingly, as stipulated by HKAS 24 (revised), related parties include CQMEHG and its subsidiaries (other than the Group), other government-related entities and their subsidiaries, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and CQMEHG as well as their close family members.

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

Other than those disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the years ended 31 December 2014 and 2013 and balances arising from related party transactions as at 31 December 2014 and 2013.

(a) Significant related party transactions

For the years ended 31 December 2014 and 2013, the Group had the following significant transactions with related parties.

Continuing related party transactions

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Transactions with the parent company, fellow subsidiaries and associates		
Revenue		
– Revenue from sales of goods	**103,410**	133,634
– Revenue from loans service	**30,731**	26,934
– Revenue from provision of services	**3,634**	6,093
Expenses		
– Purchase of materials	**87,508**	71,766
– Services	**1,971**	4,596
– Expenses for deposit taking service	**3,107**	2,226
– Other expenses	**34,514**	33,177

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37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions *(continued)*

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Transactions with joint venture and associates		
Revenue		
– Revenue from sales of goods	**24,928**	6,174
– Revenue from provision of services	**1,138**	3,966
Expenses		
– Purchase of materials	**43,240**	40,301
– Expenses for deposit taking service	**435**	–
– Services	**–**	304
– Other expenses	**512**	–

Discontinuing related party transactions

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Transactions with the parent company, fellow subsidiaries and associates		
Compensation on termination of contract	**20,000**	–

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

	Group		Company	
	As at 31 December		As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and other receivables				
Trade receivables due from				
– Fellow subsidiaries and associates	**66,200**	49,186	**–**	–
– Associates	**1,603**	2	**–**	–
Other receivables due from				
– CQMEHG	**180**	444	**–**	–
– Fellow subsidiaries	**7,296**	28,555	**–**	–
– Joint venture	**–**	1,337	**–**	1,337
– Associates	**1,209**	4,514	**1,937**	–
Loans to				
– Fellow subsidiaries and associates	**442,485**	254,230	**–**	–
Prepayments due from				
– Fellow subsidiaries	**7**	2,607	**–**	–
– Associates	**85**	–	**–**	–
	519,065	340,875	**1,937**	1,337
Less: long-term other receivables	**–**	–	**–**	–
Current portion	**519,065**	340,875	**1,937**	1,337

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37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties *(continued)*

	Group		Company	
	As at 31 December		As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	**RMB'000**	*RMB'000*
Trade and other payables				
Trade payables due to				
– Fellow subsidiaries and associates	**23,309**	17,980	**–**	–
– Associates	**2,807**	7,194	**–**	–
Deposit taking from				
– CQMEHG	**156,823**	86,692	**–**	–
– Fellow subsidiaries and associates	**467,573**	343,555	**–**	–
– Associates	**13,183**	12,720	**–**	–
Other payables due to				
– CQMEHG	**2,017**	2,021	**–**	–
– Associates	**518**	558	**–**	–
– Fellow subsidiaries	**22,377**	11,121	**–**	–
	688,607	481,841	**–**	–

37. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Financial guarantee contracts

	Group		Company	
	As at 31 December		As at 31 December	
	2014	2013	**2014**	2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Financial guarantee contracts				
– Fellow subsidiaries	**82,900**	100,000	**–**	–
– CQMEHG	**–**	77,826	**–**	77,826
	82,900	177,826	**–**	77,826

(d) Key management compensation

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	**2,858**	2,016
Contributions to pension plans	**978**	734
Discretionary bonuses	**4,023**	3,195
	7,859	5,945

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37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(e) Transactions with government-related entities in PRC

Apart from transactions mentioned above, transactions with other government-related entities include but are not limited to sales and purchases of goods and other assets; use of public utilities; and bank deposits and bank borrowings.

These transactions are conducted in the ordinary course of the Group's business on terms similar to those that would have been entered into with non-government-related entities. The Group has also established its pricing strategy and approval processes for material transactions. Such pricing strategy and approval processes do not depend on whether the counterparties are government-related entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES

(a) Subsidiaries

As at the date of this report, the Company has direct and indirect interests in the following principal subsidiaries:

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest		Principal activities
				Directly held	Indirectly held	
CAFF (重慶卡福汽車制動轉向系統有限公司)	PRC/27 June 2003	Limited liability company	232,800	100%	–	Manufacturing of vehicle parts and components
Qijiang Gear (綦江齒輪傳動有限公司)	PRC/28 December 2002	Limited liability company	200,000	100%	–	Manufacturing of transmission systems for vehicles
Chongqing Qi-Chi Automotive Part Co., Ltd. (重慶市綦齒汽車零部件有限責任公司)	PRC/26 June 2000	Limited liability company	64,565	100%	–	Manufacturing of vehicle parts and components
Chongqing Qi-Chi Xinxin Welfare Co., Ltd. (綦齒鑫欣福利有限責任公司)	PRC/8 February 2007	Limited liability company	18,367	–	100%	Manufacturing of vehicle parts and components
Qijiang Qi-Chi Forging Co.,Ltd (綦江綦齒鍛造有限公司)	PRC/7 November 2003	Limited liability company	21,000	–	100%	Manufacturing of forge products
Chongqing General Industry (Group) Co., Ltd. (重慶通用工業(集團)有限責任公司)	PRC/6 April 1997	Limited liability company	856,986	100%	–	Manufacturing of general machinery

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38. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Chongqing Pump Industry Co., Ltd. (重慶水泵廠有限責任公司)	PRC/12 September 2002	Limited liability company	196,411	100%	–	Manufacturing of pumps
Chongqing Jiangbei Machinery Co., Ltd. (重慶江北機械有限責任公司)	PRC/10 September 2002	Limited liability company	76,270	100%	–	Manufacturing of separation machinery
Chongqing Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司)	PRC/12 September 2002	Limited liability company	120,214	100%	–	Manufacturing of gas compression machine
Chongqing Shunchang General Electrical Equipment Co., Ltd. (重慶順昌通用電器有限責任公司)	PRC/20 January 2007	Limited liability company	1,000	–	100%	Manufacturing of general electric apparatus for general machine
Chongqing General Group Bingyang Air Conditioner Equipment Installation Co., Ltd. (重慶通用集團冰洋製冷空調設備安裝有限公司)	PRC/11 May 1994	Limited liability company	8,223	–	100%	Provision of air-conditioner installation services
Chongtong Chengfei (重通成飛)	PRC/17 September 2009	Limited liability company	152,656	–	91.18%	Manufacturing of wind-power equipment
Xilinhaote Chenfei Wind-Power Equipment Co., Ltd (錫林浩特晨飛風電設備有限公司)	PRC/16 November 2011	Limited liability company	5,000	–	91.18%	Manufacturing of wind-power equipment
Tong Kang Water Affairs Co., Ltd. (潼康水務有限公司)	PRC/16 July 2012	Limited liability company	1,000	–	100%	Sewerage treatment and Environmental engineering construction
CMEFC (重慶機電控股集團財務有限公司)	PRC/16 January 2014	Limited liability company	600,000	51%	–	Provide financial service

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	Indirectly held	Principal activities
Chongqing Machine Tools (Group) Co., Ltd. (重慶機床(集團)有限責任公司)	PRC/31 December 2005	Limited liability company	329,541	100%	–	Manufacturing of gear-cutting machines
Chongqing No. 2 Machine Tools Factory Co., Ltd. (重慶第二機床廠有限責任公司)	PRC/12 June 2007	Limited liability company	80,000	–	100%	Manufacturing of machinery tools
Chongqing Shenjian Automotive Drive Part Co., Ltd. (重慶神箭汽車傳動件有限責任公司)	PRC/19 July 1999	Limited liability company	23,011	–	100%	Manufacturing of transmission systems for vehicles
Chongqing Tool Factory Co., Ltd. (重慶工具廠有限責任公司)	PRC/13 February 2007	Limited liability company	60,000	–	100%	Manufacturing of cutting tools for gear-cutting machines
Chongqing Yinhe Forging & Founding Co., Ltd. (重慶銀河鑄鍛有限責任公司)	PRC/6 October 1997	Limited liability company	18,704	–	100%	Manufacturing of foundry goods
Chongqing Shengpu Materials Co., Ltd. (重慶盛普物資有限公司)	PRC/1 February 2007	Limited liability company	1,405	100%	–	Sales of machinery materials
Chongqing Shengong Machinery Manufacture Co., Ltd. (重慶神工機械製造有限責任公司)	PRC/28 April 2000	Limited liability company	1,103	–	100%	Manufacturing of machinery tools
Chongqing Yuzhu Tai-Xin Plating Co., Ltd. (重慶渝築鈦星鍍膜有限公司)	PRC/25 September 2003	Limited liability company	1,892	–	70%	Provision of processing services

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38. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Chongqing Huijiang Machine Tools Founding Co., Ltd. (重慶惠江機床鑄造有限公司)	PRC/14 March 2007	Limited liability company	3,670	–	55%	Manufacturing of machinery tools
Chongqing Water Turbine Works Co., Ltd. (重慶水輪機廠有限責任公司)	PRC/26 March 1998	Limited liability company	135,097	100%	–	Manufacturing of power generators
Chongqing Huahao Smelting Co., Ltd. (重慶華浩冶煉有限公司)	PRC/16 April 2002	Limited liability company	61,335	100%	–	Metallurgical production
Pigeon Wire (重慶鴿牌電線電纜有限公司)	PRC/20 January 2001	Limited liability company	100,100	74%	–	Manufacture electric wires and cables
Chongqing Pigeon Electric Materials Co., Ltd. (重慶鴿牌電工材料有限公司) (i)	PRC/19 October 2006	Limited liability company	6,800	–	37%	Manufacture electrical material
Chongqing Pigeon Electrical Porcelain Co., Ltd. (重慶鴿牌電瓷有限公司)	PRC/19 October 2006	Limited liability company	53,000	–	74%	Manufacture electrical porcelain
Precision Technologies Group (PTG) Limited (精密技術集團有限公司)	United Kingdom/1 August 2011	Limited liability company	UKP20,000	100%	–	Production and technical service of machineries

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	Indirectly held	Principal activities
Holroyd Precision Limited (霍洛伊德精密有限公司)	United Kingdom/12 June 2006	Limited liability company	1	–	100%	Production and technical service of screw grinding machines and screw milling machines
Precision Components Limited (精密零部件加工有限公司)	United Kingdom/2 June 2007	Limited liability company	–	–	100%	Production of screw
PTG Heavy Industries Limited (PTG重工有限公司)	United Kingdom/16 May 2008	Limited liability company	–	–	100%	Design and manufacture of machine tools
Milnrow Investments Limited (米羅威投資有限公司)	United Kingdom/29 November 2006	Limited liability company	1	–	100%	Leasing of properties
PTG Advanced Developments Limited (PTG高級發展有限公司)	United Kingdom/4 April 2008	Limited liability company	–	–	100%	Researching and developing of machinery tools
PTG Deutschland GmbH (PTG德國公司)	Germany/15 May 2010	Limited liability company	220	–	100%	Selling of machinery tools
Chongqing Holroyd Precision Rotors Manufacturing Co., Ltd. (重慶霍洛伊德精密螺杆制造有限責任公司)	PRC/15 December 2011	Limited liability company	40,000	–	100%	Design, manufacture and selling screw
Precision Technologies Group Investment Development Company Limited (精密技術集團投資發展有限公司)	Hong Kong/27 April 2012	Limited liability company	HKD600,000	–	100%	Import and export materials and equipments

(i) The Group has 74% interests in Pigeon Wire. which owns 50% interests in Chongqing Pigeon Electric Materials Co., Ltd. Chongqing Pigeon Electric Materials Co., Ltd. considered as a subsidiary of the Group because the Group has majority voting rights on the Board of Directors and its strategic, operating, investing and financing activities are controlled by the Group.

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38. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES *(CONTINUED)*

(b) Joint venture

As at the date of this report, the Company has the following principal joint venture (unlisted):

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
CQ Cummins 重慶康明斯發動機有限公司)	PRC/15 June 1995	Limited liability company	417,600	50.00%	–	Manufacturing of engines

(i) CQ Cummins manufactures engines for automobile, electricity and other industries. CQ Cummins is a strategic partnership for the Group, providing new technologies for diesel engine business.

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES *(CONTINUED)*

(c) Associates

As at the date of this report, the Company has direct and indirect interest in the following principal associates (all are unlisted):

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	Indirectly held	Principal activities
Qijiang Qi-Chi High-New Founding Co., Ltd. (重慶市綦齒高新鑄造有限責任公司)	PRC/13 July 2000	Limited liability company	1,200	–	40.83%	Manufacturing of foundry products
Hongyan (重慶紅岩汽車方大汽車懸架有限公司)[(i)]	PRC/27 June 2003	Limited liability company	119,081	44.00%	–	Manufacturing of automobile springs for vehicles
Exedy (愛思帝(重慶)驅動系統有限公司)[(i)]	PRC/3 December 2003	Limited liability company	101,040	27.00%	–	Manufacturing of clutches
Midea Tongyong (重慶美的通用製冷設備有限公司)[(i)]	PRC/4 August 2004	Limited liability company	103,750	–	45.00%	Manufacturing of refrigeration equipment
Chongqing Yongtong Gas Co., Ltd. (重慶永通燃氣股份有限公司)	PRC/6 December 2006	Limited liability company	20,000	–	20.00%	Provision of gas engineering services
CQMEM (重慶北部新區機電小額貸款有限公司)	PRC/17 April 2014	Limited liability company	200,000	10.00%	35.00%	Micro lending service
Power Transformer (重慶變壓器有限責任公司) [(i)]	PRC/5 March 1996	Limited liability company	161,410	65.69%	–	Investor of Chongqing ABB Power Transformer Co. Ltd.
Chongqing Ji'en Smelting Co., Ltd. (重慶吉恩冶煉有限公司)	PRC/16 June 2004	Limited liability company	23,590	–	24.67%	Manufacturing of metallic products
Knorr-Bremse CAFF Systems for Commercial Vehicles (Chongqing) Ltd. (克諾爾卡福商用車系統(重慶)有限公司)	PRC/23 February 2011	Limited liability company	135,594	–	34.00%	Manufacturing of vehicle parts and components
Chongqing Youyan Smelting New Material Co., Ltd. (重慶有研重冶新材料有限公司)	PRC/15 July 2014	Limited liability company	33,200	41.5%	–	Manufacturing of metallic products

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38. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES *(CONTINUED)*

(c) Associates *(continued)*

(i) Although the Company owns 65.69% equity interests of Power Transformer, the Company only has minority voting rights on the Board of Directors and has no control over the making of financial and operating decisions. The Company has significant influence on Power Transformer, and the entity is therefore accounted for as an associate.

Power Transformer provides high-voltage transmittor products to the electric power industry, Power Transformer is a strategic partnership for the Group because it brings high reliability and safety to the power and emmisson industry.

CQMEM focuses on solving the financing problem for the members of the Group, helps the members to carry out technical innovation and the Group to enhance the competitive power.

Hongyan engaged in automatic elastic suspension components manufacturing, and striving to maintain a leading edge in the industry. The Group have built long-term cooperation relationship with Hongyan because of its exceptional quality products.

Exedy dedicated to the development of wide-diesel engine muffler damping clutch, and the products are highly appreciated by the auto production companies of the Group.

Midea Tongyong manufactures large central air-conditioning products, which are extensively used in common industry. The Group has built strategic and stable partnership with Midea, and seek more future innovation opportunity.

39. ULTIMATE HOLDING COMPANY

The Directors regard CQMEHG as the ultimate holding company of the Company.

40. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

For the year ended 31 December 2014, the profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB303,837,000 (2013: RMB413,477,000).

重慶機電股份有限公司
CHONGQING MACHINERY & ELECTRIC CO., LTD.*