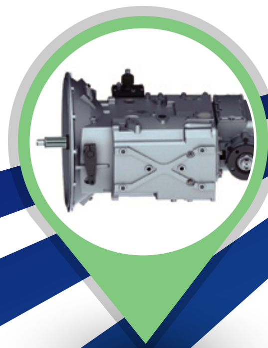
重慶機電股份有限公司
CHONGQING MACHINERY & ELECTRIC CO., LTD.*

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

Stock Code: 02722

ANNUAL REPORT 2015



EQUIP CHINA, ADVANCE TOWARDS THE WORLD

* *For identification purposes only*

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

Mr. Wang Yuxiang *(Chairman)*
Mr. Xiang Hu
Mr. Yang Quan
(appointed on 8 December 2015)

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

SUPERVISORS

Mr. Wang Pengcheng
Ms. Wu Yi
Mr. Huang Hui
Mr. Zhang Mingzhi
(appointed on 18 September 2015)
Mr. Xia Hua
(appointed on 18 September 2015)

COMMITTEES UNDER BOARD OF DIRECTORS

Members of the Audit and Risk Management 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. Xiang Hu
Mr. Yang Quan
Mr. Huang Yong
Mr. Ren Xiaochang
Mr. Jin Jingyu
Mr. Liu Wei

LEGAL REPRESENTATIVE

Mr. Wang Yuxiang

COMPANY SECRETARY

Miss Chiu Hoi Shan *(Practicing Solicitor)*

QUALIFIED ACCOUNTANT

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

AUTHORIZED REPRESENTATIVES AND CONTACT INFORMATION

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Chongqing City, the PRC
Postal code: 401123
Tel.: (86) 023-63075688

Ms. Chiu Hoi Shan
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
33rd Floor, Shui On Centre,
No. 6-8 Harbour Road, Wanchai,
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 Fifth 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

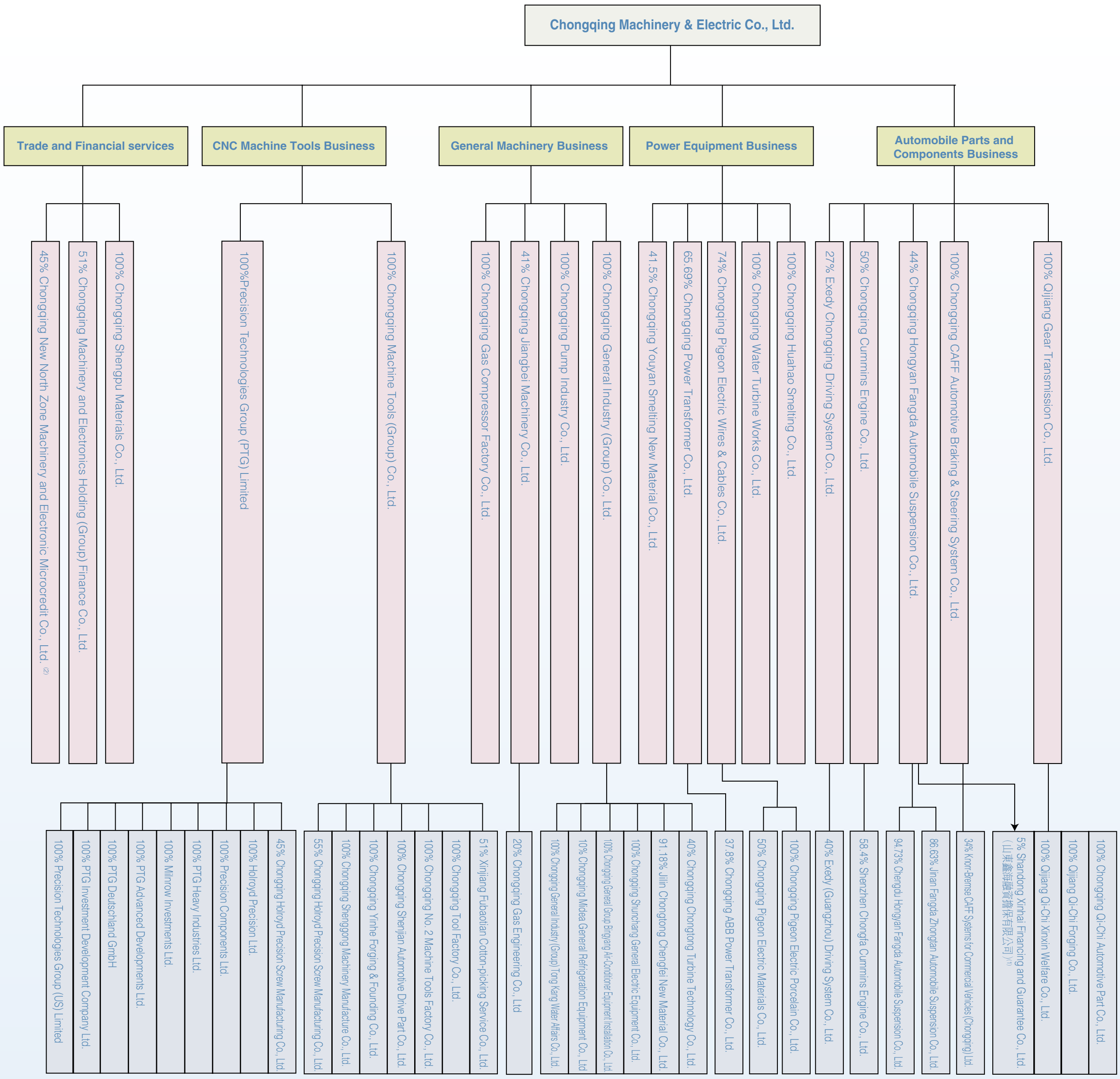
31 December

Financial Highlights

(RMB'000)	2011	2012 (Restated)	2013	2014	**2015**
Revenue and profit					
Revenue	10,546,001	8,908,032	9,701,044	9,485,570	**9,010,422**
Profit before taxation	913,658	488,874	585,223	630,679	**523,896**
Taxation	(168,463)	(30,525)	(44,785)	(66,906)	**(57,311)**
Profit for the year	745,195	458,349	540,438	563,773	**466,585**
Attributable to					
Equity holders of the Company	737,277	443,446	506,829	511,943	**417,634**
Non-controlling Interests	7,918	14,903	33,609	51,830	**48,951**
Dividends – Proposed final dividends	221,078	128,962	184,232	169,493	**92,116**
Earnings per share attributable to equity holders of the Company – Basic (RMB)	0.20	0.12	0.14	0.14	**0.11**
Assets and liabilities					
Non-current assets	3,299,965	3,786,175	4,441,363	4,852,425	**5,627,580**
Current assets	8,460,007	8,457,330	8,408,940	8,782,188	**9,139,491**
Current liabilities	4,669,679	5,001,485	4,940,234	5,420,311	**6,869,058**
Net current assets	3,790,328	3,455,845	3,468,706	3,361,877	**2,270,433**
Total assets less current liabilities	7,090,293	7,242,020	7,910,069	8,214,302	**7,898,013**
Non-current liabilities	2,123,434	1,759,829	2,023,804	1,963,333	**1,343,211**
Net assets	4,966,859	5,482,191	5,886,265	6,250,969	**6,554,802**
Equity attributable to equity holders of the Company	4,924,901	5,143,392	5,518,845	5,844,478	**6,106,407**
Non-controlling interests	41,958	338,799	367,420	406,491	**448,395**

The financial information of 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 2015 amounted to approximately RMB9,010.4 million, representing a decrease of approximately 5.0% as compared with approximately RMB9,485.6 million for 2014.

Profit attributable to the shareholders of the Company for the year ended 31 December 2015 was approximately RMB417.6 million, representing a decrease of approximately 18.4% as compared with approximately RMB511.9 million for 2014.

Basic earnings per share for the year ended 31 December 2015 amounted to approximately RMB0.11 (2014: approximately RMB0.14).

The board of directors (the "Board") proposed to declare a final dividend of RMB0.025 per share for the year ended 31 December 2015 (2014: RMB0.046).

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 2015 (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 2015, the global economy faced complex and ever-changing situations, and recorded an overall slowdown in growth. The European economy was again inflicted by the EU debt problem, terrorists attack and the tide of refugees and underwent fluctuations of economy, while the Euro currency has been experiencing volatility for a long time. Despite the modest rate of recovery, the US economy failed to give enough momentum to boost the recovery of the global economy. In the face of the complicated conditions both home and abroad, in particular, the ongoing downward pressure on the economy and the volatile capital market and exchange rate, China's economy has seen continued optimisation of industrial structure and entered "New Normal" as the state government continued to insist on the overall work keynote of making progress while maintaining stability and implemented a number of measures, such as stabilising growth, promote reform, adjust structure, care for the welfare of the people and guard against risks. The overall GDP increased by 6.9%, which is lower

Chairman's Statement (Continued)

than the annual target for GDP growth of 7.0%. The Group has been facing unprecedented significant pressure and challenges as the equipment manufacturing industry was afflicted with structural overcapacity and cruel market competition. Against this backdrop, the Group took the general approach of "deepen reform for further development, refine management to enhance efficiency", and took an aggressive strategy to secure orders, strengthen management and control, push ahead with the transformation, accelerate transformation and upgrading, speed up reform and innovation and expansion of market. Through these efforts, the prescribed annual target was largely achieved.

Total revenue of the Group for the year ended 31 December 2015 was approximately RMB9,010.4 million (2014: RMB9,485.6 million), representing a decrease of approximately RMB475.2 million or approximately 5.0% over last year. Gross profit was approximately RMB987.5 million (2014: RMB1,064.8 million), representing a decrease of approximately RMB77.3 million or approximately 7.3% over last year. Profit attributable to the shareholders of the Company amounted to approximately RMB417.6 million (2014: RMB511.9 million), representing a decrease of approximately RMB94.3 million or approximately 18.4% from 2014.

During the Period, the Group's administrative expenses accounted for approximately 12.1% of the revenue while distribution and selling expenses accounted for approximately 3.0%, slightly higher than last year in general. The Group maintained a stable financial position during the Period. As at 31 December 2015, total cash and bank deposits of the Group amounted to approximately RMB2,001.4 million, representing an increase of approximately 6.0% as compared to the same period of last year.

Earnings per share for the Period were approximately RMB0.11 (2014: approximately RMB0.14). Total assets as at 31 December 2015 amounted to approximately RMB14,767.1 million (31 December 2014: RMB13,634.6 million), while total liabilities amounted to approximately RMB8,212.3 million (31 December 2014: RMB7,383.6 million); and net asset value per share was approximately RMB1.78 (31 December 2014: RMB1.70).

BUSINESS REVIEW AND OUTLOOK

Automobile parts and components (gear boxes, steering systems)

In 2015, driven by the steady growth of the market of passenger vehicles in China, the domestic automobile industry reached a new height with the production and sales volumes of automobiles nationwide recorded a growth rate of 3.25% and 4.68% respectively over last year, which represented a stable trend of growth, but the growth rate of production and sales volumes was down by 4 percentage points and 2.2 percentage points respectively as compared with 2014. However, affected by the rapid growth of new energy vehicles and the notable decline in fixed investment projects, large and medium passenger vehicles and heavy trucks, which are closely related to the Group, recorded a decline of 9.97% and 8.97% respectively compared with last year, which led to the simultaneous drop in output and sales volume of the Group's gear boxes and steering systems business. Meanwhile, as a result of the one-off manpower cut, a significant decrease in the operating results was recorded. Operating results of the diesel engine business also declined due to the ongoing effects brought by the decrease in property investment, 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 RMB850.3 million for the year, representing a decrease of approximately 23.7% from 2014.

The project "Breakthrough in and Industrialisation of Key Technologies in AMT Gear Box Used in New Energy Commercial Vehicles" carried out by Qijiang Gear Transmission Company Limited ("Qijiang Gear Transmission") was granted special low-interest-bearing supportive fund in the amount of RMB19.5 million. The products of gear box used in new energy commercial vehicles have achieved fast growth, while the chassis suspension system for passenger vehicles ventured into new market and was deployed in the supplier systems of Chang'an Automobile.

With the launch of the initiative of "Made in China 2025" and relevant efforts towards the strategic target of revitalising the equipment manufacturing industry, the number of projects for the construction of infrastructures will increase, while the pace of urban development will continue to pick up. The Group expects the segment to gain momentum for growth after recovery in 2016.

In addition, Chongqing Cummins Engine Company Limited ("Chongqing Cummins"), a joint venture of the Group, is engaged in the production and sale of high-horsepower diesel engine. The Company completed the trial batch production and sale of 14-litre QSN upgraded electrical engine and QSK50 high-horsepower engine, and received recognition from the market. At the same time, the QSK60 high-horsepower engine entered the phase of production testing. Currently, the high-horsepower engine developed by Chongqing Cummins has a domestic market share of about 21%, and continues to maintain its leading position and stable market presence. The high-horsepower technology research and development centre of Chongqing Cummins has entered the stage of preparation for tendering of construction. Annual results of the jointly controlled entity are set out in the section headed "SHARE OF POST-TAX PROFITS OF JOINT VENTURE" in page 26 of this Annual Report.

Chairman's Statement (Continued)

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

During 2015, sales revenue of the power equipment business segment dropped as a result of decreasing copper prices. However, benefited from a number of favourable factors, such as the Chinese Government's promotion of clean energy, smart power grid construction and urban development, the sales volume and operating results of the business segment achieved notable improvement. Results of electrical wires and cables recorded a rapid growth, while the business related to hydroelectric generation equipment has been expanded to mechanical and electrical engineering construction general contracting and engineering procurement construction general contracting and the export market has been further consolidated and strengthened. Meanwhile, benefitting from the gain from land transfer in relation to relocation for environmental protection, the operating results recorded growth. The segment recorded revenue of approximately RMB2,526.0 million, representing a year-on-year decrease of approximately 19.1%.

During the Period, the construction of the main works for the relocation of Chongqing Water Turbine Works Company Limited ("Chongqing Water Turbine") for environmental protection has been completed, and the installation of electrical appliances and equipment is under way. Its project "the construction of the research and development centre and demonstrative base for the highly efficient hydroelectric generation equipment" obtained subsidy from the state government of RMB12.43 million.

With the rollout of the "One Belt and One Road" initiative and acceleration of the investment in smart power grid construction, clean energy and urban development, the Group expects the segment to deliver stable performance in 2016.

General machinery (industrial pumps, gas compressors, separation machines, refrigeration machines, and industrial fans, etc.)

In 2015, this segment saw notable results in structural adjustment, as well as transformation and upgrading. Benefitting from the stable operating results of industrial pumps business in the middle and high-end market and the rapid growth in wind power rotor blades business, income of the segment continued to achieve relatively fast growth, which fuelled the growth of operating results. The segment recorded revenue of approximately RMB2,144.9 million for the year, representing a year-on-year increase of approximately 25.1%.

The "Fixed-frequency Centrifugal Water Chilling Unit Under the National Science and Technology Major Project" developed by Chongqing General Industry (Group) Co., Ltd. ("Chongqing General") in collaboration with State Nuclear Power Technology Corporation (SNPTC) passed the verification by the China Machinery Industry Federation (中國機械工業聯合會), and has reached the internationally advanced levels. The four new environment-friendly centrifugal ventilators developed by Chongqing General have been selected to be included into the "Energy Efficiency Star" product catalogue of the Ministry of Industry and Information Technology of the country. The third-generation charging pump and the reactor cavity cooling water injection pump for nuclear power generation units developed by Chongqing Pump Industry Co., Ltd. ("Chongqing Pump") successfully passed the review by an expert panel of China. These products filled in the domestic gap and their major indicators of performance have reached the advanced level among similar products on the international market. Construction related to the relocation project of Chongqing Jiangbei Machinery Company Limited ("Chongqing Jiangbei Machinery") for environmental protection has been completed, and the relocation is currently under way.

On 7 April 2015, Chongqing General signed an equity transfer agreement with Carrier Asia Limited, selling 35% equity interest in Chongqing Midea General Refrigeration Equipment Company Limited ("Chongqing Midea General") at RMB176,587,500. Following the transaction, Chongqing General still held 10% equity interest in Chongqing Midea General. On 28 December 2015, the Company entered into an equity transfer agreement with Jiangsu Saideli Mechanical Manufacturing Co., Ltd. (江蘇賽德力機械製造有限公司), the Company agreed to sell its 59% equity interest in Chongqing Jiangbei Machinery at a consideration of RMB77.529 million. Upon completion of the transaction, the Company will still hold 41% equity interest in Chongqing Jiangbei Machinery.

Chongqing General, Chongqing Information Industry Investment Promotion Centre ("Information Industry Centre") and Chongqing Mechanical & Electrical Equipment Technology Research Institute Co., Ltd. ("Equipment Technology Company") agreed to establish a joint venture company for the purpose of conducting continuous research on emerging industries and enhancing the capability of technological innovation and products quality assurance of Chongqing General. For details, please refer to the announcement of the Board of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 5 January 2016.

In view of the favourable state policies for the nuclear generation industry, there is more incentive and support for the development of clean energy, and the pace of investment in corresponding infrastructures accelerates. Coupled with the rapid development and sound orders for wind power rotor blades and increasing demand for high-end industrial pumps, the Group expects that this segment will maintain rapid growth in 2016.

Chairman's Statement (Continued)

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

In 2015, due to the constant influence of structural adjustment of various industries across the country, shrinking investments and overcapacity resulted in a decrease in market demand both in China's machine tool industry and the CNC machine tools business of the Group. Despite the decline in revenue, operating results experienced a growth benefitting from the gain from land transfer in relation to relocation for environmental protection. The segment recorded revenue of approximately RMB876.1 million, representing a year-on-year decrease of approximately 0.7%.

Relocation project of Chongqing Tool Factory Company Limited for environmental protection has completed and is currently undergoing trial production. Construction of the main structure of the relocation projects of Chongqing Yinhe Forging & Founding Company Limited for environmental protection was completed. Chongqing Machine Tools (Group) Company Limited ("Chongqing Machine Tools") successfully filed its application for special projects in intelligent manufacturing for 2015 and obtained subsidies of RMB10 million from the Ministry of Industry and Information Technology. In addition, the major special science and technology project "High-end CNC Machine Tools and Basic Manufacturing Equipment" carried out by Chongqing Machine Tools in collaboration with Qijiang Gear Transmission obtained national central fiscal subsidy of RMB45.58 million.

During the Period, cotton-harvesting machines jointly developed by Chongqing Machine Tools and Xinjiang Huaguan Luye Agricultural Technology Company Limited passed the municipal-level new product verification in Chongqing and obtained a total of six national patents for invention and utility model. In addition, Chongqing Machine Tools, Zhejiang Shuanghuan Driveline Co., Ltd. ("Shuanghuan Driveline") and KAPP GmbH & Co. KG ("KAPP in Germany") agreed to establish a joint venture company for the purpose of consolidating the advantages of the parties and exerting synergistic effects in areas including technology, management and marketing, and providing comprehensive assembly-line manufacturing solutions focusing on intelligent factories and digital workshops (Industry 4.0). For details, please refer to the announcement of the Board of the Company published on the website of the Hong Kong Stock Exchange and the Company on 20 December 2015.

With the acceleration of pace of the intelligent manufacturing driven by initiatives launched by the state government, the transform and upgrade of the segment will be speeded up as fuelled by the advancement made across the equipment manufacturing industry towards intelligent development. The Group expects the segment will bottom out in 2016 with increased opportunities.

Trade business

In 2015, the bulk commodity procurement platform of the Group increased the types of procurement, directly reducing procurement cost of the Group by approximately RMB8.9 million. The turnover of this segment amounted to approximately RMB2,556.8 million, representing a year-on-year slight decrease of approximately 0.3%.

The Group will continue to expand the types and scope of the bulk commodity procurement, promote procurement through e-commerce platforms, reduce the costs for bulk commodity procurement, streamline supply chain and logistics management, and strengthen supervision on risks.

Financial business

In 2015, affected by the adjustment of credit policy, the interest income recorded a slight decrease, but the total operation revenue amounted to approximately RMB56.3 million for the year due to increased cash concentration and development of new business, representing a decrease of approximately 35.2% as compared to the same period of last year. This segment is expected to grow steadily in 2016.

DEVELOPMENT FOUNDATION AND ADVANTAGES

The Group ranked in the "Fortune China 500 Companies" for 6 consecutive years from 2010 to 2015 and won the title of "2015 China Top 500 Machinery Manufacturers" (ranking No. 122), 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 initiatives of "One Belt and One Road", "Yangtze River Economic Belt" as well as the development and operation of 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. At the same time, benefiting from large-scale development of China's western region, the Group 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-

Chairman's Statement (Continued)

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. 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 2016 are set out as follows:

I. Development Strategy

The year 2016 marks the start line for the critical stage of the initiative to build the moderately prosperous society under the "Thirteenth Five-year Plans" of China, as well as a year for making breakthrough in promoting the structural reform. With a focus on the three major themes of transformation and upgrading, reform and innovation as driving force, the Group continues to deepen the supply-side reform, incentivise the vigour of innovation, while leveraging on the "321" strategy to chart its overall direction and enhancing quality and efficiency, strictly controlling risks, with a view to promoting the sustainable and healthy development of the Group.

II. Work Priorities

(I) Deepen the exploration of two markets and promote the growth in the number of orders

On the domestic market, the Group will adhere to principles of "orders are the king", "results are the king", and implement the sales strategy of management accountability, while streamlining the marketing strategy, and reinforcing the management of sales channels and customer relationship. On the international market, the Group will take advantage of the "One Belt and One Road" initiatives, and continue to explore the markets across Europe, South Asia and Southeast Asia, with the aim of establishing the preliminary marketing networks for the global market.

(II) Deepen refined management and enhance quality and efficiency

With a focus on key indicators for efficiency, quality, structure and innovation, the Group will refine its quality management and promote the "project for high-quality products". The centralised deployment and control of capital and credit will be deepened to reduce financial costs. Comprehensive budget management will be implemented, and the real-time early warning and advanced control will be regulated. The quality control on operation will be run on a more precise level, while indicators like trade receivables, inventory, cash flow and operating profit will be put under more stringent control. Efforts on energy saving and consumption reduction will be strengthened. Pilot programme for the optimisation of logistics will be conducted to reduce logistic costs. The Group will also deepen the central procurement and push ahead with the "Internet + central procurement" through e-commerce platforms, with a view to achieving enhancement in quality and efficiency.

(III) Deepen technological progress and promote the materialisation of new industries and new projects

The relocation project for environmental protection and projects such as the offshore wind power blade and high-horsepower engine developed by Chongqing Cummins will be followed up continuously. Various projects, such as the agricultural cotton-picking project, the machine tools intelligent manufacturing project, EPC general contracting, PPP projects for environmental protection will be promoted, with a view to creating new growth points. Investment in the research and development of new products will be increased, specific funds for innovation projects will be established, the establishment of system for the research and development of the company's products will be explored, the platform for research and development, experiment and testing will be gradually established, and the construction of the centre for branding, patents and technologies will be promoted.

Chairman's Statement (Continued)

(IV) Deepen transformation and reform and accelerate the optimisation and restructuring process

The implementation of the capital operation project of the Company will be speeded up, the plan for the reform of the enterprise under the model of "one policy for one enterprise" will be developed, and breakthrough in the reform of mixed ownership and equity participation of employees will be endeavoured to make. Merger and acquisition projects will be promoted continuously.

(V) Deepen the construction of information capabilities and materialise the industrial application of the Internet

Various systems of the Company will be improved, including the data centre, business intelligence, financial management and human resources management. The intelligent production process will be facilitated, new approaches to production will be fostered, and the intelligent level of the research and development, production, management and services function of the Company will be enhanced.

(VI) Deepen the reform on human resources and motivate the vitality of employees

The dynamic adjustment mechanism which brings the total number of employees and expenses on human resources in line with the operational efficiency will be established. In response to the construction of the research and development centre in Europe, the system for multi-engagement of core technical professionals will be explored, the internal communication platform for staff will be established, and reasonable mobility of the human resources of the Company will be endeavored to achieve. Talents with global vision and comprehensive capabilities will be introduced and trained, such as operation and management talents, high-calibre research talents and highly skilled talents with practical expertise.

(VII) Deepen internal control and management, and focus on risk prevention

Through promoting supervision featuring with "dynamic and appropriate services + professional tracking and audit", the Company will continue to carry out assessment on internal control, take remedial measures in respect of any defect in a timely manner and carrying out monitors on key risk data and information on material legal risks and ensure the effectiveness of risk management and the internal supervision system.

(VIII) Deepen the maintenance of investor relations and maximise shareholders' interest

Regulate disclosure of information, and strengthen communication with investors and the media through different approaches. Enhance the corporate governance, maximise the interest of relevant investors and safeguard the legitimate interests of investors.

AWARDS

During the Period, the Group received the following awards:

- The "Method for the Thermal Deformation Error Compensation for CNC Hobbing Machine" developed by Chongqing Machinery Tools, a subsidiary of the Company, was granted the 17th Outstanding Chinese Patented Invention Award;
- The LOGO of the Company was named the famous trademark in Chongqing;
- The "Ultrahigh-head impact hydroelectric generating sets" (超高水頭衝擊式水輪機組項目) of the Chongqing Water Turbine and the "Large Ammonia Compressor and Chiller Units for Chemical Processing" (化工用大型氨壓縮機及製冷機機組項目) of Chongqing General, each a subsidiary of the Company, were granted the National Machinery Technological Advancement Award (second prize) successively;
- Chongqing General won the "2015 Award for Technological Innovation Demonstration Enterprises in PRC";
- The "Third Generation of Nuclear Power Plant with Fixed Frequency Water-cooled Centrifugal Chiller" researched and developed by Chongqing General, was awarded "Top Ten Innovative New Product of Energy Equipment in China of 2015";
- Chongqing Pigeon received the recognition as one of the "Model Enterprises of Industrial Brand Cultivation";
- Chongqing Pigeon received the recognition of "Technology Innovation Demonstration Enterprises of Chongqing City of 2015";
- Chongqing Water Turbine obtained the approval for the "Chongqing Research Centre for Hydroelectric Generation Equipment Engineering and Technologies";

Chairman's Statement (Continued)

- Precision Technologies Group Limited ("PTG"), our British subsidiary, was awarded the 2015 Queen's Award "International Trade Class".

SUMMARY

Looking into 2016, the global economy still faces various challenges ahead as there are many uncertainties, such as whether the economies in Europe and America will maintain the growth momentum, how will the interest rate hike in the US will affect the direction of capital flow around the globe, whether the issue of high level European debt will be resolved effectively, and whether the slowdown in the economic growth of emerging countries can be managed.

The Chinese economy has entered the "New Normal". The year 2016 marks the start line the "Thirteenth Five-year Plans" of China. The Chinese government gives top priority to "slashing overcapacity, reducing inventories, deleveraging, saving costs and making up for the deficiencies". With the ongoing implementation of national strategies including "One Belt, One Road" and "Yangtze River Economic Belt" as well as new types of urbanisation, it is expected that the Chinese economy will deliver stable performance. The Group will adhere to the "321" strategy and make greater efforts to transform the equipment manufacturing industry by leveraging on the Internet, information processing and intelligent technologies. Meanwhile, based on the principle and purpose of innovation as driving force, reform and development, transformation and upgrading and quality and efficiency enhancement, the Group will make concerted efforts on all levels to strive for achieving the targets for 2016, and realise the dream of "Equipping the World with the happiness of CQME".

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
29 March 2016

Management's Discussion and Analysis

OUTLOOK AND PROSPECT

Looking ahead into 2016, as the United States presses ahead with the development strategy of reindustrialisation through the "Advanced Manufacturing Partnership" programme, Germany continues to introduce "Industry 4.0", and Chinese government launches the strategy of "Made in China 2025" and accelerated "One Belt and One Road", "Yangtze River Economic Belt" and new urbanisation, focusing on the development of ten emerging industries and "Internet Plus", as a result of which, the global economy is expected to attain stability. By adhering to the new "321" strategy with the focus on "sharpening up existing business, boosting new business and continuous innovation", the Group endeavours to improve the enterprise intelligence level, deepen the market expansion, improve quality and efficiency, facilitate transformation and upgrading, stimulate merger and acquisition and restructure, optimise human resources, enhance corporate governance, avoid operating risks, safeguard shareholders' rights and interests and complete the objectives of each project launched in 2016. The Group expects that the business will maintain a stable development in 2016.

BUSINESS REVIEW

Efficiency achieved in operation, management and control

During 2015, the Group concentrated on the market expansion at home and abroad and strived for order growth. Both new orders and sales revenue of wind power rotor blades exceeded RMB1 billion; the sales volume of new-energy-driven gear boxes exceeded 5,000; new orders of nuclear pumps reached 20; the hydroelectric generators EPC project in Laos was secured smoothly, representing a new step to expand business in the South Asian market. Overall budget management has been introduced in a comprehensive manner, with major indicators, including trade receivables, inventory, cash flows, operating profit and quality loss, being under effective control, implementing the overall financing and guarantee policy. In terms of centralised procurement, the Company tried to carry out the "Internet + Centralised Procurement" model on the e-commerce platforms, expanding the coverage and boosting the quantity. Logistics optimisation was launched, and pilot programmes for energy conservation and consumption reduction management were also carried out.

Management's Discussion and Analysis (Continued)

Continuous promotion of corporate innovation

In 2015, the Group applied for 183 new patents, including 15 patents for invention; up to then, the Group has been granted 1,573 patents, including 70 patents for invention. The Group completed the development of 105 key new products. 25 partnership projects in production, learning and research with Tsinghua University, Xi'an Jiaotong University and Chongqing University were established and 2 doctors in engineering were recruited. Chongqing Machine Tools and Chongqing Water Turbine were granted RMB152 million of financial support under the government's policy, with RMB47,860,000 being received. The R&D investment amounted to RMB166.1 million in the whole year.

Pragmatic Promotion of Project Constructions

Construction of the main structure of the relocation projects for Chongqing Water Turbine, Chongqing Jiangbei Machinery and Chongqing Yinhe Forging & Founding Company Limited ("Chongqing Yinhe Forging & Founding") have been completed for the purpose of environmental protection. The offshore wind power blade industrialisation project of Chongqing General has been under construction currently. The Cummins high-horsepower engine international research centre completed the overall design and the tender preparation for construction in phases. The plant construction project to manufacture precision rotors in the United States kicked off by PTG has been under the plant inspection and machinery equipment testing phase. The headquarters has basically completed the reconstruction and expansion of the basic framework of informatisation.

Smooth advancement of merger and acquisition and restructure

Chongqing Machine Tools, Shuanghuan Driveline and KAPP in Germany entered into the agreement to establish a joint venture company. The project of gear box for trucks carried out by the Qijiang Gear Transmission and the reform of mixed ownership of Chongqing Jiangbei Machinery was effectively promoted. Acquisition of the 3.33% equity interest in Chongqing Power Transformer Co., Ltd. ("Power Transformer") was completed. The establishment of the Xinjiang Fubaotian Cotton-picking Services Company (新疆福保田採棉服務有限公司) and the turbine technology centre of Chongqing General was also completed.

Preliminary achievement in the reform on human resources

In 2015, the Group took an active approach to promote the reform of human resources, streamlined the management functions in 56 departments and reduced a total of 915 employees. The percentage of production personnel to the total number of employees increased by 3.6% as compared with last year.

Concrete measures were taken to implement internal control and risk management

A total of 117 monitoring and examination projects were completed in 2015, with an audited amount of approximately RMB15.3 billion, and resulted in an increase in economic efficiency on corporate level of approximately RMB23.77 million. Monitoring of the process of the construction projects of the enterprise was promoted. The assessment on the internal control of the headquarter of the Company and Qijiang Gear Transmission, and the building of the internal control systems for Chongqing Shengpu Materials Co., Ltd. and Chongqing Machinery and Electronics Holding Group Finance Company Limited (CMEFC) were organised and completed. Monitoring and early warning efforts on risks in relation to key data were carried out. Focus was also given to the comprehensive legal services for the enterprise.

Management's Discussion and Analysis (Continued)

RESULTS OVERVIEW

Operation Analysis

Automobile Parts and Components

In 2015, driven by the steady growth of the market of passenger vehicles in China, the domestic automobile industry reached a new height with the production and sales volumes of automobiles nationwide recorded a growth rate of 3.25% and 4.68% respectively over last year, which represented a stable trend of growth, but the growth rate of production and sales volumes was down by 4 percentage points and 2.2 percentage points respectively as compared with 2014. However, affected by the rapid growth of new energy vehicles and the notable decline in fixed investment projects, large and medium passenger vehicles and heavy trucks, which are closely related to the Group, recorded a decline of 9.97% and 8.97% respectively compared with last year, which led to the simultaneous drop in output and sales volume of the Group's gear boxes and steering systems business. Meanwhile, as a result of the one-off manpower cut, a significant decrease in the operating results was recorded. Operating results of the diesel engine business also declined due to the ongoing effects brought by the decrease in property investment, 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 RMB850.3 million for the year, representing a decrease of approximately 23.7% from 2014.

Power Equipment

During 2015, sales revenue of the power equipment business segment dropped as a result of decreasing copper prices. However, benefited from a number of favourable factors, such as the Chinese Government's promotion of clean energy, smart power grid construction and urban development, the sales volume and operating results of the business segment achieved notable improvement. Results of electrical wires and cables recorded a rapid growth, while the business related to hydroelectric generation equipment has been expanded to machanical and electrical engineering construction general contracting and engineering procurement construction general contracting, and the export market has been further consolidated and strengthened. Meanwhile, benefitting from the gain from land transfer in relation to relocation for environmental protection, the operating results recorded growth. The segment recorded revenue of approximately RMB2,526.0 million, representing a year-on-year decrease of approximately 19.1%.

General Machinery

In 2015, this segment saw notable results in structural adjustment, as well as transformation and upgrading. Benefitting from the stable operating results of industrial pumps business in the middle and high-end market and the rapid growth in wind power rotor blades business, income of the segment continued to achieve relatively fast growth, which fuelled the growth of operating results. The segment recorded revenue of approximately RMB2,144.9 million for the year, representing a year-on-year increase of approximately 25.1%.

CNC Machine Tools

In 2015, due to the constant influence of structural adjustment of various industries across the country, shrinking investments and overcapacity resulted in a decrease in market demand both in China's machine tool industry and the CNC machine tools business of the Group. Despite the decline in revenue, operating results experienced a growth benefitting from the gain from land transfer in relation to relocation for environmental protection. The segment recorded revenue of approximately RMB876.1 million, representing a year-on-year decrease of approximately 0.7%.

Trade Business

In 2015, the bulk commodity procurement platform of the Group increased the types of procurement, directly reduced procurement cost of the Group by approximately RMB8.9 million. The total revenue of this segment amounted to approximately RMB2,556.8 million, representing a slight year-on-year decrease of approximately 0.3%.

Financial Services

In 2015, affected by the adjustment of credit policy, the interest income recorded a slight decrease, and as compared to the same period of last year, but the total operation revenue amount to approximately RMB56.3 million for the year due to increased cash concentration and development of new business, representing a decrease of approximately 35.2% as compared to the same period of last year.

Management's Discussion and Analysis (Continued)

SALES

For the year ended 31 December 2015, the Group's total revenue amounted to approximately RMB9,010.4 million, a decrease of approximately RMB475.2 million or approximately 5.0% as compared with approximately RMB9,485.6 million for the same period of 2014. As compared with 2014, the revenue of automobile parts and components was approximately RMB850.3 million (accounting for approximately 9.5% of total revenue), a decrease of approximately 23.7%; revenue of power equipment was approximately RMB2,526.0 million (accounting for approximately 28.0% of total revenue), a decrease of approximately 19.1%; revenue of general machinery was approximately RMB2,144.9 million (accounting for approximately 23.8% of total revenue), an increase of approximately 25.1%; revenue of CNC machine tools was approximately RMB876.1 million (accounting for approximately 9.7% of total revenue), a decrease of approximately 0.7%; revenue of trade business was approximately RMB2,556.8 million (accounting for approximately 28.4% of total revenue), a decrease of approximately 0.3%; and revenue of financial services was approximately RMB56.3 million (accounting for approximately 0.6% of total revenue), a decrease of approximately 35.2%.

GROSS PROFIT

The gross profit for 2015 was approximately RMB987.5 million, decreased by approximately RMB77.3 million or approximately 7.3%, as compared with approximately RMB1,064.8 million for the same period of 2014. Gross profit margin was approximately 11.0%, slightly decreased by 0.2 percentage points as compared with 11.2% of the same period last year. Excluding the trade business and financial services, the gross profit margin was approximately 14.6% (2014: approximately 14.3%).

As compared with 2014, gross profit for general machinery increased. On the contrary, the gross profit for automobile parts and components, and power equipment and CNC machine tools dropped.

OTHER INCOME AND GAINS

The other income and gains for 2015 were approximately RMB713.9 million, an increase of approximately RMB363.9 million or approximately 104.0%, as compared with approximately RMB350.0 million for the same period of 2014, mainly due to increase in gain from land disposal of approximately RMB324.4 million of Chongqing Machine Tools and Chongqing Water Turbine as compared with last year, and the gain of approximately RMB128.8 million from the disposal of equity interests in Chongqing Midea General by Chongqing General. On the contrary, the government subsidies and support for technology development decreased by approximately RMB65.2 million.

DISTRIBUTION AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for 2015 were approximately RMB1,357.5 million, a significant increase of approximately RMB287.9 million or approximately 26.9%, as compared with approximately RMB1,069.6 million for the same period of 2014. The proportion of the selling and administrative expenses in total sales increased to approximately 15.1% from approximately 11.3% of the same period last year. The distribution expenses increased by approximately RMB15.2 million as compared with the same period last year; the administrative expenses significantly increased by approximately RMB272.7 million as compared with the same peiod last year, mainly due to one-off increase in long-term employee benefit obligations of Qijiang Gear of approximately RMB218.4 million; the R&D expenses increased by approximately RMB31.7 million.

OPERATING PROFITS

The operating profit for 2015 was approximately RMB343.8 million, a decrease of approximately RMB1.4 million or approximately 0.4%, as compared with approximately RMB345.2 million for the same period of 2014.

NET FINANCE COSTS

Net interest expense for 2015 amounted to approximately RMB108.9 million, an increase of approximately RMB25.8 million or approximately 31.0%, as compared with approximately RMB83.1 million for the same period of 2014, mainly due to a decrease in the capitalization of financial expenses.

Management's Discussion and Analysis (Continued)

SHARE OF POST-TAX PROFITS OF ASSOCIATES

The Group's share of post-tax profits of associates for the year ended 31 December 2015 was approximately RMB23.8 million, a significant decrease of approximately RMB27.3 million or approximately 53.4%, as compared with approximately RMB51.1 million for the same period of 2014. The decrease was attributable to reduction in losses of approximately RMB9.5 million and approximately RMB12.3 million in the results of 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) and CQMEM (重慶北部新區機電小額貸款有限公司) as compared with the results of last year, and a decrease of approximately RMB2.9 million in the results of Chongqing ABB Power Transformer Co., Ltd. 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 2015 was approximately RMB265.1 million, a decrease of approximately RMB52.4 million or approximately 16.5%, as compared with approximately RMB317.5 million for the same period last year. Such decrease was due to the slight decline in the sales and profits of Chongqing Cummins Engine Co., Ltd.

INCOME TAX EXPENSES

The income tax expenses for the year ended 31 December 2015 were approximately RMB57.3 million, a decrease of approximately RMB9.6 million, or approximately 14.3%, as compared with approximately RMB66.9 million for the same period of 2014, mainly due to the change in deferred income tax.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year ended 31 December 2015 was approximately RMB417.6 million, a decrease of approximately RMB94.3 million or approximately 18.4% as compared with approximately RMB511.9 million for the same period of 2014. Earnings per share amounted to approximately RMB0.11, decreased by approximately 21.4% as compared with approximately RMB0.14 of the same period of 2014.

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 2015 under HKFRSs and CAS were RMB1,376,056,000 and RMB1,548,535,000 respectively. Thus, as at 31 December 2015, the Company's distributable reserve attributable to shareholders of the Company amounted to RMB1,376,056,000.

Management's Discussion and Analysis (Continued)

BUSINES 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	
	2015	2014	**2015**	2014	**2015**	2014
	(RMB in millions, except for percentage)					
Automobile parts and components						
Domestic						
Gear boxes	**527.1**	733.8	**53.9**	119.6	**(282.5)**	(4.8)
Other products	**323.2**	380.9	**43.0**	44.5	**9.9**	8.6
Total	**850.3**	1,114.7	**96.9**	164.1	**(272.6)**	3.8
% of total	**9.5%**	11.8%	**9.8%**	15.4%	**(79.3%)**	1.1%
Power equipment						
Domestic						
Hydroelectric generation equipment	**366.9**	407.5	**70.7**	83.9	**164.1**	123.4
Electrical wires and cables	**2,154.7**	2,449.9	**179.0**	175.6	**101.8**	83.6
Other products	**4.4**	264.6	**(2.9)**	2.3	**(14.6)**	(47.2)
Total	**2,526.0**	3,122.0	**246.8**	261.8	**251.3**	159.8
% of total	**28.0%**	32.9%	**25.0%**	24.6%	**73.1%**	46.3%
General machinery						
Domestic						
Total	**2,144.9**	1,714.1	**461.4**	392.4	**186.2**	77.1
% of total	**23.8%**	18.1%	**46.7%**	36.9%	**54.2%**	22.3%

	Revenue		Gross profit		Segment Results	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2015	2014	**2015**	2014	**2015**	2014
	(RMB in millions, except for percentage)					
CNC machine tools						
Domestic	**552.8**	571.2	**46.8**	115.7	**173.9**	103.9
Foreign	**323.3**	311.1	**84.9**	45.6	**7.1**	(27.3)
Total	**876.1**	882.3	**131.7**	161.3	**181.0**	76.6
% of total	**9.7%**	9.3%	**13.3%**	15.1%	**52.7%**	22.2%
Trade business						
Domestic						
Total	**2,556.8**	2,565.6	**5.8**	10.0	**0.4**	7.8
% of total	**28.4%**	27.0%	**0.6%**	0.9%	**0.1%**	2.3%
Financial business						
Domestic						
Total	**56.3**	86.9	**44.9**	75.1	**32.1**	55.2
% of total	**0.6%**	0.9%	**4.6%**	7.1%	**9.3%**	16.0%
Headquarters						
Total	**–**	–	**–**	–	**(34.6)**	(34.9)
% of total	**–%**	–%	**–%**	–%	**(10.1%)**	(10.2%)
Total	**9,010.4**	9,485.6	**987.5**	1,064.8	**343.8**	345.2

AUTOMOBILE PARTS AND COMPONENTS

Revenue from the automobile parts and components segment for the year ended 31 December 2015 was approximately RMB850.3 million, representing a decrease of approximately RMB264.4 million or approximately 23.7%, as compared with approximately RMB1,114.7 million for the same period of 2014.

As compared with the same period of 2014, revenue from gear boxes business decreased by approximately RMB206.7 million or approximately 28.2% and revenue from other products business decreased by approximately RMB57.7 million or approximately 15.1%, mainly due to the decrease in demands, change in the products structure and the decline in selling prices in the vehicle market.

Management's Discussion and Analysis (Continued)

During the Period, gross profit for the automobile parts and components segment was approximately RMB96.9 million, representing a decrease of approximately RMB67.2 million or approximately 41.0%, as compared with approximately RMB164.1 million for the same period of 2014. Gross profit margin decreased to approximately 11.4% for 2015 from approximately 14.7% for 2014, primarily due to decline in market demand and the change in the products' sales structure. The gross profit margin of such business dropped approximately 3.3 percentage points compared with the same period of 2014.

Overall, the results loss for the automobile parts and components segment for the year ended 31 December 2015 amounted to approximately RMB272.6 million, representing an increase in loss of approximately RMB276.4 million, as compared with the gain of approximately RMB3.8 million for the same period of 2014, mainly due to one-off increase in long-term employee benefit obligations of Qijiang Gear of approximately RMB218.4 million.

POWER EQUIPMENT

Revenue from the power equipment segment for the year ended 31 December 2015 was approximately RMB2,526.0 million, a decrease of approximately RMB596.0 million or approximately 19.1%, as compared with approximately RMB3,122.0 million for the same period of 2014, primarily due to the decrease in revenue of approximately RMB295.6 million or approximately 12.1% of electrical wires and cables business arising from decline in price of copper materials. The revenue of other products business decreased by approximately RMB260.2 million or approximately 98.3%, mainly due to suspension in production of its non-ferrous metal powder business, adjustment in sales structure of the cable products by Chongqing Pigeon and reduction in low gross margin business.

During the Period, gross profit for the power equipment segment was approximately RMB246.8 million, a decrease of approximately RMB15.0 million or approximately 5.7%, as compared with approximately RMB261.8 million for the same period of 2014. The overall gross profit margin increased to approximately 9.8% for 2015 from approximately 8.4% for 2014, primarily due to a decrease in turnover of low gross margin products by electrical wires and cables business, and the gross profit margin increased to approximately 8.3% for 2015 from approximately 7.2% for 2014.

Overall, the results for the power equipment segment for the year ended 31 December 2015 amounted to approximately RMB251.3 million, an increase of approximately RMB91.5 million or approximately 57.3%, as compared with approximately RMB159.8 million for the same period of 2014, primarily due to increase in gain from land transfer by Chongqing Water Turbine and reduction in loss of non-ferrous metal business after the mixed ownership reform.

GENERAL MACHINERY

Revenue from the general machinery segment for the year ended 31 December 2015 was approximately RMB2,144.9 million, an increase of approximately RMB430.8 million or approximately 25.1% as compared with approximately RMB1,714.1 million for the same period of 2014, 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 RMB461.4 million, an increase of approximately RMB69.0 million or approximately 17.6% as compared with approximately RMB392.4 million for the same period of 2014. Gross profit margin slightly dropped to approximately 21.5% for 2015 from approximately 22.9% for 2014, mainly due to the intensified competition in the market and the decline in prices of traditional products.

Overall, the results for the general machinery segment for the year ended 31 December 2015 amounted to approximately RMB186.2 million, an increase of approximately RMB109.1 million or approximately 141.5%, as compared with approximately RMB77.1 million for the same period of 2014, mainly due to the gain from the disposal of equity interests in Chongqing Midea General by Chongqing General.

CNC MACHINE TOOLS

Revenue from the CNC machine tools segment for the year ended 31 December 2015 was approximately RMB876.1 million, a decrease of approximately RMB6.2 million or approximately 0.7%, as compared with approximately RMB882.3 million for the same period of 2014, mainly due to the effect of decline in market demand of domestic CNC machine tools. The PTG UK, a subsidiary of the Company, achieved revenue of approximately RMB323.3 million during the Period, representing an increase of approximately RMB12.2 million or approximately 3.9%, as compared to approximately RMB311.1 million for the year ended 31 December 2014.

Management's Discussion and Analysis (Continued)

During the Period, gross profit for the CNC machine tools segment was approximately RMB131.7 million, a decrease of approximately RMB29.6 million or approximately 18.4%, as compared with approximately RMB161.3 million for the same period of 2014, mainly due to reduction in gross profit arising from decrease in turnover of domestic CNC machine tools. Gross profit margin decreased to approximately 15.0% for 2015 from approximately 18.3% for 2014, primarily due to the fact that domestic sales volume of CNC machine dropped down, and the unit fixed cost of the new plant increased after its turning into fixed asset.

Overall, the results for the CNC machine tools segment for the year ended 31 December 2015 amounted to approximately RMB181.0 million, an increase of approximately RMB104.4 million or approximately 136.3%, as compared with RMB76.6 million for the same period of 2014, mainly due to the disposal of land gains by Chongqing Machine Tools.

TRADE BUSINESS

For the year ended 31 December 2015, the trade business segment recorded revenue of approximately RMB2,556.8 million, representing a decrease of approximately RMB8.8 million or approximately 0.3%, as compared with approximately RMB2,565.6 million for the same period of 2014.

During the Period, the gross profit for the trade business segment amounted to approximately RMB5.8 million, representing a decrease of approximately RMB4.2 million or approximately 42.0%, as compared with RMB10.0 million for the same period of 2014. The gross profit margin decreased to approximately 0.2% for 2015 from approximately 0.4% for 2014, mainly due to intense market competition and further decline in margin profits.

Overall, for the year ended 31 December 2015, the results attributable to the trade business segment amounted to approximately RMB0.4 million, representing a decrease of approximately RMB7.4 million or approximately 95.0% as compared with approximately RMB7.8 million for the same period of 2014, mainly due to decline in price of non-ferrous metal.

FINANCIAL SERVICES

For the year ended 31 December 2015, the financial services segment recorded revenue of approximately RMB56.3 million, representing a decrease of approximately RMB30.6 million or approximately 35.2%, as compared to approximately RMB86.9 million for the same period of 2014, mainly due to adjustment of the national credit policy and decrease in interest income.

During the Period, the gross profit for the financial services segment amounted to approximately RMB44.9 million, representing a decrease of approximately RMB30.2 million or approximately 40.2%, as compared to approximately RMB75.1 million for the same period of 2014. The gross profit margin decreased to approximately 79.8% in 2015 from approximately 86.4% in 2014.

Overall, for the year ended 31 December 2015, the results of the financial services segment amounted to approximately RMB32.1 million, representing a decrease of approximately RMB23.1 million or approximately 41.8%, as compared to approximately RMB55.2 million for the same period of 2014, mainly due to decrease in interest income.

CASH FLOW

As at 31 December 2015, the cash and bank deposits (including restricted cash) of the Group amounted to approximately RMB2,001.4 million (31 December 2014: approximately RMB1,887.5 million), representing an increase of approximately RMB113.9 million or approximately 6.0%, mainly due to strict control of accounts receivable, acceleration of funds flow and decrease in restricted cash.

During the Period, the Group had a net cash inflow from operating activities of approximately RMB180.8 million (for the year ended 31 December 2014: net cash outflow of approximately RMB27.4 million), a net cash inflow from investing activities of approximately RMB59.5 million (for the year ended 31 December 2014: a net cash outflow of approximately RMB379.3 million), and a net cash inflow from financing activities of approximately RMB100.5 million (for the year ended 31 December 2014: a net cash outflow of approximately RMB181.1 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.

Management's Discussion and Analysis (Continued)

TRADE AND OTHER RECEIVABLES

As at 31 December 2015, the trade receivables and other receivables assets of the Group totalled approximately RMB4,343.3 million, representing an increase of approximately RMB155.9 million, as compared with approximately RMB4,187.4 million as at 31 December 2014, mainly due to increase in accounts receivable from land transfer of approximately RMB300.0 million of Chongqing Machine Tools and decrease in accounts receivable of approximately RMB155.0 million of Jilin Chongtong Chengfei New Material Co., Ltd ("Jilin Chongtong"), which has been transferred to Chongqing Machinery and Electronic Holding Group Xinbo Investment Management Co.,Ltd. ("Xinbo Investment") by the way of creditors' rights transfer. Please refer to note 19 to the consolidated financial statements for detailed ageing analysis of the trade and bills receivables.

TRADE AND OTHER PAYABLES

As at 31 December 2015, the trade payables and other payables of the Group totalled approximately RMB4,588.7 million, representing an increase of approximately RMB358.6 million, as compared with approximately RMB4,230.1 million as at 31 December 2014, primarily due to the increase in the deposits from financial business of approximately RMB215.3 million and increase in the payables of construction projects of approximately RMB146.0 million arising from environmental allocation of Chongqing Water Turbine. 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 2015, the total assets of the Group amounted to approximately RMB14,767.1 million, representing an increase of approximately RMB1,132.5 million as compared with approximately RMB13,634.6 million as at 31 December 2014. Total current assets amounted to approximately RMB9,139.5 million, an increase of approximately RMB357.3 million as compared with approximately RMB8,782.2 million as at 31 December 2014, accounting for approximately 61.9% of total assets. However, total non-current assets amounted to approximately RMB5,627.6 million, representing an increase of approximately RMB775.2 million as compared with approximately RMB4,852.4 million as at 31 December 2014, accounting for approximately 38.1% of total assets.

As at 31 December 2015, total liabilities of the Group amounted to approximately RMB8,212.3 million, representing an increase of approximately RMB828.7 million as compared with approximately RMB7,383.6 million as at 31 December 2014. Total current liabilities were approximately RMB6,869.1 million, an increase of approximately RMB1,448.8 million as compared with approximately RMB5,420.3 million as at 31 December 2014, accounting for approximately 83.6% of total liabilities. However, total non-current liabilities were approximately RMB1,343.2 million, representing a decrease of approximately RMB620.1 million as compared with approximately RMB1,963.3 million as at 31 December 2014, and accounting for approximately 16.4% of total liabilities.

As at 31 December 2015, net current assets of the Group were approximately RMB2,270.4 million, representing a decrease of approximately RMB1,091.5 million as compared with approximately RMB3,361.9 million as at 31 December 2014.

CURRENT RATIO

As at 31 December 2015, current ratio (the ratio of current assets to current liabilities) of the Group was 1.33: 1 (31 December 2014: 1.62: 1).

GEARING RATIO

As at 31 December 2015, by dividing the borrowing by the total capital, the gearing ratio of the Group was 29.7% (31 December 2014: 28.5%)

INDEBTEDNESS

As at 31 December 2015, the Group had an aggregate bank and other borrowings of approximately RMB2,769.8 million, representing an increase of approximately RMB274.8 million as compared with approximately RMB2,495.0 million as at 31 December 2014.

Borrowings repayable by the Group within one year were approximately RMB2,101.0 million, representing an increase of approximately RMB1,028.0 million as compared with approximately RMB1,073.0 million as at 31 December 2014. Borrowings repayable after one year were approximately RMB668.8 million, representing a decrease of approximately RMB753.2 million as compared with approximately RMB1,422.0 million as at 31 December 2014.

Management's Discussion and Analysis (Continued)

SECURED ASSETS

As at 31 December 2015, approximately RMB457.4 million of the Group was deposited with the banks with pledge or restricted for use (31 December 2014: approximately RMB684.0 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 RMB705.7 million as at 31 December 2015 (31 December 2014: approximately RMB231.9 million).

CONTINGENT LIABILITIES

As at 31 December 2015, the Group had no significant contingent liabilities.

SIGNIFICANT EVENTS

Events in the Period

(1) On 28 December 2015, the Company and Jiangsu Saideli Machinery Manufacture Co., Ltd. (江蘇賽德力機械製造有限公司) entered into an equity transfer agreement, pursuant to which, the Company agreed to sell its 59% equity interest in Chongqing Jiangbei Machinery at a consideration of RMB77.529 million. Upon completion of the transaction, the Company will still hold 41% equity interest in Chongqing Jiangbei Machinery.

(2) On 21 December 2015, Jilin Chongtong, a subsidiary of the Company, entered into an accounts receivable claim assignment contract with Xinbo Investment at the consideration of RMB155 million. For details, please see the announcement of the Board of Directors dated 21 December 2015 published on the websites of the Stock Exchange and the Company.

(3) On 20 December 2015, Chongqing Machine Tools, a subsidiary of the Company, Shuanghuan Driveline and KAPP entered into a joint venture company contract. The registered capital of the joint venture company will be RMB100 million, which will be contributed in cash by Chongqing Machine Tools, Shuanghuan Driveline and KAPP in the amount of RMB40 million, RMB30 million and RMB30 million, representing 40%, 30% and 30% respectively of its equity. For details, please see the announcement of the Board of Directors dated 20 December 2015 published on the websites of the Stock Exchange and the Company.

(4) On 16 December 2015, the Company entered into an equity transfer agreement with the Parent Company, under which, the Parent Company agreed to transfer its 3.33% equity interest in Transformer Company to the Company at the consideration of RMB9,273,010. Upon completion of the transaction, the Company will holds 69.02% equity interest in Transformer Company. For details, please see the announcement of the Board of Directors dated 16 December 2015 published on the websites of the Stock Exchange and the Company.

(5) On 4 May 2015, Qijiang Gear Transmission (a subsidiary of the Company) and Chongqing Reintel Technology Group Co., Ltd. ("Reintel") entered into a joint venture contract, for the purpose of undertaking the Project of 200,000 Sets of Medium- and Heavy-Duty Vehicle Gearboxes of Qijiang Gear Transmission. Chongqing QG Reintel Transmission Company Limited will be held as to 35% and 10% by Qijiang Gear Transmission and the Company, respectively. For details, please see the announcement of the Board of Directors dated 4 May 2015 published on the websites of the Stock Exchange and the Company.

(6) On 7 April 2015, Chongqing General, a subsidiary of the Company, and Carrier Asia entered into an equity transfer agreement, pursuant to which, Chongqing General agreed to sell 35% equity interest in Chongqing Midea General at a consideration of RMB176,587,500. Upon completion of the transaction, Chongqing General still holds 10% equity interest in Chongqing Midea General. For details, please see the announcement of the Board of Directors dated 7 April 2015 published on the websites of the Stock Exchange and the Company.

(7) The Company held an extraordinary general meeting on 8 December 2015 for consideration and approval of the following issues:

    (i) to authorize and approve the issuance of corporate bonds with an aggregate nominal value of up to RMB1.5 billion (inclusive) in the PRC, and to further authorize two Executive Directors namely Mr. Yu Gang and Mr. Xiang Hu to jointly deal with, at their full discretion, all matters relating to the issuance of corporate bonds.

Management's Discussion and Analysis (Continued)

(ii) to approve Mr. Ren Yong's resignation as an executive Director, and to approve the appointment of Mr. Yang Quan as an executive Director of the Company to hold office from the date of the extraordinary general meeting until expiry of the term of the third session of the Board and to authorize the Board to fix the remuneration of Mr. Yang Quan 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.

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

SUBSEQUENT EVENTS

(1) On 5 January 2016, Chongqing General (a subsidiary of the Company), Information Industry Center and Equipment Technology Company entered into a joint venture contract. The registered capital of the joint venture company will be RMB30,000,000, which will be contributed in cash by Chongqing General, Information Industry Center and Equipment Technology Company in the amount of RMB12,000,000, RMB10,000,000 and RMB8,000,000, representing 40%, 33.33% and 26.67%, respectively of its equity. For details, please see the announcement of the Board of Directors dated 5 January 2016 published on the websites of the Stock Exchange and the Company.

(2) On 4 March 2016, Mr. Yu Gang resigned from the positions of an executive director, the general manager and a member of the Strategy Committee of the Company due to work reallocation. Mr. Wang Yuxiang, the chairman of the Company, will resume the position of the general manager temporarily until the new general manager has been appointed by the Board. For details, please see the announcement of the Board of Directors dated 4 March 2016 published on the websites of the Stock Exchange and the Company.

CAPITAL EXPENDITURE

As at 31 December 2015, the total capital expenditure of the Group was approximately RMB1,071.3 million, which was principally used for environmental relocation, plant expansion, production technology improvement and equipment upgrade (31 December 2014: approximately RMB679.1 million).

CAPITAL COMMITMENT

As at 31 December 2015, the Group had capital commitments of approximately RMB452.9 million (31 December 2014: approximately RMB490.6 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.

As at 31 December 2015, the bank deposits of the Group included HK dollar valued at approximately RMB0.07 million, US dollar valued at approximately RMB33.4 million, GBP valued at approximately RMB17.9 million and EUR valued at approximately RMB7.1 million (31 December 2014: 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). Save as the aforesaid, the Group was not exposed to any significant risk of foreign exchange.

EMPLOYEES

As at 31 December 2015, the Group had a total of 12,733 employees (31 December 2014: 13,878 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	54	Executive Director, Chairman
Xiang Hu	51	Executive Director
Yang Quan	51	Executive Director
Huang Yong	53	Non-executive Director
Wang Jiyu	59	Non-executive Director
Yang Jingpu	60	Non-executive Director
Deng Yong	56	Non-executive Director
Lo Wah Wai	52	Independent Non-executive Director
Ren Xiaochang	59	Independent Non-executive Director
Jin Jingyu	50	Independent Non-executive Director
Liu Wei	51	Independent Non-executive Director

EXECUTIVE DIRECTORS

Mr. Wang Yuxiang, aged 54, 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 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 November1984 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. Xiang Hu, aged 51, 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, and also a director of Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd since March 2013. 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

Directors, Supervisors and Senior Management (Continued)

University of Political Science and Law majoring in law of economy in June 1997, and from Nanyang Technological University, Singapore, majoring in managerial economics and aquire the master degree of economics in July 2002.

Mr. Yang Quan, aged 51, vice general manager of the Company, has served as a vice general manager of the Company since May 2015, and an exective director of the Company since December 2015. 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 Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司) from December 2011 up to now, and an executive director and general manager of Chongqing Shengpu Materials Co., Ltd. (重慶盛普物資有限公司) from December 2011 up to now. Mr. Yang has over 20 years of experience in enterprise management, once served as the manager of the business management department and assistant to general manager 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. (重慶機電控股(集團)公司) 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, 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.

NON-EXECUTIVE DIRECTORS

Mr. Huang Yong, aged 53, 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 59, 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 Xi Tong 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.

Mr. Yang Jingpu, aged 60, joined the Company in August 2007 and has been a non-executive Director of the Company since then. Mr Yang has over 20 years of experience in managing large enterprises. Since May 2010 to January 2016, 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

Directors, Supervisors and Senior Management (Continued)

Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司). 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 56, 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. (stock code:1963.HK) since February 2013, a director of Chongqing Chuanyi Automation Co., Ltd. since April 2013, and a director of Chongqing Chuanyi Automation Co., Ltd. (stock code: 603100 SH) since March 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 (stock code: 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 workgroup 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 52, joined our Company in January 2008 and has been an independent non-executive Director of the Company and the chairman of the Company's Audit and Risk Management 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 administrationin 1986 and New Jersey Institute of Technology, the U.S., with a master's degree in science in 1992.

Mr. Ren Xiaochang, aged 59, 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 50, 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.* (stock code:1963. HK) since March 2014, and an independent director of Chong Qing Financial Products Exchange Co. Ltd since June 2015. Mr. Jin joined the Chongqing Technology and Business University (known as Chongqing Business School before 2003) since 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 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 51, 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) (stock code: 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.

Directors, Supervisors and Senior Management (Continued)

SUPERVISORS

The following table sets out information regarding our Supervisory Committee:

Name	Age	Position
Wang Pengcheng	48	Supervisor
Wu Yi	42	Independent Supervisor
Huang Hui	45	Independent Supervisor
Zhang Mingzhi	52	Employee Supervisor
Xia Hua	52	Employee Supervisor

Mr. Wang Pengcheng, aged 48, is a senior economist with a master's degree, engineer 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 25 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 42, 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 45, 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.

Mr. Zhang Mingzhi, aged 52, has been an Employee supervisor of the Company since September 2015. He currently serves as the chairman and secretary of the party committee of Chongqing Machine Tools (Group) Co., Ltd. (重慶機床(集團)有限責任公司), a wholly owned subsidiary of the Company. Mr. Zhang is a senior engineer with over 30 years of experience in the machinery manufacturing industry. From August 1983 to December 2005, he successively served positions such as the designer, deputy director of the sales division, marketing assistant to plant manager, director of the marketing division and deputy plant manager of marketing of Chongqing Machine Tools Plant Co., Ltd. (重慶機床廠). He has successively served positions such as the deputy general manager, marketing director, general manager, chairman, secretary of the party committee of Chongqing Machine Tools (Group) Co., Ltd. since December 2005, and also concurrently served positions such as the plant manager and general manager of Chongqing No.2 Machine Tools Factory (重慶第二機床廠) from August 2006 to February 2010. Mr. Zhang graduated from Chongqing Machinery Manufacturing School (重慶機器製造學校) in July 1983, majoring in machinery manufacturing. He continued his studies in the Correspondence School of the Chongqing Municipal Party School (重慶市委黨校函授學院) from September 1998 to June 2001, majoring in economics and management, and in the Training Class of Enterprise Leaders in Business and Administration of Tsinghua University from September to December 2003.

Directors, Supervisors and Senior Management (Continued)

Mr. Xia Hua, aged 52, has been an Employee supervisor of the Company since September 2015. He currently serves as the chairman and party secretary of Chongqing Pigeon Electric Wire & Cable Co., Ltd. (重慶鴿牌電線電纜有限公司), a subsidiary of the Company. Mr. Xia is a senior economist with over 30 years of experience in the power industry. From August 1981 to August 2000, he successively served positions such as the workshop technician, deputy workshop director, deputy head of branch factory, office director, head of production scheduling division and deputy plant manager of Chongqing Electric Machine Factory (重慶電機廠). From August 2000 to January 2011, he successively served as the office director and department party secretary of Chongqing Machinery and Electronics Holding (Group) Co., Ltd. (重慶機電控股(集團)公司). He has been serving as the chairman and party secretary of Chongqing Pigeon Electric Wire & Cable Co., Ltd. since January 2011. Mr. Xia graduated from Chongqing Second Machinery Manufacturing School (重慶第二機械製造學校) in August 1981, majoring in machine manufacturing. In September 2006, he graduated from the MBA Institute of Chongqing University (重慶工商管理碩士學院) with an MBA degree.

SENIOR MANAGEMENT

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

Name	Age	Position
Xiang Hu	51	Secretary to the Board
Yang Quan	51	Vice General Manager
Duan Caijun	51	Vice General Manager
Chen Yu	46	Vice General Manager
Zhao Zicheng	45	Vice General Manager
Kam Chun Ying	49	Qualified Accountant

Mr. Xiang Hu, aged 51, is an executive Director and Secretary to the Board of the Company. For details regarding Mr. Ren's experience, please refer to "Executive Directors" set out above.

Mr. Yang Quan, aged 51, is an executive Director and Vice General Manager of the Company. For details regarding Mr. Xiang's experience, please refer to "Executive Directors" set out above.

Mr. Duan Caijun, aged 51, 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 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.

Directors, Supervisors and Senior Management (Continued)

Mr. Chen Yu, aged 46, 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, a supervisor of Chongqing Hi-tech Hongma Capital Management Limited(重慶高新創投紅馬資本管理有限公司)up to now and a director of Chongqing Pigeon Electric Wires & Cables Co. Ltd.(重慶鴿牌電線電纜有限責任公司). 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. Zhao Zicheng, aged 45, is the vice general manager of the Company and the chairman of Chongqing Water Turbine Works Co., Ltd.. He served as a director of Chongqing Cummins Engine Co., Ltd.. Mr. Zhao Zicheng is a professor-level senior engineer with over 20 years of experience in engineering technology. He served as the employee upervisor of the Company and the general manager of Chongqing Pump Industry Co., Ltd. and a director and deputy general manager of Chongqing General Industry (Group) Co., Ltd. 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 Southwest Jiaotong University in July 1991 with an associate degree in machine manufacturing process and equipment and from the Environmental and Chemical Engineering Institute of Chongqing University with a master of engineering degree in environmental engineering in June 2005. He has been taking EMBA courses in Xiamen University since September 2011.

Mr. Kam Chun Ying, Francis, aged 49, 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 2015.

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 REVIEW

The results of the Group for the year ended 31 December 2015 are set out in the consolidated statement of comprehensive income in this annual report on pages 112 to 114. The business perforemance regarding the Group required by Schedule 5 to the Hong Kong Companies Ordinance, can be found in the "Chairman's Statement" set out on page 7 to 13 and "Management Discussion and Analysis" set out on page 19 to 39. an indication of likely future developments in the Group's business set out on page 14 to 17. The part of contents on "Chairman's Statement" and "Management Discussion and Analysis" forms part of this "Report of the Directors".

COMPLIANCE WITH LAWS AND REGULATIONS

Due to the nature of the business of the Group, the Directors are of the opinion that no specific laws and regulations related to environmental protection has significant impact on the operations of the Group. Environmental policies regarding the Group are set out in "Environmental, Social and Goverance Report" on page 93 to 95.

RELATION WITH EMPLOYEE, SUPPLIERS AND CUSTOMERS

Remuneration packages are generally structured with reference to prevailing market terms and individual qualifications. Salaries and wages are normally reviewed on an annual basis based on performance appraisals and other relevant factors. Apart from salary payments, there are other staff benefits including pension, social insurance and performance related bonus. The Group strived to maintain fair and co-operating relationship with the suppliers. and didn't have any major supplier that has significant influence on the operations. Details of the above are set out in "Environmental, Social and Goverance Report".

Relationship with customers is the fundamental of business. The Group fully understands this principle and thus maintains close relationship with customers to fulfil their immediate and long-term need.

PRINCIPAL RISKS AND UNCERTAINTIES

(1) The Company faces significant competition and recession in each of the markets in which it operates, which could adversely affect its businesses

The Company faces significant competition from both state-owned enterprises and privately-owned players in each of the markets in which it operates. In addition, due to the factor that the sales of large and medium passenger vehicles and heavy-duty trucks of the Company, which are closely related to automobile parts and components, significantly increased as a result of the new energy automobile, the Group's gear boxes and steering systems business had dropped in output and sales volumes. Further, CNC machine tools were constantly affected by the domestic industrial structural adjustments, investment recession and excess capacity has resulted in a decrease in demand for machine tools in China and for the Group's CNC machine tools, thus resulting a decrease in revenue. As the number of competitors in each of the main markets in which we operate is large, the Company faces intense competition as a result. In some cases, such fierce competition has already caused downward pricing pressure on certain products in the Company's portfolio. The Company's market position depends on its ability to anticipate and respond to various competitive factors, including its competitors' introduction of new or improved products and services, pricing strategies adopted by competitors and changes in customer preferences. The Company cannot assure that its current or potential competitors will not offer products comparable or superior to those that it offers, at the same or lower prices, or adapt more quickly than it does to evolving industry trends or changing market requirements. Increased competition may result in price reductions, decreased gross profit margins and loss of the Company's market share.

(2) Risk of Foreign Exchange

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

Report of the Board of Directors (Continued)

(3) Uncertainties in Financial Market

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. Details are set out in Note 3 to the consolidated financial statements.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.025 per share (tax inclusive) for the year ended 31 December 2015 (for the year ended 31 December 2014: RMB0.046 per share), which is calculated based on the total share capital of 3,684,640,154 shares for the year ended 31 December 2015, totalling RMB92,116,003.85 (totalling RMB169,493,447.08 for the year ended 31 December 2014). Subject to approval by shareholders at the Annual General Meeting to be convened on 28 June 2016, the proposed final dividend will be paid on or around 31 July 2016 to shareholders whose names appear on the Register of Members of the Company on 10 July 2016 ("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 Tuesday, 5 July 2016 to Sunday,10 July 2016 (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 Monday, 4 July 2016.

WITHHOLDING OF ENTERPRISE INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS

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

Any H shares registered in the name of non-individual shareholders will be treated as being held by non-resident corporate shareholders and hence the dividends payable to them will be subject to the withholding of enterprise income tax. Non-resident corporate shareholders may apply to the relevant taxation authorities for tax refunds in accordance with the applicable tax treaty (if any). The final dividends payable to natural person shareholders whose names appear on H Share Register of Members on the Record Date is not subject to the withholding of income tax by the Company. For 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 4 July 2016. 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 4 July 2016. 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.

Report of the Board of Directors (Continued)

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 Sunday, 29 May 2016 to Tuesday, 28 June 2016 (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 Friday, 27 May 2016.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2015, equity attributable to the shareholders of the Group amounted to approximately RMB6,106.4 million (31 December 2014: approximately RMB5,844.5 million), representing an increase of approximately RMB261.9 million or approximately 4.5%. During this Period, the Group's working capital was mainly internal working capital flow. As at 31 December 2015, 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 29.7% (31 December 2014: approximately 28.5%). The Group's current ratio (being the current assets as a percentage of current liabilities) was approximately 1.33:1 (31 December 2014: approximately 1.62:1).

As at 31 December 2015, cash, bank balances and time deposits (including restricted cash) were approximately RMB2,001.4 million, indicating a stable financial position (31 December 2014: approximately RMB1,887.5 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 RMB1,070.9 million in acquisition of non-current assets, such as property, plant and equipment, etc. for business expansion (for the year ended 31 December 2014 approximately RMB 679.1 million). Details of the changes in investment properties, property, plant and equipment of the Group 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 2015, details of which are set out in Note 25 to the consolidated financial statements.

BONDS

Details of the changes in bonds of the Group 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 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 RMB0.3 million (for the year ended 31 December 2014 approximately RMB0.35 million).

Report of the Board of Directors (Continued)

MAJOR CUSTOMER AND SUPPLIERS

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

CSIC (Chongqing) Haizhuang Windpower Equipment Co., Ltd.	9.2%
Chongqing Xinnanjie Aluminum Co., Ltd.	3.2%
Chongqing Electric Wire Plant Co., Ltd.	2.7%
Chongqing Energy Investment Import & Export co., Ltd.	2.4%
Chongqing the Second Light industry Supply and Marketing Co., Ltd.	2.2%
Total amount of the top five customers	19.7%

None of the top five customers is connected person 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:

China Shipbuilding Industry Equipment and Materials (Chongqing) Co., Ltd.	11.3%
Chongqing Zhuoyue Industrial Development Co,, Ltd.	6.2%
Chongqing Dongjie Material Co. Ltd.	5.1%
Chinalco Kunming Copper Co., Ltd	4.2%
Chongqing Electric Wire Plant Co., Ltd.	4.2%
Total amount of the top five suppliers	31.0%

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

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.

COMPETING INTEREST

For the year ended 31 December 2015, 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
Xiang Hu	18 June 2014
Yang Quan	8 December 2015
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	
Wang Pengcheng	10 April 2013
Wu Yi	29 September 2014
Huang Hui	29 September 2014
Zhang Mingzhi	18 September 2015
Xia Hua	18 September 2015

Report of the Board of Directors (Continued)

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 40 to 53 of this annual report.

DIRECTOR'S 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 42 to the Consolidated Financial Statements set out on pages 276 to 280 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 2015, 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 2015, 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.

Report of the Board of Directors (Continued)

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 38 of this annual report.

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

For the year ended 31 December 2015, 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:

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

Name of shareholders	Number of Shares	Category of Shares	Capacity	*Note*	Percentage of total issued domestic shares *(%)*	Percentage of total issued H shares *(%)*	Percentage of total issued shares *(%)*
Chongqing Machinery and Electronics Holding (Group) Co., Ltd.	1,924,225,189	Domestic Shares	Beneficial Owner	(1)	*74.46(L)*	–	52.22
	5,000,000	H Shares	Beneficial Owner	(1)	–	0.45(L)	0.14
Chongqing Yufu Assets Management (Group) Co., Ltd.	232,132,514	Domestic Shares	Beneficial Owner	(1)	*8.98(L)*	–	6.30
Chongqing Construction Engineering Group Co., Ltd.	232,132,514	Domestic Shares	Beneficial Owner	(2)	*8.98(L)*	–	6.30
China Huarong Asset Management Co., Ltd.	195,962,467	Domestic Shares	Beneficial Owner	(3)	*7.58(L)*	–	5.32
State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government	2,388,490,217	Domestic Shares	Interest of controlled corporation	(1)	*92.42(L)*	–	64.82
Ministry of Finance of the People's Republic of China	195,962,467	Domestic Shares	Interest of controlled corporation	(3)	*7.58(L)*	–	5.32

(L) Long Position

Report of the Board of Directors (Continued)

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 shares (%)
Templeton Asset Management Ltd.	150,745,300*(L)*	Investment Manager		13.70*(L)*	4.09*(L)*
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000*(L)* 0*(P)*	Custodian		7.93*(L)* 0*(P)*	2.37*(L)* 0*(P)*
The Bank of New York Mellon Corporation	87,276,000*(L)* 87,276,000*(P)*	Interest of corporation controlled by substantial shareholder	(4)	7.93*(L)* 7.93*(P)*	2.37*(L)* 2.37*(P)*
GE Asset Management Incorporated	75,973,334*(L)*	Investment manager		6.91*(L)*	2.06*(L)*
Templeton Asset Management Limited	66,104,000*(L)*	Investment manager		6.01*(L)*	1.79*(L)*

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

Notes:

1. As Chongqing Machinery and Electronics Holding (Group) Co., Ltd. and Chongqing Yufu Assets Management 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 5,000,000 H shares and 232,132,514 domestic shares of the Company held by the two companies.

2. Chongqing Construction Engineering Group Co., Ltd. is held as to 96.18% by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government through its three wholly-owned subsidiaries and as to 3.82% 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 2015.

CONNECTED TRANSACTIONS

During the Period and thereafter, the Board of the Company has decided to approve the following connected transactions:

(1) As at 16 December 2015, the Company and the parent company entered into an equity transfer agreement, according to which, the parent company will transfer its 3.33% equity in Transformer Company to the Company at a consideration of RMB9,273,010. After the transaction, the Company still holds 69.02% equity of Transformer Company.

Report of the Board of Directors (Continued)

(2) As at 21 December 2015, Jilin Chongtong and Xinbo Investment, a wholly-owned subsidiary of the parent company entered into an accounts receivable claim assignment contract at a consideration of RMB155,000,000.

(3) As at 5 January 2016, Chongqing General entered into a joint venture contract with Equipment Technology Company and Information Industry Center, an independent third party. The registered capital of the joint venture will be RMB30 million, among which, Chongqing General will contribute RMB12 million, holds 40% equity; Information Industry Center will contribute RMB10 million, holds 33.33% equity; Equipment Technology Company will contribute RMB8 million, holds 26.67% equity.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2015, the summary of the related party transactions is set out in Note 37 to the consolidated financial statements, where a majority of the transactions constituted continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules.

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

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 2015 and 2016 were set at 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 2015, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB53.6 million (for the year ended 31 December 2014: RMB87.3 million).

Report of the Board of Directors (Continued)

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 2015 and 2016 were set at 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 2015, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB80.2 million (for the year ended 31 December 2014: RMB81.1million).

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 2015 and 2016 as approved by the Board were set at RMB44 million and RMB45 million respectively.

For the year ended 31 December 2015, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB32.4 million (for the year ended 31 December 2014: RMB34.5 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 2015 and 2016 was/is 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 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 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 2015, 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 RMB778.2 million, the transaction amount in respect of guarantee services was approximately RMB102.6 million and the transaction amount of other financial services was approximately RMB1.7 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 2015 and 2016 was/is 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 2015 and 2016 was/is RMB52 million.

The Group's 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:

Report of the Board of Directors (Continued)

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 inline 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 2015, 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 RMB1,061.4 million and the daily maximum limit amount of other financial services was approximately RMB9.4 million.

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

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

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

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

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

Auditor of the Company was engaged to report on the group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 'Assurance Engagements Other Than Audits or Reviews of Historical Financial Information' and with reference to Practice Note 740 'Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules' issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued an unqualified letter containing findings and conclusions in respect of the continuing connected transactions disclosed by the Group in the annual report in accordance with Rule 14A.38 of the Listing Rules that nothing has come to their attention that causes them to believe that:

(1) the Transactions have not been approved by the Board of the Company;

(2) the pricing of the Transactions, on a sample basis, are not in accordance with the Company's pricing policies;

(3) the Transactions, on a sample basis, have not been entered into in accordance with the terms of relevant agreements governing such Transactions; and

(4) the amounts of the Transactions have exceeded the annual caps.

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

For the purpose of Continuing Connected Transactions, the Company has complied with the disclosure requirements of the Hong Kong Listing Rules from time to time, and the value and transaction terms of the transaction on 31 December 2015 have been determined in accordance with the pricing policies and guidelines set out in the Hong Kong Stock Exchange's Guidance Letter HKEx-GL73-14.

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 and Risk Management 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 84 to 87 of this annual report.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2015, the Group had a total of 12,733 employees (31 December 2014: 13,878 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 63 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

Please refer to revelant contents set out in page 38 after the balance sheet date.

PUBLIC FLOAT

During the year ended 31 December 2015, 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 2015 under HKFRS and CAS were RMB1,376,056,000 and RMB1,548,535,000 respectively. Thus, as at 31 December 2015, the Company's distributable reserve attributable to owners of the Company amounted to RMB1,376,056,000.

AUDITORS

The Company has appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the international and domestic auditors respectively for the year ended 31 December 2015. PricewaterhouseCoopers has performed audit on the Group's consolidated financial statements prepared in accordance with HKFRS. A resolution in respect of reappointing 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 11 April 2016 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.
Mr. Wang Yuxiang
Executive Director and Chairman

Chongqing, the PRC
29 March 2016

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, external guarantee, specialized inspections on external borrowings and trusted loans, audit supervision on joint verture, supervision and evaluation of effectiveness of internal control and the audit supervision of the economic liabilities of subsidiaries, "dynamic and timely service+project tracking auditing supervision" for major project. 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 three special meetings of Supervisory Committee, attending two General Meetings, sitting in nine Board meetings, carrying out audit supervision and conducting on-site in spections for relevant matters. The supervision procedures of the Supervisory Committee were effective and standardized, and the supervision and inspection results were effectively utilized.

With respect to annual progress of the Company in 2015, 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 corresponding internal control management structure with much efforts to implement and improve such system and structure. The Company has established and revised 6 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 the interests of the Company's shareholders and the legitimate rights of the Company's 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 was found abusing authority to impair the interests of Company and the rights of the Company's 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 2015, and is confident in the development prospect of the Company.

The Supervisory Committee has duly reviewed and approved the report of the Board, audited financial report and other proposals to be proposed by the Board at the 2015 Annual General Meeting.

By Order of the Supervisory Committee
Mr. Wang Pengcheng
Supervisor

Chongqing, the PRC
29 March 2016

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 is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2015 incompliance 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 incompliance 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 2015.

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 and Risk Management 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.

On 4 March 2016, Mr. Yu Gang resigned from the position of the general manager of the Company due to work reallocation. Mr. Wang Yuxiang, the chairman of the Company, will resume the position of the general manager temporarily until the new general manager has been appointed by the Board.

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 11 Directors, including 3 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 2015 to 31 December 2015, the Board held 9 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	9/9
Yu Gang	Executive Director *(resigned on 4 March 2016)*	9/9
Xiang Hu	Executive Director	9/9
Ren Yong	Executive Director *(resigned on 8 December 2015)*	7/7
Yang Quan	Executive Director *(appointed on 8 December 2015)*	2/2
Huang Yong	Non-executive Director	9/9
Wang Jiyu	Non-executive Director	9/9
Yang Jingpu	Non-executive Director	9/9
Deng Yong	Non-executive Director	9/9
Lo Wah Wai	Independent Non-executive Director	9/9
Ren Xiaochang	Independent Non-executive Director	9/9
Jin Jingyu	Independent Non-executive Director	9/9
Liu Wei	Independent Non-executive Director	9/9

Biographical details of Directors are set out on pages 40 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.

Corporate Governance Report (Continued)

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 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
Wang Yuxiang *(Chairman)*	Executive Director	2/2
Ren Xiaochang	Independent Non-executive Director	2/2
Jin Jingyu	Independent Non-executive Director	2/2
Liu Wei	Independent Non-executive Director	2/2
Huang Yong	Non-executive Director	2/2
Yu Gang	Executive Director	2/2

Corporate Governance Report (Continued)

AUDIT AND RISKS MANAGEMENT COMMITTEE

The Company has established the Audit and Risks Management Committee in accordance with the requirements and its latest revision 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 and Risks Management 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 and Risks Management 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 and Risk Management Committee 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
Lo Wah Wai *(Chairman)*	Independent Non-executive Director	3/3
Jin Jingyu	Independent Non-executive Director	3/3
Liu Wei	Independent Non-executive Director	3/3
Deng Yong	Non-executive Director	3/3

During the year, the Audit and Risk Management Committee approved the 2014 Consolidated Financial Report and the 2015 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 3 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.

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises five supervisors, namely Mr. Wang Pengcheng, Ms. Wu Yi, Mr. Huang Hui, Mr. Zhang Mingzhi and Mr. Xia Hua. During the Period, Mr. Zhang Mingzhi and Mr. Xia Hua were appointed as representatives of employee supervisors to replace the positions of Mr. Chen Qing and Mr. Zhao Zicheng, the existing members of Supervisory Committee. For details, please refer to the announcement issued by the Company on 18 September 2015. Mr. Yang Mingquan resigned from the positions as a supervisor and the Chairman of the Supervisory Committee as he has reached the statutory retirement age. For details, please refer to the announcement issued by the Company on 30 December 2015. 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 2015, 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.

Corporate Governance Report (Continued)

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 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 organized evaluation to the effectiveness of internal control of subsidiaries of the Group, namely the Company, Reintel and Chongqing Shengpu. At the same time, a track corrective evaluation was conducted on five subsidiaries of the Group, namely, Chongqing Water Turbine, Chongqing Pigeon, Chongqing CAFF, Chongqing General and Reintel. In general, 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 19 projects were assessed covering technological transformation, reform and tender, reviewed 60 copies of contracts and conducted legal examination on 34 important decisions. 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 appointed to the PTG UK, who is responsible for the establishment of risk management and internal control system and execution of assessment, establishment and supervision of the internal control process and system, monitoring operational activities deficiencies and business risks.

The Company has formulated or revised the Regulatory Guideline on Overseas Project of Plant Construction in the United States, Contract Management System, Project Investment Management System, Remuneration Management System for Non-senior Employees, as well as the Management System for Reporting, with a view to maintaining effective communication between the management and the Board.

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 and Risks Management 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.

Corporate Governance Report (Continued)

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 117 supervision projects in aggregate. After the review conducted to the internal control of Chongqing Shengpu and the Finance Company, it found out 55 general defect existed, and the suggested improvements saved expenses of approximately RMB1.20 million. Internal review increased monitor on the Joint Venture, and the supervision method in combination of "Dynamic Timing Service" and "Professional Tracking Audit" in construction projects of CCEC high-powered engine made good achievements. During the year, the internal audit department implemented 19 construction projects and sporadic engineering project audits, 15 financial audits and 31 economic responsibility audits.

REVIEW OF THE AUDIT AND RISK MANAGEMENT COMMITTEE AND THE BOARD OF DIRECTORS

The Audit and Risks management Committee has reviewed the financial control, internal control and risk management systems of the Company for the year. It considered the internal control systems effective and adequate as they allowed the Board to monitor the Group's overall financial position and to provide reasonable assurance that assets are safeguarded against unauthorized use or material financial misstatement; transactions were executed in accordance with management's authorization; and the accounting records were reliable for preparing financial information used within the business or for publication and reflecting accountability for assets and liabilities.

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 2015 amounted to approximately RMB4.7 million (2014: 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.

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 103 institutional investors or investors in 39 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 2015, 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.

Corporate Governance Report (Continued)

TRAINING OF DIRECTOR

In accordance with the code provisions, the Company arranged 3 trainings on relevant laws and regulations including the Listing Rules for 46 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.

Environmental, Social and Governance 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”.

ENVIRONMENT

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. During the year ended 31 December 2015, the Group’s pass rate for major pollutant emission indicators and hazardous waste disposal rate both reached 100%. All newly constructed, upgrade and expansion projects were in strict compliance with the national requirements on “simultaneous design, construction and commissioning” as scheduled.

Emissions

The Group is principally engaged in manufacturing machinery 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 sewage treatment system of the Group is in place and under the on-line real-time monitoring by government, with all emissions up to the standard. The Group also takes initiatives for full recycling of waste materials to reduce the environmental impact. During the year ended 31 December 2015, the Group generated approximately 10,200 tonnes of metal scraps, which were sold for approximately RMB19.94 million through public auction.

Environmental, Social and Governance Report (Continued)

Resource Utilisation

Responding to the government's call on environment protection and energy saving, the Group has accelerated the elimination and retirement of equipment with high energy consumption. Meanwhile, our new plants are constructed in full compliance with environmental standards, including the design with new energy-efficient equipment and the wide use of green offices based on paperless technology. The Group has carried out energy management contracting in its subsidiaries including Qijiang Gear Transmission, Chongqing CAFF and Chongqing Pigeon to strengthen effective utilization of energy and realize energy saving and consumption reducing. Through the optimization, modification and recycling of its critical points with large energy consumption including waste heat, residual pressure and lighting, the rate of emission reduction approximates to 13-30% in terms of standard coal, CO2, SO2 and dust, with the annual saving up to RMB1.53 million. The all-round popularization will be conducted in the year of 2016.

For the year ended 31 December 2015, the Group's comprehensive energy consumption per RMB10,000 value addition decreased by 6% year-on-year approximately.

The Group's environmental protection facilities (sewage treatment tank and paint purification devices)

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 1,759.6MW in 2015, representing annual power generation of approximately 3,519.2 million kWh. The Group has introduced a series of products in the field of nuclear power to participate in the construction of nuclear power, including G3 nuclear secondary charging pump and G3 nuclear power refrigeration units. The treatment project of municipal sewage invested by the Group has been completed so far and will put into operation immediately.

Treatment of municipal sewage

Environmental Relocation

Pursuant to the plan of Chongqing municipal government on the 6th batch of environmental relocations, the Group embarked on 5 relocation projects with a total investment of approximately RMB2.7 billion. 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.

New plants of Chongqing Machine Tools

Environmental, Social and Governance Report (Continued)

SOCIETY

EMPLOYMENT AND LABOUR ROUTINES

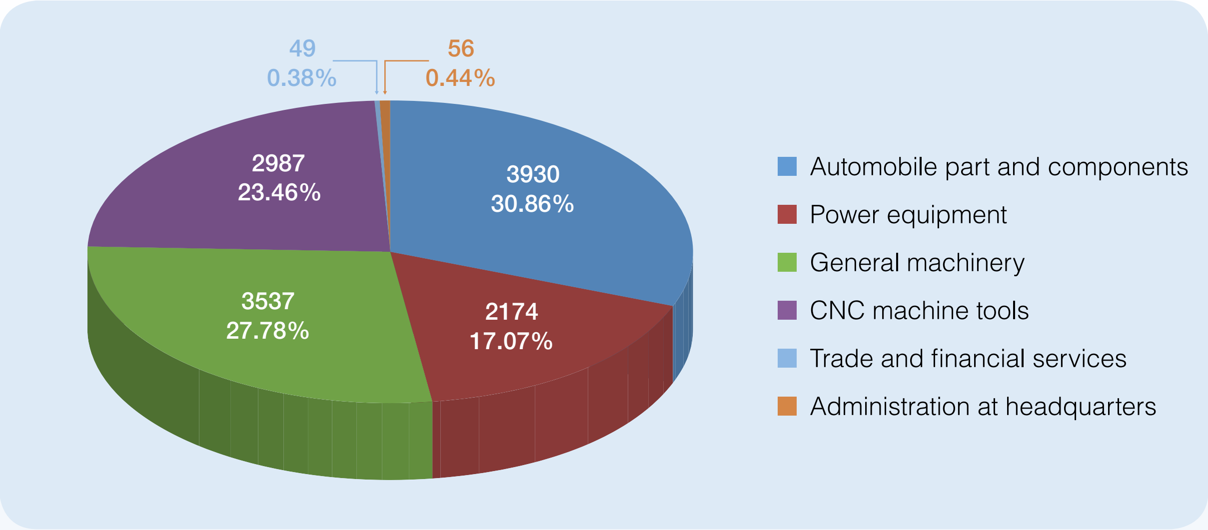
The Group embraces the talent concept of "paying respect to the dedicated, utilising the competent, fostering the aspiring and incentivising the innovative", seeking to provide a safe and sound working environment for employees and cultivating talents experienced in technology and management. By improving 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.

Employees

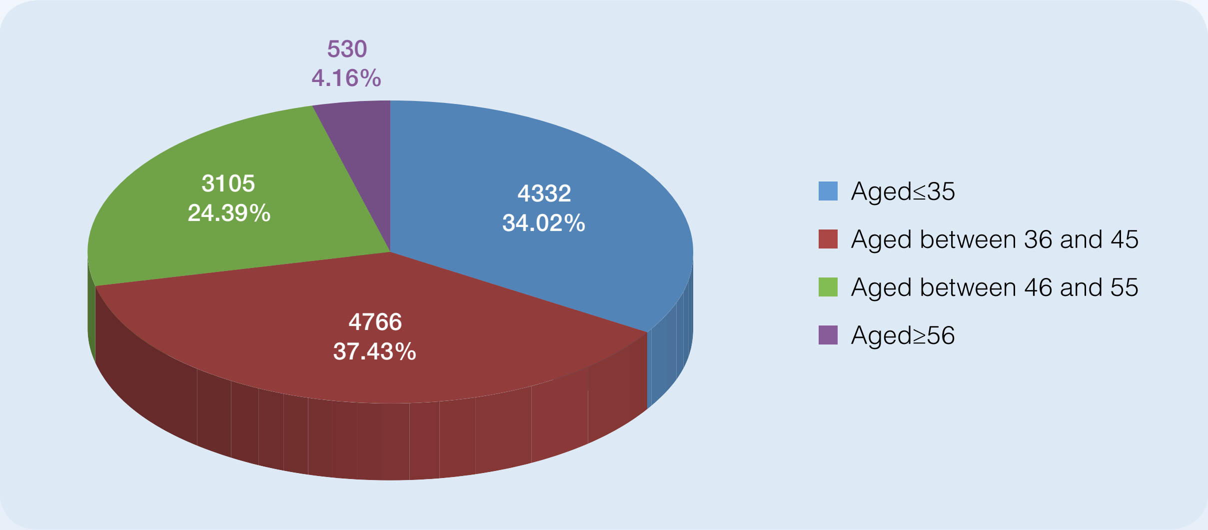
The Group places great emphasis on growth of employees in a harmonious internal atmosphere through structural adjustment, improvement of employee quality, and creation of good work environment. To effectively tap on human resources, fully motivate employees' enthusiasm and creativity and encourage them 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, the establishment of a harmonious labor relationship, and the enhancement of the sense of belonging to organization of employees, the Group publicises 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.

As at 31 December 2015, the Group had 12,733 dedicated employees with a more rational age and specialty mix. The breakdown of the Group's employees by different criteria is set out as follows.

Employees by business segment

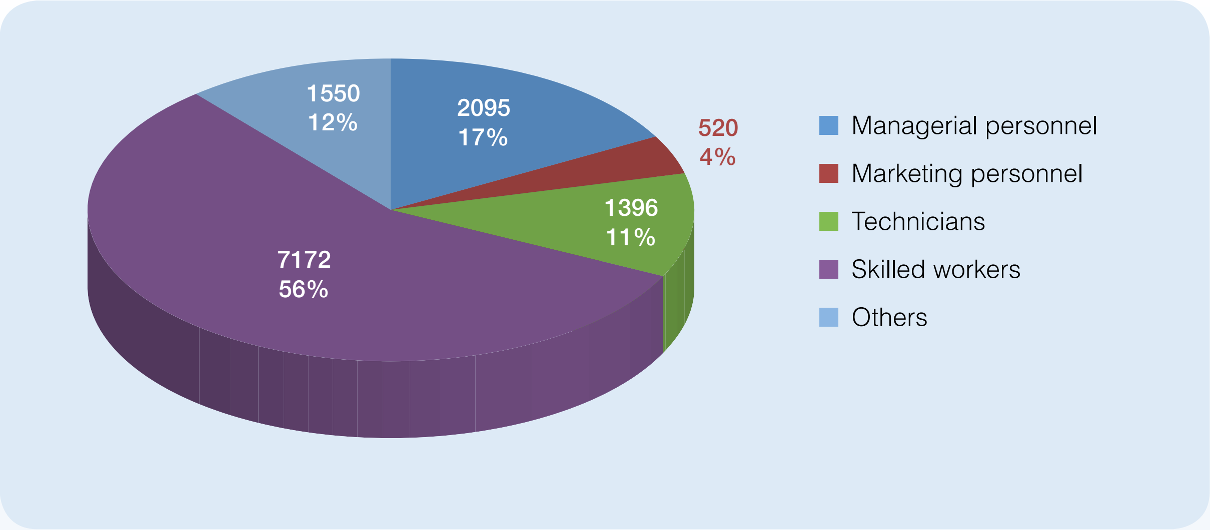


Employees by age

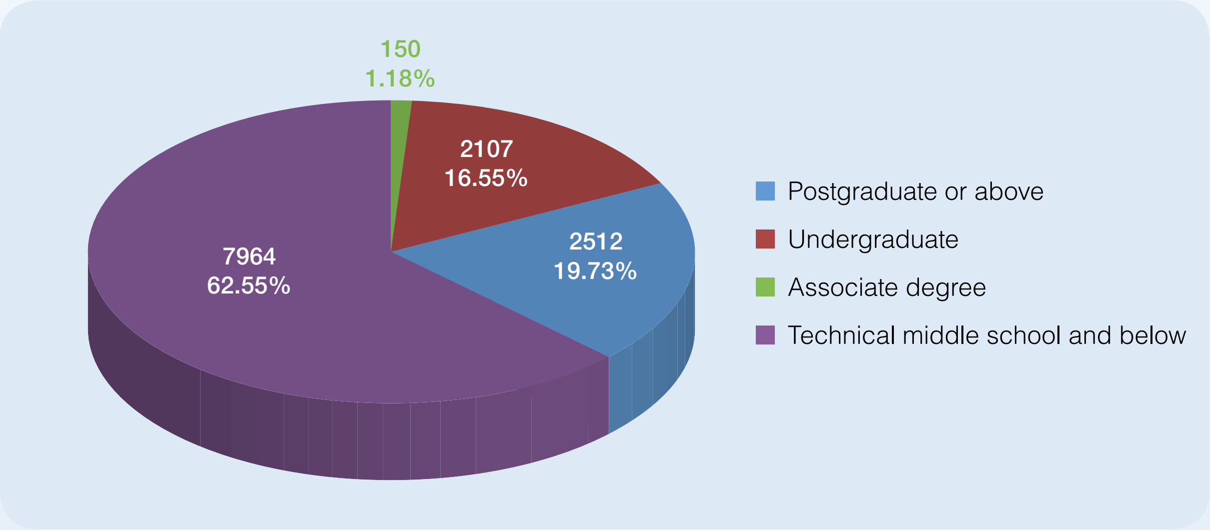


Environmental, Social and Governance Report (Continued)

Employees by specialty



Employees by education



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. The Company takes initiatives to drive its subsidiaries to participate in ISO14001 and ISO18001 standard authentications. Non-scheduled inspections on production safety are conducted to eliminate safety hazards and ensure production safety. The Group has 10 subsidiaries including Chongqing General and Qijiang Gear Transmission passed the periodic review acceptance, and Chongqing Machine Tools passed the acceptance for establishment of qualified occupational health system. The Group has completed the establishment of qualified occupational health system in all enterprises other than those under relocation and pilot production by the end of 2015.

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 2015, the Group had no work-related death or serious injury, and the work-related minor injury rate was 1.1%, generally below the control target of 2%. The rectification rate of identified safety hazards was 98.17%, and zero additional patient of occupational disease was recorded in the year.

Fire drills are conducted to improve the self-rescue ability

Environmental, Social and Governance Report (Continued)

Development and Training

With an aim at a learning organisation, the Group centered on competency development to improve professional quality, to establish a platform for employees' career development, and to build a sound training management system, thus providing a wealth of learning opportunities and a positive atmosphere for knowledge sharing.

During the Period, the Group held a total of 921 training sessions primarily covering business skills, expertise, lean manufacturing, corporate culture, employee safety and health, with 15,320 person-times of participation and average about 36 training hours per person.

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 2015, 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 2015, the Group continued to offer job opportunities to the public and recruited a total of more than 600 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 RMB79,500 on dual-channel talent introduction and cultivation. 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.

The Group has 12 employees forming a team to participate in the "Skills Competition of Mechanical Metallurgy CNC Operators and Fitters in Chongqing Urban Functional Area" (重慶市都市功能區機械冶金行業數控車工、鉗工技能大賽) sponsored by Chongqing Trade Union Council, and 9 of them won the second individual prizes, third individual prizes and prizes for excellence respectively.

Operational Practices

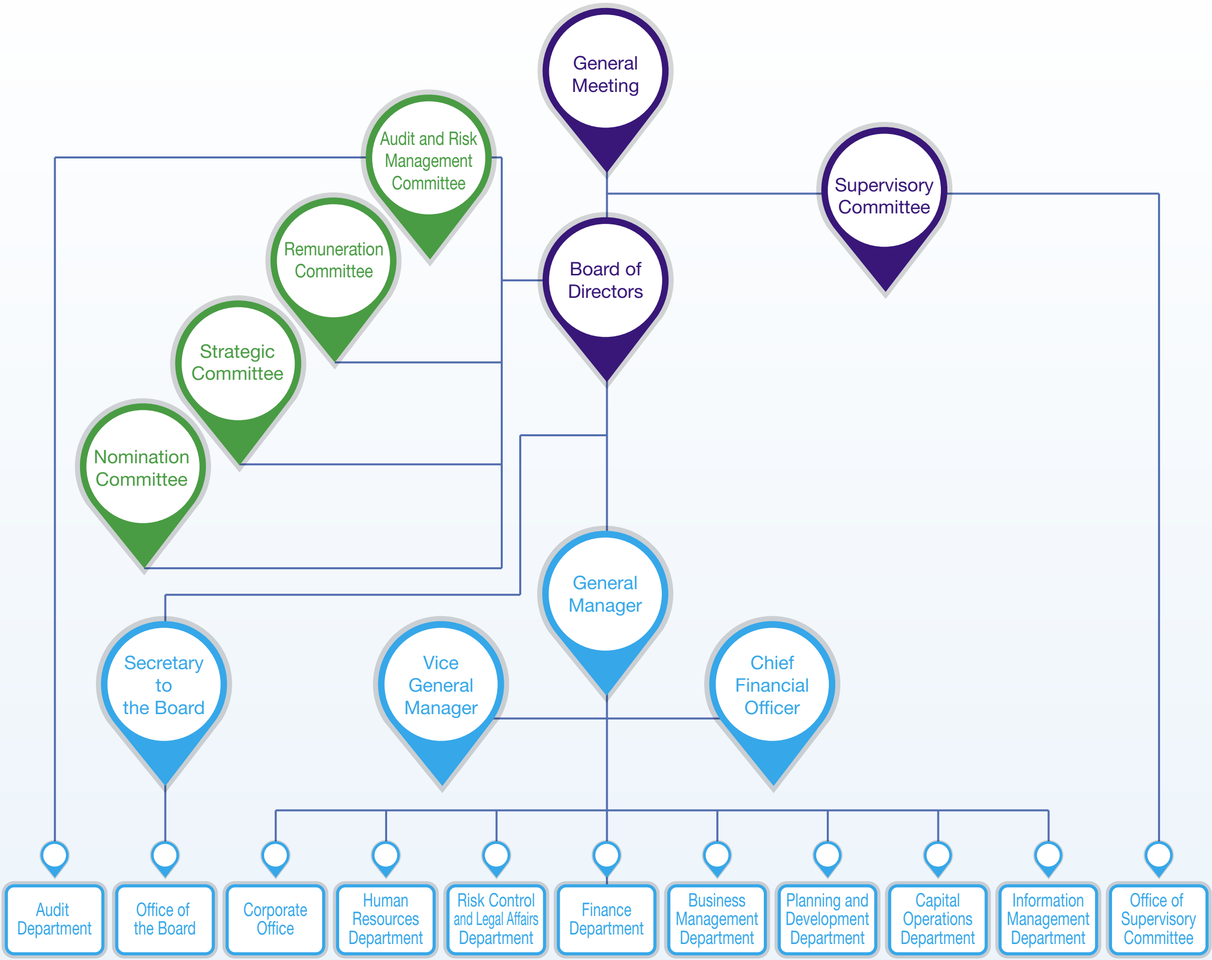
The Group operates in strict compliance with laws and regulations and international practices, with an aim to maximise corporate value and shareholders' interest. In the course of development, the Group takes heed of stakeholders' interest in pursuit of harmony and mutual benefit with its shareholders,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

Environmental, Social and Governance Report (Continued)

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 scientific dividend distribution model has been established with a view to the Company's sustainable development and return to shareholders. Since the Company's listing in June 2008 up to the end of 2015, the Company has distributed dividends totalling approximately RMB1.22 billion, providing an attractive return to its long-term shareholders through secondary market.

Interaction between the management and Hong Kong investors

At the site of results announcement

Secretary to the Board of the Company receiving visiting investors

Supply chain management

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, evaluate suppliers every year in terms of price, quality, cost, delivery and after-sales service, and insist the dual-sourcing management 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.

Environmental, Social and Governance Report (Continued)

Product liability

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. All products manufactured by the Group are qualified by the national standards on the industry. During the year ended 31 December 2015, 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

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 2015, the Group obtained 265 additional declared patents and 183 authorized patents, including 15 authorized invention patents, and expanded its patent pool to 1,573 patents. The Intellectual Property Office of Chongqing Municipality in collaboration with the public security bureau, the quality and technical supervision and the commerce and industry authorities 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

The Company has improved our information systems including office automation, financial management, human resource management, data centre and business intelligence. Network at our headquarters is equipped with mainstream firewall and intrusion detection system, and APP virtual publishing system is created on this basis, allowing subsidiaries to access via SSL VPN and leased lines and then log on to EAS, thus 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).

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. 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 2015, 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 and Risk Management 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".

Environmental, Social and Governance Report (Continued)

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. Through the evaluation and inspection on the operation of internal control system of the Company and its subsidiaries, as well as the continuous tracking and monitoring of improvement on internal control system, the effectiveness of internal control system has been promoted. In 2015, evaluation or improvement has been conducted on the effectiveness of internal control system for the Company, Qijiang Gear Transmission and Chongqing Shengpu Materials Co., Ltd, and the improvement on internal control system has been tracked and monitored for 5 enterprises including Chongqing Water Turbine, Chongqing CAFF, Chongqing Pigeon, Chongqing General and Qijiang Gear Transmission.

The Group has established an effective legal risk prevention and treatment framework comprising the Contract Management System, the Management Measures on Legal Affairs and the Management Measures on Legal Disputes. Legal review mechanism has been established for rules and regulations, economic contracts, and material decisions. In 2015, the Group reviewed 60 contracts and 34 major projects; and quarterly reporting mechanism of significant legal risks has been established to resolve the legal risks in a timely manner.

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.

On 24 September 2015, the Company participated in the "2015 Golden Autumn Education Promotion" (金秋圓夢) programme sponsored by Chongqing Education Development Foundation. As an excellent enterprise active in public service for a long time in Chongqing, the Company attached great importance to and strongly supported this programme. The donation in this programme will be successively used to subsidize hundreds of poor college freshmen.

Golden Autumn Education Promotion Programme

Environmental, Social and Governance Report (Continued)

On 9 July 2015, Chongqing Pigeon established a community citizen school in cooperation with Community of Changxiang, Shufangfengqiao Street, Yubei District, Chongqing (重慶渝北區雙鳳橋街道長翔路社區) to give full play to the resource superiority of enterprise and public institutions, promote the growth of the youth, and realize the joint construction and mutual sharing.

Contracting ceremony to establish the citizen school

On 18 November 2015, 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 21 March 2015, a total of about 61 employees of Chongqing Pump continued to participate in blood donation.

Blood donation by employees of Chongqing Pump

In 2015, the Group conducted the youth love commonweal activity themed "Happy CQME under the Sunshine in Winter" (冬日陽光幸福機電). In this activity, collection points of idle living and learning items were set in eye-catching locations such as staff canteen, staff entrance gate and workshop passages, and those items were classified and then donated to the love commonweal organization. This activity will be carried out continuously.

During the year ended 31 December 2015, the Group made charitable donations totalling approximately RMB0.3 million. The Group will continue to support and participate in a variety of public welfare activities.

Independent Auditor's Report

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 112 to 120, which comprise the consolidated balance sheet as at 31 December 2015, 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.

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 financial position of the Company and its subsidiaries as at 31 December 2015, and of their financial performance 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, 29 March 2016

Consolidated Statement of Comprehensive Income

(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
	Note	**2015**	2014
		RMB'000	*RMB'000*
Revenue	5	**9,010,422**	9,485,570
Cost of sales	8	**(8,022,954)**	(8,420,794)
Gross profit		**987,468**	1,064,776
Distribution costs	8	**(270,407)**	(255,180)
Administrative expenses	8	**(1,087,097)**	(814,407)
Other gains, net	6	**642,380**	213,361
Other income	7	**71,501**	136,675
Operating profit		**343,845**	345,225
Finance income		**24,395**	21,368
Finance costs		**(133,281)**	(104,512)
Finance costs, net	10	**(108,886)**	(83,144)
Share of post-tax profits of associates	12	**23,810**	51,084
Share of post-tax profits of joint venture	12	**265,127**	317,514
Profit before income tax		**523,896**	630,679
Income tax expense	13	**(57,311)**	(66,906)
Profit for the year		**466,585**	563,773

Consolidated Statement of Comprehensive Income *(Continued)*

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
– Remeasurements of retirement benefit obligations		9,935	(2,322)
– Income tax relating to remeasurements of retirement benefit obligations		(349)	110
– Share of other comprehensive income of investments accounted for using the equity method		–	452
Items that may be reclassified subsequently to profit or loss			
– Fair value (losses)/gains on available-for-sale financial assets		(266)	2,189
– Income tax relating to available-for-sale financial assets		40	(328)
– Currency translation differences		1,856	(2,179)
Other comprehensive income for the year, net of tax		11,216	(2,078)
Total comprehensive income for the year		477,801	561,695
Profit attributable to:			
Owners of the Company		417,634	511,943
Non-controlling interests		48,951	51,830
		466,585	563,773

Consolidated Statement of Comprehensive Income *(Continued)*

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December	
		2015	2014
		RMB'000	*RMB'000*
Total comprehensive income attributable to:			
Owners of the Company		**428,850**	509,865
Non-controlling interests		**48,951**	51,830
		477,801	561,695
Earnings per share for profit attributable to the owners of the Company for the year (expressed in RMB per share)			
– Basic and diluted	14	**0.11**	0.14

The notes on pages 121 to 280 are an integral part of these financial statements.

	Note	2015	2014
Dividends proposed after the balance sheet date to all shareholders	33	**92,116**	169,493

Consolidated Balance Sheet

(All amounts in RMB unless otherwise stated)

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	16	3,715,249	3,105,368
Investment properties	17	25,958	29,828
Lease prepayments	15	616,515	466,672
Intangible assets	18	297,956	289,469
Investments in associates	12	484,977	540,112
Investment in joint venture	12	326,990	316,169
Trade and other receivables	19	41,985	–
Deferred income tax assets	31	86,574	72,515
Available-for-sale financial assets		7,763	8,029
Other non-current assets		23,613	24,263
		5,627,580	4,852,425
Current assets			
Inventories	22	1,880,756	1,700,880
Trade and other receivables	19	4,301,327	4,187,371
Dividends receivable		428,645	313,426
Amount due from customers for contract work	20	527,389	498,025
Financial assets at fair value through profit or loss	23	–	194,939
Restricted cash	21	457,399	684,039
Cash and cash equivalents	24	1,543,975	1,203,508
		9,139,491	8,782,188
Total assets		14,767,071	13,634,613

Consolidated Balance Sheet *(Continued)*

(All amounts in RMB unless otherwise stated)

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	25	3,684,640	3,684,640
Reserves	26	(678,400)	(723,987)
Retained earnings			
– Proposed final dividend		92,116	169,493
– Others		3,008,051	2,714,332
		6,106,407	5,844,478
Non-controlling interests		448,395	406,491
Total equity		6,554,802	6,250,969
LIABILITIES			
Non-current liabilities			
Trade and other payables	27	–	30,000
Borrowings	29	668,779	1,421,986
Deferred income	30	411,518	410,617
Deferred income tax liabilities	31	75,940	50,279
Long-term employee benefit obligations	32	186,974	50,451
		1,343,211	1,963,333

(All amounts in RMB unless otherwise stated)

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
Current liabilities			
Trade and other payables	27	4,588,696	4,200,117
Dividend payable		24,190	27,175
Amount due to customers for contract work	20	4,535	15,239
Current income tax liabilities		56,559	44,599
Borrowings	29	2,101,047	1,072,975
Deferred income	30	38,605	32,206
Current portion of long-term employee benefit obligations	32	39,907	11,605
Provisions for warranty	28	15,519	16,395
		6,869,058	5,420,311
Total liabilities		8,212,269	7,383,644
Total equity and liabilities		14,767,071	13,634,613

The financial statements on pages 112 to 120 were approved by the Board of Directors on 29 March 2016 and were signed on its behalf

Director

Director

The notes on pages 121 to 280 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					
	Share capital *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-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
Changes in fair value of available-for-sales 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 accouted for using the equity method	–	452	–	452	–	452
Currency translation differences	–	(2,179)	–	(2,179)	–	(2,179)
Total other comprehensive income, net of tax	–	(2,078)	–	(2,078)	–	(2,078)
Total comprehensive income	–	(2,078)	511,943	509,865	51,830	561,695
Transactions with owners in their capacity as owners						
Dividends relating to 2013	–	–	(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 in their capacity as 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

Consolidated Statement of Changes in Equity *(Continued)*

(All amounts in RMB unless otherwise stated)

	Attributable to owners of the Company					
	Share capital *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2015	3,684,640	(723,987)	2,883,825	5,844,478	406,491	6,250,969
Comprehensive income						
Profit for the year	–	–	417,634	417,634	48,951	466,585
Changes in fair value of available-for-sale financial assets, net of tax	–	(226)	–	(226)	–	(226)
Remeasurements of retirement benefit obligations, net of tax	–	9,586	–	9,586	–	9,586
Currency translation differences	–	1,856	–	1,856	–	1,856
Total other comprehensive income, net of tax	–	11,216	–	11,216	–	11,216
Total comprehensive income	–	11,216	417,634	428,850	48,951	477,801
Transaction with owners in their capacity as owners						
Dividends relating to 2014	–	–	(169,493)	(169,493)	–	(169,493)
Transfer to reserves	–	31,799	(31,799)	–	–	–
Dividends to non-controlling interests	–	–	–	–	(8,513)	(8,513)
Effects of changes in subsidiaries	–	–	–	–	563	563
Other additions	–	2,572	–	2,572	903	3,475
Total transactions with owners in their capacity as owners	–	34,371	(201,292)	(166,921)	(7,047)	(173,968)
Balance at 31 December 2015	3,684,640	(678,400)	3,100,167	6,106,407	448,395	6,554,802

Consolidated Statement of Cash Flows

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
Cash flows from operating activities			
Cash generated from operations	34	398,737	120,502
Interest paid		(160,284)	(105,225)
Income tax paid		(57,629)	(42,634)
Net cash generated from/(used in) operating activities		180,824	(27,357)
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss		(70,000)	(229,991)
Proceeds from disposal of financial assets at fair value through profit or loss		268,575	40,280
Government grants received relating to assets		39,841	11,277
Purchase of property, plant and equipment and investment properties		(699,057)	(718,092)
Purchase of intangible assets		(20,086)	(8,806)
Investments in associates		–	(1,375)
Proceeds from disposal of property, plant and equipment and lease prepayment	34	216,722	305,365
Interest received		24,526	21,368
Dividends received		170,228	209,885
Increase in lease prepayments		(50,854)	(9,627)
Gain on disposal of investments		179,591	460
Net cash generated from/(used in) investing activities		59,486	(379,256)
Cash flows from financing activities			
Proceeds from borrowings		1,814,207	1,248,462
Repayments of borrowings		(1,535,148)	(1,238,246)
Finance lease paid		(587)	(1,395)
Dividends paid to Company's shareholders		(169,493)	(184,232)
Dividends paid to non-controlling interests		(8,513)	(5,688)
Net cash generated from/(used in)from financing activities		100,466	(181,099)
Net increase/(decrease) in cash and cash equivalents		340,776	(587,712)
Cash and cash equivalents at beginning of the year		1,203,508	1,792,359
Exchange losses on cash and cashequivalents		(309)	(1,139)
Cash and cash equivalents at end of the year	24	1,543,975	1,203,508

The notes on pages 121 to 280 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 vehicle 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 began to list on the Main Board of The Stock Exchange of Hong Kong Limited on 13 June 2008.

These consolidated financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors of the Company on 29 March 2016.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(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 all applicable 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 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 amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

- Amendment to HKAS 19 on contributions from employees or third parties to defined benefit plans. The amendment distinguishes between contributions that are linked to service only in the period in which they arise and those linked to service in more than one period. The amendment allows contributions that are linked to service, and do not vary with the length of employee service, to be deducted from the cost of benefits earned in the period that the service is provided. Contributions that are linked to service, and vary according to the length of employee service, must be spread over the service period using the same attribution method that is applied to the benefits.

- Amendments from annual improvements to HKFRSs – 2010 – 2012 Cycle, on HKFRS 8, 'Operating segments', HKAS 16, 'Property, plant and equipment' and HKAS 38, 'Intangible assets' and HKAS 24, 'Related party disclosures'.

- Amendment from annual improvements to HKFRSs – 2011 – 2013 Cycle, on HKFRS 3, 'Business combinations', HKFRS 13, 'Fair value measurement' and HKAS 40, 'Investment property'.

The adoption of the improvements made in the 2010-2012 Cycle has required additional disclosures in the segment note. Other than that, the remaining amendments are not material to the Group.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(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 Hong Kong Companies Ordinance (Cap.622)*

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

(c) *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 2015, 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:

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

2.1 Basis of preparation *(continued)*

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

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

- 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.

  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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(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)*

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

- 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. HKFRS15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of HKFRS 15.

- HKFRS 16, 'Leases' addresses the definition of a lease, recognition and measurement of leases and establishes principles for reporting useful information to users of financial statements about the leasing activities of both lessees and lessors. A key change arising from HKFRS 16 is that most operating leases will be accounted for on balance sheet for lessees. The standard replaces HKAS 17 'Leases', and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2019 and earlier application is permitted subject to the entity adopting HKFRS 15 'Revenue from contracts with customers' at the same time. The Group is currently assessing the impact of HKFRS 16.

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 owners 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 2015
(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. 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 unless the transaction provides evidence of an impairment of the transferred asset. 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 2015
(All amounts in RMB unless otherwise stated)

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

An associate is an entity 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 investments in associates include 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)*

For the year ended 31 December 2015
(All amounts in RMB unless otherwise stated)

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

2.6 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'.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(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)*

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.

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;

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.6 Foreign currency translation *(continued)*

(c) Group companies *(continued)*

(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.

(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 currency translation 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 and 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 the CGU containing the 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 to 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.

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

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.

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.

Notes to the Consolidated Financial Statements *(Continued)*

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

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.

Borrowing costs include interest expense, finance charges in respect of finance lease and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings. Such amounts are estimated based on interest rates on similar borrowings in the entity's functional currency.

When the construction of the qualifying assets takes more than one accounting period, the amount of foreign exchange differences eligible for capitalisation is determined for each annual period and are limited to the difference between the hypothetical interest amount for the functional currency borrowings and the actual interest incurred for foreign currency borrowings. Foreign exchange differences that did not meet the criteria for capitalisation in previous years should not be capitalised in subsequent years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Current and deferred income tax

The tax expense for the period comprises current and deferred income 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.

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

(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.

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.

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

2.23 Current and deferred income tax *(continued)*

(b) Deferred income tax *(continued)*

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.

(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.

Notes to the Consolidated Financial Statements *(Continued)*

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

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.

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.

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

2.24 Employee benefits *(continued)*

(a) Pension obligations *(continued)*

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense 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.

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

2.24 Employee benefits *(continued)*

(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.

(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.

Notes to the Consolidated Financial Statements *(Continued)*

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

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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.

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.

Notes to the Consolidated Financial Statements *(Continued)*

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

2.27 Construction contracts *(continued)*

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.

(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.

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

2.28 Revenue recognition *(continued)*

(b) Revenue from construction contracts

Revenue from construction contracts is recognised in accordance with the accounting policy set out in Note 2.27.

(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.

(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.

Notes to the Consolidated Financial Statements *(Continued)*

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(All amounts in RMB unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Each lease payment is allocated between the liability and finance charges. 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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'.

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.

As at 31 December 2015, if RMB had weakened/strengthened by 1% (2014: 1%) against USD with all other variables held constant, the Group's net profit for the year then ended would have been approximately RMB694,000 (2014: RMB392,000) 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.

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

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 2015 and 2014, the Group's bank deposits and borrowings at variable rates were denominated in RMB/USD/Euros ("EUR")/Hongkong dollar("HKD")/UK pound. The Group currently does not hedge its exposure to interest rate risk.

As at 31 December 2015, if the interest rate of the Group's cash at bank had been increased/decreased by 10% (2014: 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 RMB2,546,000 (2014: RMB5,996,000).

As at 31 December 2015, the Group's bank borrowings at variable rates and at fixed rates are as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Borrowings at variable rates	**943,470**	280,164
Borrowings at fixed rates	**677,547**	1,212,830
	1,621,017	1,492,994

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 2015, the weighted average interest rates of bank borrowings at variable rates is 5.02% (2014: 3.32%). If the interest rate of the Group's bank borrowings at variable rates had been increased/decreased by 10% (2014: 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 RMB4,739,000 (2014: RMB929,000).

(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.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
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3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

As at 31 December 2015 and 2014, 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 2015 and 2014 were as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Big four commercial banks *(i)*	**556,994**	318,632
Other listed banks	**1,255,521**	1,443,187
Other non-listed banks	**186,683**	123,332
	1,999,198	1,885,151

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

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 off-balance-sheet guarantee risk before collateral held or other credit enhancements:

	Group maximum exposure	
	2015	2014
	RMB'000	*RMB'000*
Financial guarantees	**86,250**	82,900
At 31 December	**86,250**	82,900

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
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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.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

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.

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 2015				
Bank borrowings	1,127,678	53,365	282,270	359,929
Other borrowings	3,100	–	–	–
Corporate bonds	1,065,900	–	–	–
Finance lease liabilities	29,043	117,964	–	–
Trade and other payables	3,688,806	–	–	–
Financial guarantee contracts	–	–	86,250	–
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	–

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3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

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.

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 2015 and 2014 were as follows:

	31 December 2015 *RMB'000*	31 December 2014 *RMB'000*
Total borrowings	**2,769,826**	2,494,961
Total equity	**6,554,802**	6,250,969
Total capital	**9,324,628**	8,745,930
Gearing ratio	**30%**	29%

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy 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).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2015.

	Level 1 *RMB'000*	**Level 2** *RMB'000*	**Level 3** *RMB'000*	**Total** *RMB'000*
Assets				
Available-for-sale financial assets				
– Equity securities	4,763	–	3,000	7,763
Total assets	4,763	–	3,000	7,763

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
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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	–	3,000	8,029
Total assets	5,029	131	197,808	202,968

There were no transfers between levels during the year.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(continued)*

(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.

Notes to the Consolidated Financial Statements *(Continued)*

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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 2015.

	Available-for-sale financial assets – Equity securities *RMB'000*	Investment in bond securities at fair value through profit or loss *RMB'000*	Total *RMB'000*
Balance at 1 January 2015	3,000	194,808	197,808
Additions	–	70,000	70,000
Changes in fair value recognised in profit or loss	–	–	–
Disposals	–	(264,808)	(264,808)
Balance at 31 December 2015	3,000	–	3,000
Total gains for the period including in profit or loss for assets held at the end of the reporting period	–	3,767	3,767

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(continued)*

(c) Financial instruments in level 3 *(continued)*

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

	Available-for-sale financial assets – Equity securities *RMB'000*	Investment in bond securities at fair value through profit or loss *RMB'000*	Total *RMB'000*
Balance at 1 January 2014	3,000	–	3,000
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 2014	3,000	194,808	197,808
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.

Notes to the Consolidated Financial Statements *(Continued)*

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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 2015, the Group has deferred tax assets offset by deferred tax liabilities of approximately RMB86,574,000. 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, warranty and other accrued expenses, and tax losses.

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 depends 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.

Notes to the Consolidated Financial Statements *(Continued)*

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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.

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 2015 is as follows:

	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wires and cables	General machinery	Financial services	Machinery tools	High-voltage transformers	Materials sales	All other segments	Total Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment revenue	–	527,126	366,853	2,157,214	1,558,957	105,657	944,734	–	3,611,387	914,028	10,185,956
Inter-segment revenue	–	–	–	(2,465)	(488)	(49,293)	(68,672)	–	(1,054,616)	–	(1,175,534)
Revenue from external customers	–	527,126	366,853	2,154,749	1,558,469	56,364	876,062	–	2,556,771	914,028	9,010,422
Operating profit/(loss)	–	(282,560)	164,139	101,849	213,969	32,064	181,005	–	397	(67,018)	343,845
Finance income	–	221	852	2,248	3,898	–	16,276	–	86	814	24,395
Finance costs	–	(488)	(80)	(19,690)	(17,937)	–	(65,783)	–	(1,448)	(27,855)	(133,281)
Share of post-tax profits of associates and joint venture	265,127	528	–	–	2,402	(3,320)	–	12,882	–	11,318	288,937
Profit before income tax	265,127	(282,299)	164,911	84,407	202,332	28,744	131,498	12,882	(965)	(82,741)	523,896
Income tax expense	–	29,382	(25,967)	(11,708)	(24,493)	(9,696)	(14,035)	–	(1)	(793)	(57,311)
Profit for the year											466,585
Other items											
Depreciation on property, plant and equipment and investment properties	–	25,503	9,560	22,376	58,219	505	53,135	–	63	36,121	205,482
Amortisation of lease prepayments and intangible assets	–	4,428	1,901	1,122	6,010	254	11,850	–	–	3,456	29,021
Write-down/(write-back) of inventories	–	500	–	(2,705)	401	–	2,686	–	–	19,001	19,883
Provision for/(reversal of) impairment of trade and other receivables	–	4,536	3,390	(1,782)	2	2,929	18,124	–	(518)	5,272	31,953
Segment assets	326,990	1,364,065	1,574,299	825,272	2,369,620	1,985,444	3,087,113	158,083	185,367	2,890,818	14,767,071
Segment assets include:											
Investments in associates and joint venture	326,990	4,399	10,371	–	20,428	93,335	20,741	158,084	–	177,619	811,967
Additions to non-current assets (other than financial instruments and deferred income tax assets)	–	111,682	337,698	8,082	211,176	416	329,169	–	–	73,082	1,071,305

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5. SEGMENT INFORMATION *(CONTINUED)*

The segment information 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	Materials 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/(loss)	–	(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 of 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
Segment 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
Segment 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 income tax assets)	–	262,335	58,869	11,770	100,570	66	194,467	–	17	50,972	679,066

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"), Precision Technologies Group (PTG) Limited and Holroyd Precision Rotors Inc, 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 2015 is approximately RMB8,592,066,000 (2014: RMB9,102,593,000), and the total of its revenue from external customers from other countries is approximately RMB418,356,000 (2014: RMB382,977,000).

The total of non-current assets other than financial instruments and deferred income tax assets located in the PRC was RMB5,338,782,000 (2014: RMB4,545,972,000), and the total of non-current assets located in other countries was RMB194,461,000 (2014: RMB225,909,000).

6. OTHER GAINS, NET

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Gain on disposals of lease prepayments, property, plant and equipment	**482,961**	169,461
Gain on disposals of financial assets at fair value through profit or loss	**3,767**	5,227
Compensation on termination of contract	**10,953**	20,000
Gain on disposals of associates	**128,785**	460
Gain on disposals of subsidiary	**2,935**	–
Gain on waiver of liabilities	**2,952**	7,008
Others	**10,027**	11,205
	642,380	213,361

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(All amounts in RMB unless otherwise stated)

7. OTHER INCOME

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Government grants in relation to		
– Tax refunds *(a)*	**3,813**	20,847
– Further development of manufacturing technology *(b)*	**37,957**	31,542
– Relocation for environmental protection *(b)*	**16,033**	71,939
– Others	**13,698**	12,347
	71,501	136,675

(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 2015 and 2014, 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	
	2015	2014
	RMB'000	*RMB'000*
Depreciation on property, plant and equipment *(Note 16)*	**201,612**	187,904
Depreciation on investment properties *(Note 17)*	**3,870**	3,606
Amortisation of lease prepayments *(Note 15)*	**14,041**	11,500
Amortisation of intangible assets *(Note 18)*	**14,980**	14,083
Amortisation of deferred income on sell and leaseback transaction *(Note 30)*	**449**	(306)
Employee benefit expense *(Note 9)*	**1,222,069**	984,660
Changes in inventories of finished goods and work in progress	**(210,662)**	25,696
Raw materials and consumables used	**7,317,965**	7,511,280
Transportation	**93,209**	81,872
Research and development costs	**166,065**	134,373
Utilities	**95,663**	109,732
Repairs and maintenance expenditure on property, plant and equipment	**23,394**	32,317
Operating lease rentals *(Note 16)*	**35,507**	27,054
Write-down of inventories *(Note 22)*	**19,883**	953
Provision for impairment of receivables *(Note 19)*	**31,953**	26,567
Provision for impairment of property, plant and equipment *(Note 16)*	**–**	8,162
Provision for warranty *(Note 28)*	**38,981**	34,141
Auditors' remuneration		
– Audit services	**4,700**	4,700
– Non-audit services	**450**	800
Other expenses	**306,329**	291,287
Total cost of sales, distribution costs and administrative expenses	**9,380,458**	9,490,381

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(All amounts in RMB unless otherwise stated)

9. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**663,022**	679,272
Contributions to pension plans *(a)*	**94,840**	101,174
Supplemental pension benefits to qualified employees through profit or loss *(b) (Note 32)*		
– Interest cost	**2,039**	1,822
– Additions on termination benefit obligations	**221,297**	21,380
Housing benefits *(c)*	**43,562**	49,158
Welfare, medical and other expenses	**197,309**	131,854
	1,222,069	984,660

(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 2015 and 2014.

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) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include one (2014: one) director and one (2014: nil) supervisor whose emoluments are reflected in the analysis in Note 42. The emoluments payable to the remaining three (2014: four) individuals during the year are as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
– Basic salaries, housing allowances, other allowances and benefits-in-kind	**3,815**	4,503
– Contributions to pension plans	**280**	403
– Discretionary bonuses	**–**	4,567
	4,095	9,473

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(All amounts in RMB unless otherwise stated)

9. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

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

The emoluments fell within the following bands:

	Number of individuals Year ended 31 December	
	2015	2014
HKD1,000,001 – HKD1,500,000 (equivalent to approximately RMB837,801 – RMB1,256,700)	**2**	–
HKD1,500,001 – HKD3,500,000 (equivalent to approximately RMB1,256,701 – RMB2,932,300)	**1**	3
HKD3,500,001 – HKD6,000,000 (equivalent to approximately RMB2,932,300 – RMB5,026,800)	**–**	1
	3	4

10. FINANCE COSTS, NET

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Finance income		
– Interest income on short-term bank deposits	**24,395**	21,368
Finance cost:		
– Bank borrowings	**(96,171)**	(102,390)
– Corporate bonds	**(67,200)**	(67,200)
– Finance lease liabilities	**(89)**	(229)
– Net exchange (loss)/gain	**(2,163)**	1,041
Less: amounts capitalized on qualifying assets	**32,342**	64,266
	(133,281)	(104,512)
Net finance costs	**(108,886)**	(83,144)

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(All amounts in RMB unless otherwise stated)

11. SUBSIDIARIES

All the subsidiaries are unlisted.

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 interests for the period is approximately RMB48,951,000 (2014: RMB51,830,000), of which approximately RMB30,121,000 (2014: RMB33,228,000) is for Chongqing Machinery and Electronics Holding Group Finance Company Limited ("CMEFC") and approximately RMB14,183,000 (2014: 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 2015 is approximately RMB448,395,000 (2014: RMB406,491,000) of which approximately RMB381,253,000 (2014: RMB351,132,000) is for CMEFC and approximately RMB41,229,000 (2014: RMB34,655,000) is for Pigeon Wire. The non-controlling interests in respect of other subsidiaries are not material.

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.

11. SUBSIDIARIES *(CONTINUED)*

Summarised balance sheet

	CMEFC		Pigeon Wire	
	As at 31 December		As at 31 December	
	2015	2014	**2015**	2014
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current				
Assets	**2,541,556**	2,465,504	**616,905**	604,963
Liabilities	**(1,808,107)**	(1,751,886)	**(715,802)**	(601,874)
Total current net assets/ (liabilities)	**733,449**	713,618	**(98,897)**	3,089
Non-current				
Assets	**44,619**	2,978	**272,157**	295,812
Liabilities	**–**	–	**(14,686)**	(165,611)
Total non-current net assets	**44,619**	2,978	**257,471**	130,201
Net assets	**778,068**	716,596	**158,574**	133,290

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(All amounts in RMB unless otherwise stated)

11. SUBSIDIARIES *(CONTINUED)*

Summarised statement of comprehensive income

	CMEFC		Pigeon Wire	
	Year ended 31 December		Year ended 31 December	
	2015	2014	**2015**	2014
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	**105,657**	121,705	**2,163,272**	2,459,254
Profit before income tax	**71,168**	81,356	**66,258**	52,387
Income tax expense	**(9,696)**	(13,545)	**(11,708)**	(12,932)
Profit for the year	**61,472**	67,811	**54,550**	39,455
Other comprehensive income	**–**	–	**–**	–
Total comprehensive income	**61,472**	67,811	**54,550**	39,455
Total comprehensive income allocated to non-controlling Interests	**30,121**	33,228	**14,183**	10,258
Dividends paid to non-controlling Interests	**–**	–	**(8,513)**	(7,482)

11. SUBSIDIARIES *(CONTINUED)*

Summarised cash flows

	CMEFC Year ended 31 December		Pigeon Wire Year ended 31 December	
	2015	2014	**2015**	2014
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash flows from operating activities				
Cash generated from operations	**45,715**	412,861	**154,845**	141,767
Interest paid	**(15,116)**	(89,333)	**(28,923)**	(33,162)
Income tax paid	**(13,325)**	(20,019)	**(10,797)**	(9,116)
Net cash generated from operating activities	**17,274**	303,509	**115,125**	99,489
Net cash used in investing activities	**(416)**	(66)	**(5,751)**	(840)
Net cash generated from/(used in) financing activities	**–**	–	**(47,324)**	(142,047)
Net increase/(decrease) in cash and cash equivalents	**16,858**	303,443	**62,050**	(43,398)
Cash and cash equivalents at beginning of year	**1,518,258**	1,214,815	**38,391**	81,789
Cash and cash equivalents at end of year	**1,535,116**	1,518,258	**100,441**	38,391

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

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(All amounts in RMB unless otherwise stated)

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

The amounts recognised in the consolidated balance sheet are as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
– Associates	**484,977**	540,112
– Joint venture	**326,990**	316,169
	811,967	856,281

The amounts recognised in profit or loss are as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
– Associates	**23,810**	51,084
– Joint venture	**265,127**	317,514
	288,937	368,598

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

Investment in associates

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year	**540,112**	508,417
Additions	**–**	33,200
Share of profit	**23,810**	51,084
Share of other comprehensive income of investment accounted for using equity method	**–**	452
Disposal partial equity interest to a third party *(a)*	**(47,802)**	–
Dividend declared	**(31,143)**	(53,041)
At end of the year	**484,977**	540,112

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(All amounts in RMB unless otherwise stated)

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

Investment in associates *(continued)*

(a) Chongqing General Industry (Group) Co., Ltd. ("Chongqing General"), a wholly-owned subsidiary of the Group, sold its 35% equity interest in Chongqing Midea General Refrigeration Equipment Co., Ltd. ("Midea Tongyong") to a third party, Carrier Asia Limited at a consideration of RMB176,587,500 on 10 September 2015. After the equity transfer, the Group's interest in Midea Tongyong has been changed from 45% to 10%, and still have significant influence over Midea Tongyong and accounted for as an associate (Note 38(c)).

(b) As at the date of this report, the particulars of the Group's principal associates are set out in Note 38. All the associates are unlisted companies and there are no quoted market price available, and equity method has been used to account all the associates. 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 and Electronic Microcredit Co., Ltd. ("CQMEM"), Chongqing Youyan Smelting New Material Co., Ltd. ("Chongqing Youyan"), Chongqing Hongyan Fangda Automobile Spring Co., Ltd. ("Hongyan") and Exedy Chongqing Co.,Ltd. ("Exedy") are associates of the Group as at 31 December 2015, which, in the opinion of the directors, are material to the Group.

Summarised financial information for associates

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

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

Investment in associates *(continued)*

Summarised balance sheet

	Power Transformer		CQMEM		Chongqing Youyan		Hongyan		Exedy	
	As at 31 December		As at 31 December		As at 31 December		As at 31 December		As at 31 December	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	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	64,671	40,839	457	5,380	12,689	6,341	33,419	86,523	12,519	18,260
Other current assets (excluding cash)	539	300	255,120	332,098	54,103	55,791	268,098	299,402	303,645	293,432
Total current assets	65,210	41,139	255,577	337,478	66,792	62,132	301,517	385,925	316,164	311,692
Financial liabilities (excluding trade payables)	(21,457)	–	(51,000)	(100,000)	–	–	(137,344)	(241,874)	(61,360)	(81,897)
Other current liabilities (including trade payables)	–	(46)	(268)	(12,145)	(5,970)	(6,787)	(47,283)	(82,896)	(103,844)	(95,405)
Total current liabilities	(21,457)	(46)	(51,268)	(112,145)	(5,970)	(6,787)	(184,627)	(324,770)	(165,204)	(177,302)
Non-current										
Assets	196,898	201,347	3,101	1,456	26,703	27,214	121,427	131,170	203,406	199,905
Financial liabilities	–	–	–	–	–	–	(52,197)	–	(90,380)	(77,758)
Other liabilities	–	–	–	–	–	–	–	(23,563)	(274)	(251)
Total non-current liabilities	–	–	–	–	–	–	(52,197)	(23,563)	(90,654)	(78,009)
Net assets	240,651	242,440	207,410	226,789	87,525	82,559	186,120	168,762	263,712	256,286

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(All amounts in RMB unless otherwise stated)

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		Chongqing Youyan Year ended 31 December		Hongyan Year ended 31 December		Exedy Year ended 31 December	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	–	–	27,586	69,718	235,070	104,362	394,108	533,864	476,046	469,004
Depreciation and amortisation	(41)	(41)	(180)	(186)	(3,509)	(1,163)	(16,549)	(17,080)	(20,713)	21,684
Interest income	771	1,161	–	–	24	43	685	522	29	60
Interest expense	–	–	–	–	–	–	(8,312)	(9,837)	(12,213)	(10,032)
Share of profit of associates	19,441	23,503	–	–	–	–	–	–	169	–
Profit/(loss) before income tax	19,668	24,131	(8,486)	23,412	8,205	3,010	29,172	30,152	18,205	17,639
Income tax expense	(57)	(157)	1,107	(3,520)	(1,239)	(451)	(5,903)	(5,863)	(2,792)	(2,272)
Profit/(loss) for the year	19,611	23,974	(7,379)	19,892	6,966	2,559	23,269	24,289	15,413	15,367
Other comprehensive income	–	–	–	–	–	–	–	–	–	–
Total comprehensive income	19,611	23,974	(7,379)	19,892	6,966	2,559	23,269	24,289	15,413	15,367
Dividends received from associate	14,058	19,510	5,400	1,800	830	–	2,601	–	2,156	3,778

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		Chongqing Youyan Year ended 31 December		Hongyan Year ended 31 December		Exedy Year ended 31 December	
	2015	2014	**2015**	2014	**2015**	2014	**2015**	2014	**2015**	2014
	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	242,440	248,166	226,789	210,897	82,559	–	168,762	144,473	256,286	254,913
Capital injection	–	–	–	–	–	80,000	–	–	–	–
Profit/(loss) for the period	19,611	23,974	(7,379)	19,892	6,966	2,559	23,269	24,289	15,413	15,367
Other comprehensive income	–	–	–	–	–	–	–	–	–	–
Dividend declared	(21,400)	(29,700)	(12,000)	(4,000)	(2,000)	–	(5,911)	–	(7,987)	(13,994)
Closing net assets	240,651	242,440	207,410	226,789	87,525	82,559	186,120	168,762	263,712	256,286
Interest in associates (65.69%/45%/41.5%/44%/27%) *(Note 38)*	158,084	159,259	93,335	102,055	36,323	34,262	81,893	74,255	71,202	69,197
Carrying value	158,084	159,259	93,335	102,055	36,323	34,262	81,893	74,255	71,202	69,197

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, Chongqing Youyan and Exedy) recognised in the consolidated balance sheet are as follows.

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
– Associates	**44,140**	74,606

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

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
– Associates	**(3,043)**	5,148

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

Investment in joint venture

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year	**316,169**	310,143
Share of profit	**265,127**	317,514
Dividend declared	**(254,306)**	(311,488)
At end of the year	**326,990**	316,169

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	
	2015	2014
	RMB'000	*RMB'000*
Current		
Cash and cash equivalents	**323,654**	315,991
Other current assets (excluding cash)	**1,224,949**	1,335,207
Total current assets	**1,548,603**	1,651,198
Financial liabilities (excluding trade payables)	**–**	–
Other current liabilities (including trade payables)	**(1,342,525)**	(1,399,822)
Total current liabilities	**(1,342,525)**	(1,399,822)
Non-current		
Assets	**447,902**	380,963
Financial liabilities	**–**	–
Other liabilities	**–**	–
Total non-current liabilities	**–**	–
Net assets	**653,980**	632,339

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	
	2015	2014
	RMB'000	*RMB'000*
Revenue	**2,443,726**	3,139,663
Depreciation and amortisation	**(29,346)**	(25,125)
Interest income	**6,301**	5,948
Interest expense	**(3,106)**	(1,905)
Profit before income tax	**619,187**	746,507
Income tax expense	**(88,934)**	(111,479)
Profit for the year	**530,253**	635,028
Other comprehensive income	**–**	–
Total comprehensive income	**530,253**	635,028
Dividends received from joint venture	**254,306**	311,488

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its 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

	CQ Cummins Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Opening net assets 1 January	**632,339**	620,287
Profit for the period	**530,253**	635,028
Other comprehensive income	**–**	–
Dividend declared	**(508,612)**	(622,976)
Closing net assets	**653,980**	632,339
Interest in joint venture @50%	**326,990**	316,169
Carrying value	**326,990**	316,169

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 16 July 2015, Jilin Chong Tong Chengfei New Material Co., Ltd. ("Chongtong Chengfei") is qualified as a high technology company and can enjoy preferential income tax rate of 15% from 2015 to 2017.

(iii) Fu Baotian Cotton Picking Services Co., Ltd., a new subsidiary set up in 2015, is exempted from income tax due to its principal activity is providing agricultural machinery operation services which fails into the scope of tax exemption.

(iv) Other than the abovementioned group entities, the following group entities which are incorporated in the PRC are not entitled to the benefit of favourable corporate income tax policy and subject to Corporate Income Tax ("CIT") rate of 25% for the years ended 31 December 2014 and 2015:

- 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;
- Xilinhaote Chenfei Wind Power Equipment Co., Ltd., and
- Chongqing Chongtong Chengfei New Material Co., Ltd.

Notes to the Consolidated Financial Statements *(Continued)*

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13. TAXATION *(CONTINUED)*

(a) Income tax expense *(continued)*

(v) 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 20.3% (2014: 21.5%). The income tax rate of Precision Components Limited is 20.3% (2014: 21.5%). The income tax rate of PTG Deutschland GmbH is 15.2% (2014: 29.6%). The income tax rate of Precision Technologies Group Investment Development Company Limited ("PTGHK") is 16.5% (2014: 16.5%)

The amount of income tax expense charged to profit or loss represents:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Current income tax	**46,018**	36,327
Deferred income tax *(Note 31)*	**11,293**	30,579
Income tax expense	**57,311**	66,906

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	
	2015	2014
	RMB'000	*RMB'000*
Profit before income tax	**523,896**	630,679
Tax calculated at statuory tax rates applicable to each group entities	**109,071**	127,041
Income not subject to tax		
– share of profit of associates and joint venture	**(77,522)**	(88,215)
Tax concessions	**(8,415)**	(8,138)
Expenses not deductible for tax purposes	**1,358**	2,691
Utilisation of previously unrecognised deferred tax assets	**(3,509)**	(66)
Tax losses for which no deferred income tax asset was recognised	**36,328**	33,593
Income tax expense	**57,311**	66,906

The weighted average applicable tax rate for the year ended 31 December 2015 is 21% (2014: 20%).

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
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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:

	2015 Before tax RMB'000	**2015** Tax credit/ (charge) RMB'000	**2015** After tax RMB'000	2014 Before tax RMB'000	2014 Tax (charge)/ credit RMB'000	2014 After tax RMB'000
Fair value (losses)/gains on available-for-sale financial assets	(266)	40	(226)	2,189	(328)	1,861
Actuarial gain/(losses) on retirement benefit obligations	9,935	(349)	9,586	(2,322)	110	(2,212)
Other comprehensive income	9,669	(309)	9,360	(133)	(218)	(351)
Current tax		–			–	
Deferred income tax *(Note 31)*		(309)			(218)	

(b) Value-added tax ("VAT") and related taxes

Except Fu Baotian Cotton Picking Services Co., Ltd. which is subject to output VAT generally calculated at 13% of the product selling prices, all companies now comprising the Group in the PRC are subject to output VAT calculated at 17%. 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 2015 (Note 33).

14. EARNINGS PER SHARE

	Year ended 31 December	
	2015	2014
Profit attributable to equity holders of the Company *(RMB'000)*	**417,634**	511,943
Weighted average number of ordinary shares in issue *(thousands)*	**3,684,640**	3,684,640
Basic and diluted earnings per share *(RMB per share)*	**0.11**	0.14

Diluted earnings per share is equal to basic earnings per share as there was no potential dilutive ordinary shares outstanding for both years presented.

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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:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year		
Cost	**554,219**	558,751
Accumulated amortisation	**(87,547)**	(76,047)
Net book amount	**466,672**	482,704
For the year		
Opening net book amount	**466,672**	482,704
Transfer from assets under constructions *(Note 16)*	**145,980**	–
Additions	**50,854**	9,628
Disposals	**(32,950)**	(14,160)
Amortisation charge	**(14,041)**	(11,500)
Closing net book amount	**616,515**	466,672
At end of the year		
Cost	**718,103**	554,219
Accumulated amortisation	**(101,588)**	(87,547)
Net book amount	**616,515**	466,672

(a) All of the amortisation of the Group's land use rights was charged to administrative expenses.

(b) As at 31 December 2015, bank borrowings were secured by certain Group's lease prepayments with an aggregate carrying value of approximately RMB170,295,000 (2014: RMB167,225,000) (Note 29).

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and plants RMB'000	Equipment and machinery and moulds RMB'000	Motor vehicles RMB'000	Assets under construction RMB'000	Total RMB'000
At 1 January 2014					
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
Year ended 31 December 2015					
Opening net book amount	**1,071,832**	**1,046,589**	**31,005**	**955,942**	**3,105,368**
Transfers	**227,616**	**76,031**	**940**	**(304,587)**	**–**
Transfer to Lease prepayments *(Note 15)*	**–**	**–**	**–**	**(145,980)**	**(145,980)**
Additions	**578**	**73,003**	**1,923**	**923,031**	**998,535**
Transfers to intangible assets *(Note 18)*	**–**	**–**	**–**	**(1,577)**	**(1,577)**
Disposals *(Note 34)*	**(11,499)**	**(26,537)**	**(1,049)**	**(400)**	**(39,485)**
Depreciation charge	**(39,360)**	**(155,000)**	**(7,252)**	**–**	**(201,612)**
Closing net book amount	**1,249,167**	**1,014,086**	**25,567**	**1,426,429**	**3,715,249**
At 31 December 2015					
Cost	**1,571,952**	**2,427,452**	**107,369**	**1,432,643**	**5,539,416**
Accumulated depreciation and impairment	**(322,785)**	**(1,413,366)**	**(81,802)**	**(6,214)**	**(1,824,167)**
Net book amount	**1,249,167**	**1,014,086**	**25,567**	**1,426,429**	**3,715,249**

Notes to the Consolidated Financial Statements *(Continued)*

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16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(a) Depreciation of the property, plant and equipment has been charged to profit or loss as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Cost of sales	**161,740**	155,585
Administrative expenses	**39,035**	31,627
Selling expenses	**837**	692
	201,612	187,904

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 RMB522,801,000 as at 31 December 2015 (2014: RMB51,984,000) (Note 29).

(c) Lease rental expenses amounting to approximately RMB35,507,000 (2014: RMB27,054,000) relating to the lease of property were included in profit or loss (Note 8).

16. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(d) Equipment and machinery includes the following amounts where the Group is a lessee under a finance lease:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Cost – Construction in progress	**70,071**	–
Cost – Equipment and machinery	**2,284**	3,338
Accumulated depreciation	**(570)**	(346)
Net book amount	**71,785**	2,992

The Group leases various equipment and machinery under non-cancellable finance lease agreements. All the lease terms are within 5 years.

(e) For the year ended 31 December 2015, interest expense of approximately RMB32,342,000 (2014: RMB64,266,000) arising from borrowings has been capitalized in the cost of property, plant and equipment at the weighted average interest rate of 6.07% (2014: 6.27%) per annum.

Notes to the Consolidated Financial Statements *(Continued)*

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17. INVESTMENT PROPERTIES

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
At beginning of year		
Cost	**61,773**	58,164
Accumulated depreciation	**(31,945)**	(28,339)
Net book amount	**29,828**	29,825
For the year		
Opening net book amount	**29,828**	29,825
Transfers from owner-occupied property *(Note 16)*	**–**	3,609
Depreciation charge	**(3,870)**	(3,606)
Closing net book amount	**25,958**	29,828
At end of year		
Cost	**61,773**	61,773
Accumulated depreciation	**(35,815)**	(31,945)
Net book amount	**25,958**	29,828
Fair value at end of the year	**250,662**	230,234

17. INVESTMENT PROPERTIES *(CONTINUED)*

(a) Amounts recognised in profit and loss for investment properties

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Rental income	**13,670**	12,985
Direct operating expenses from property that generated rental income	**(3,870)**	(3,606)

(b) Depreciation of the Group's investment properties has been charged to profit or loss as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Cost of sales	**3,870**	3,606

As at 31 December 2014 and 2015, the Group had no unprovided contractual obligations for future repairs and maintenance.

(c) The Group's investment property is analysed as follows:

As at 31 December 2014 and 2015, 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 2014 and 2015.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
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17. INVESTMENT PROPERTIES *(CONTINUED)*

(c) The Group's investment property is analysed as follows:

Valuation techniques

The valuation of investment property was 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 2014	230,234	Direct comparison approach	RMB4,500 – RMB75,000 per square meter
At 31 December 2015	250,662	Direct comparison approach	RMB4,500 – RMB75,000 per square meter

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:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Not later than 1 year	**11,237**	9,529
Later than 1 year and not later than 5 years	**15,378**	12,111
	26,615	21,640

Bank borrowings were secured by the investment properties with an aggregate carrying value of approximately RMB12,604,000 as at 31 December 2015 (2014: RMB12,663,000) (Note 29).

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18. INTANGIBLE ASSETS

	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 2014								
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
Year ended 31 December 2015								
Opening net book amount	143,018	19,687	5,355	28,556	42,157	49,912	784	289,469
Transfer from assets under construction *(Note 16)*	–	–	1,577	–	–	–	–	1,577
Additions	–	8,552	692	–	–	12,662	10	21,916
Other deduction	–	–	–	–	–	–	(26)	(26)
Amortisation charge	–	(2,217)	(3,161)	–	(6,377)	(2,457)	(768)	(14,980)
Closing net book amount	143,018	26,022	4,463	28,556	35,780	60,117	–	297,956
At 31 December 2015								
Cost	143,018	78,195	24,780	28,556	73,345	64,826	14,074	426,794
Accumulated amortisation	–	(52,173)	(20,317)	–	(37,565)	(4,709)	(14,074)	(128,838)
Net book amount	143,018	26,022	4,463	28,556	35,780	60,117	–	297,956

18. INTANGIBLE ASSETS *(CONTINUED)*

(a) All the amortisation of the Group's intangible assets was charged to administrative expenses.

(b) Development cost of approximately RMB4,288,000 were capitalized by the Group during the year ended 31 December 2015 (2014: RMB7,443,000).

(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	
	2015	2014
	RMB'000	*RMB'000*
CAFF	**15,368**	15,368
PTG six entities	**127,650**	127,650
	143,018	143,018

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18. INTANGIBLE ASSETS *(CONTINUED)*

(d) Impairment tests 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	
	2015	2014
	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.

18. INTANGIBLE ASSETS (CONTINUED)

(d) Impairment for goodwill and brand *(continued)*

The key assumptions used for value-in-use calculations in 2015 are as follows:

	CAFF	Qijiang Gear	PTG six entities
Sales volume (% annual growth rate)	4%	5%	16%
Sales price (% annual growth rate)	0%	0%	0%
Gross margin (% of revenue)	16-18%	17%	39-42%
Long term growth rate	0%	0%	0%
Pre-tax discount rate	15%	16%	21%
Recoverable amount of the CGUs	N/A	N/A	N/A

The key assumptions used for value-in-use calculations in 2014 are as follows:

	CAFF	Qijiang Gear	PTG six entities
Sales volume (% annual 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

Notes to the Consolidated Financial Statements *(Continued)*

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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.

Sales volume is the average annual growth rate over the five-year forecast period. It 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. It is based on current industry trends and includes long term inflation forecasts for each CGU.

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.

19. TRADE AND OTHER RECEIVABLES

	Group As at 31 December 2015 RMB'000	2014 RMB'000
Trade and bills receivables *(a)*	3,163,828	3,436,583
Less: provision for impairment of trade receivables	(283,672)	(263,281)
Trade and bills receivables, net	2,880,156	3,173,302
Deposits paid	77,325	74,148
Less: provision for impairment of deposits paid	(12,349)	(11,296)
Deposits paid, net	64,976	62,852
Prepayments	309,330	400,837
Staff advances	26,572	14,383
Loans	646,781	442,485
Less: provision for impairment of loans	(7,376)	(4,425)
Loans, net	639,405	438,060
Others	439,842	120,780
Less: provision for impairment of receivables other than trade receivables, loans and deposits paid	(16,969)	(22,843)
	4,343,312	4,187,371
Less: Long-term loans	(42,409)	–
Provision for impairment of long-term loans	424	–
Long-term loans, net	(41,985)	–
Current portion	4,301,327	4,187,371

Notes to the Consolidated Financial Statements *(Continued)*

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19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

As at 31 December 2015, 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 4.13% to 6.44% for the year ended 31 December 2015 (2014: 4.20% to 6.90%).

(a) Ageing analysis of the trade and bills receivables at respective balance sheet dates are as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Less than 30 days	**363,548**	440,468
31 days to 90 days	**669,243**	924,431
91 days to 1 year	**1,338,943**	1,376,832
1 year to 2 years	**411,163**	335,534
2 years to 3 years	**142,268**	114,351
Over 3 years	**238,663**	244,967
	3,163,828	3,436,583

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 2015, trade and bills receivables of approximately RMB1,758,124,000 (2014: RMB1,732,834,000) 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:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
91 days to 1 year	**1,324,201**	1,367,477
1 year to 2 years	**349,508**	321,551
2 years to 3 years	**84,415**	43,806
	1,758,124	1,732,834

Notes to the Consolidated Financial Statements *(Continued)*

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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 2015, trade receivables of approximately RMB416,192,000 (2014: RMB338,850,000) were impaired. The amount of provision was approximately RMB283,672,000 as at 31 December 2015 (2014: RMB263,281,000). 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:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
91 days to 1 year	**14,742**	9,355
1 year to 2 years	**61,655**	13,983
2 years to 3 years	**101,132**	70,545
Over 3 years	**238,663**	244,967
	416,192	338,850

(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.

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	
	2015	2014
	RMB'000	*RMB'000*
RMB	**4,191,055**	4,005,922
UKP	**101,278**	101,894
USD	**132**	3,880
EUR	**170**	75,675
HKD	**50,677**	–
	4,343,312	4,187,371

(e) Movement on the provision for impairment of trade and other receivables is as follows:

Trade receivables

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year	**263,281**	249,715
Provision for impairment of receivables	**29,148**	25,720
Receivables written off during the year as uncollectible	**(8,757)**	(12,154)
At end of the year	**283,672**	263,281

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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)*

Deposits paid

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year	**11,296**	10,683
Provision for impairment of receivables	**1,053**	613
At end of the year	**12,349**	11,296

Short-term loans

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year	**4,425**	2,542
Provision for impairment of receivables	**2,527**	1,883
At end of the year	**6,952**	4,425

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(e) Movement on the provision for impairment of trade and other receivables is as follows: *(continued)*

Long-term Loans

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year	**–**	–
Provision for impairment of long-term loans	**424**	–
At end of the year	**424**	–

Others

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year	**22,843**	24,513
Reversal of impairment of receivables	**(1,199)**	(1,649)
Receivables written off during the year as uncollectible	**(4,675)**	(21)
At end of the year	**16,969**	22,843

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in profit or loss (Note 8).

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19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(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) 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.

(i) The other classes within trade and other receivables do not contain impaired assets.

20. CONTRACT WORK-IN-PROGRESS

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Contract cost incurred plus recognised profit less recognised losses	**1,800,995**	1,639,409
Less: progress billings	**(1,278,141)**	(1,156,623)
Contract work-in-progress	**522,854**	482,786
Representing:		
Amount due from customers for contract work	**527,389**	498,025
Amount due to customers for contract work	**(4,535)**	(15,239)
	522,854	482,786

20. CONTRACT WORK-IN-PROGRESS *(CONTINUED)*

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Contract revenue recognised as revenue in the year	**314,417**	345,601

21. RESTRICTED CASH

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Restricted cash denominated in RMB	**457,399**	684,039

The restricted cash held in dedicated bank accounts was pledged as security for the bills payable and issuance of letters of credit.

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22. INVENTORIES

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Raw materials	**352,865**	390,248
Work in progress	**716,760**	544,241
Finished goods	**784,635**	747,409
Consumables	**26,496**	18,982
	1,880,756	1,700,880

For the year ended 31 December 2015, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB7,107,303,000 (2014: RMB7,536,976,000).

For the year ended 31 December 2015, write-down of inventories recognised in cost of sales in profit or loss amounted to approximately RMB19,883,000 (2014: RMB953,000).

As at 31 December 2015, the provision for inventory write-down was approximately RMB91,545,000 (2014: RMB90,862,000).

23. FINANCIAL ASSESTS AT FAIR VALUE THROUGH PROFIT OR LOSS

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Investments in bond securities	–	194,808
Forward foreign exchange contracts	–	131
	–	194,939

For the years ended 31 December 2015 and 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.

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24. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Cash on hand	**2,176**	2,396
Cash at bank	**125,449**	484,349
Short-term bank deposits *(a)*	**1,416,350**	716,763
Cash and cash equivalents	**1,543,975**	1,203,508
Cash and cash equivalents denominated in the following currencies:		
– RMB	**1,485,413**	1,162,959
– HKD	**73**	69
– USD	**33,429**	11,986
– UKP	**17,938**	24,059
– EUR	**7,122**	4,435
	1,543,975	1,203,508

(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	Domestic shares	H shares	Total shares
	In thousand	*In thousand*	*In thousand*	*In thousand*
Registered, issued and fully paid				
At 1 January 2014 (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
At 31 December 2015 (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.

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26. RESERVES

	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 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-sale 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
At 1 January 2015	(999,909)	3,795	(5,454)	279,937	(2,356)	(723,987)	2,883,825	2,159,838
Profit for the year	–	–	–	–	–	–	417,634	417,634
Dividends	–	–	–	–	–	–	(169,493)	(169,493)
Changes in fair value of available-for-sale financial assets, net of tax	–	(226)	–	–	–	(226)	–	(226)
Remeasurements of retirement benefit obligations, net of tax	–	–	9,586	–	–	9,586	–	9,586
Currency translation differences	–	–	–	–	1,856	1,856	–	1,856
Other additions	2,572	–	–	–	–	2,572	–	2,572
Transfer to reserves	–	–	–	31,799	–	31,799	(31,799)	–
At 31 December 2015	(997,337)	3,569	4,132	311,736	(500)	(678,400)	3,100,167	2,421,767

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.

26. RESERVES (CONTINUED)

Pursuant to the Articles of Association of the Company, approximately RMB31,799,000 was appropriated to the statutory surplus reserve fund from the net profit for the year ended 31 December 2015 (2014: RMB31,001,000).

27. TRADE AND OTHER PAYABLES

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Non-current		
Deposit taking *(a)*	–	30,000
Current		
Deposit taking *(a)*	**852,908**	607,579
Trade and bills payables *(b)*	**2,436,050**	2,392,201
Other taxes payable	**95,646**	94,256
Other payables	**369,015**	188,931
Interest payable	**28,875**	27,221
Accrued payroll and welfare	**104,213**	71,663
Advances from customers	**701,989**	818,266
	4,588,696	4,200,117
Total trade and other payables	**4,588,696**	4,230,117

As at 31 December 2015, all deposit taking were due to related parties (Note 37). The effective interest rate of non-current deposit taking is 3.52% and the effective interest rate of current deposit taking ranged from 0.35% to 3.30% for the year ended 31 December 2015 (2014: 0.35% to 3.30%).

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27. TRADE AND OTHER PAYABLES *(CONTINUED)*

(a) The carrying amount of current deposit taking approximates its fair value.

The carrying value and fair value of long-term deposit taking is set out as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Carrying amount	–	30,000
Fair value	–	30,334

(b) As at 31 December 2015 and 2014, the ageing analysis of the trade and bills payables of the Group was as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Less than 30 days	**387,204**	583,177
31 days than 90 days	**642,619**	565,432
91 days to 1 year	**1,187,388**	1,085,117
1 year to 2 years	**105,414**	63,155
2 years to 3 years	**36,035**	32,521
Over 3 years	**77,390**	62,799
	2,436,050	2,392,201

(c) Refer to Note 37 for payables due to related parties.

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 2014	20,861
Charged to cost of sales *(Note 8)*	34,141
Utilised during the year	(38,607)
At 31 December 2014	16,395
Charged to cost of sales *(Note 8)*	38,981
Utilised during the year	(39,857)
At 31 December 2015	15,519

Notes to the Consolidated Financial Statements *(Continued)*

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29. BORROWINGS

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Non-current		
Borrowings *(1)*	**550,960**	1,421,945
Finance lease liabilities *(2)*	**117,819**	41
	668,779	1,421,986
Current		
Borrowings *(1)*	**2,072,110**	1,071,580
Finance lease liabilities *(2)*	**28,937**	1,395
	2,101,047	1,072,975
Total borrowings	**2,769,826**	2,494,961

29. BORROWINGS *(CONTINUED)*

(1) Borrowings

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Non-current		
Long-term bank borrowings – secured *(a)*	**539,000**	267,508
Long-term bank borrowings – unsecured *(b)*	**11,960**	157,006
Corporate bonds *(d)*	**–**	997,431
	550,960	1,421,945
Total non-current borrowings	**550,960**	1,421,945
Current		
Bank borrowings		
– secured *(a)*	**128,000**	104,000
– unsecured *(b)*	**942,057**	964,480
	1,070,057	1,068,480
Corporate bonds *(d)*	**998,953**	–
Other unsecured borrowings		
– due to independent third parties *(c)*	**3,100**	3,100
Total current borrowings	**2,072,110**	1,071,580
	2,623,070	2,493,525

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29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(a) As at 31 December 2015, all these bank borrowings were secured by certain Group's lease prepayments, property, plant and equipment and investment properties with net book value of RMB170,295,000, RMB522,801,000 and RMB12,604,000, respectively (Notes 15,16 and 17).

As at 31 December 2014, all these bank borrowings were secured by certain Group's lease prepayments, 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).

(b) As at 31 December 2015 and 2014, bank borrowings of approximately RMB163,470,000 and RMB182,164,000 were guaranteed by the following party:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
CQMEHG	**163,470**	182,164

(c) As at 31 December 2015 and 2014, 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 2015, the bond is measured at RMB998,953,000 at the amortised cost and guaranteed by the CQMEHG.

29. BORROWINGS (CONTINUED)

(1) Borrowings (continued)

(e) The maturities of the Group's borrowings at respective balance sheet dates are set out as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Total borrowings		
– Within 1 year	**2,072,110**	1,071,580
– Between 1 and 2 years	**20,000**	1,154,437
– Between 2 and 5 years	**199,000**	267,508
– Above 5 years	**331,960**	–
	2,623,070	2,493,525

(f) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
RMB	**2,341,014**	2,261,587
UKP	**163,470**	157,006
EUR	**115,284**	12,977
USD	**3,302**	61,955
	2,623,070	2,493,525

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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:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Bank borrowings	**4.94%**	5.39%
Corporate bonds	**6.59%**	6.59%

(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:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Carrying amount		
Bank borrowings	**550,960**	424,514
Corporate bonds	**–**	997,431
	550,960	1,421,945
Fair value		
Bank borrowings	**572,476**	428,177
Corporate bonds	**–**	1,032,848
	572,476	1,461,025

29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(h) *(continued)*

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 1.20% to 6.55% (2014: 1.87% to 6.55%) and are within level 2 of the fair value hierarchy.

(i) At each balance sheet date, the Group had the following undrawn borrowing facilities:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Fixed rate		
– Expiring within 1 year	**749,294**	799,228
– Expiring beyond 1 year	**1,194,000**	1,197,492
	1,943,294	1,996,720

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29. BORROWINGS *(CONTINUED)*

(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	
	2015	2014
	RMB'000	*RMB'000*
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	**29,043**	1,447
Later than 1 year and no later than 5 years	**117,964**	72
	147,007	1,519
Unrecognised future finance charges on finance leases	**(251)**	(83)
Present value of finance lease liabilities	**146,756**	1,436

The present value of finance lease liabilities is analysed as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
– Within 1 year	**28,937**	1,395
– Later than 1 year and no later than 5 years	**117,819**	41
	146,756	1,436

30. DEFERRED INCOME

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Non-current		
– Government grants *(a)*	**401,502**	408,558
– Deferred income on sell and leaseback transaction *(b)*	**2,476**	2,059
– Other deferred income	**7,540**	–
	411,518	410,617
Current		
– Government grants *(a)*	**38,267**	31,900
– Deferred income on sell and leaseback transaction *(b)*	**338**	306
	38,605	32,206
Total deferred income	**450,123**	442,823

(a) Government grants

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year	**440,458**	473,086
Additions		
– government grants related to assets	**39,841**	13,378
Created to profit or loss	**(40,530)**	(46,006)
At end of the year	**439,769**	440,458

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30. DEFERRED INCOME *(CONTINUED)*

(a) Government grants *(continued)*

(i) In prior years, certain subsidiaries of the Group received grants from the local government relating to the purchase of assets and were recorded as deferred income, which are amortized on a straight-line basis throughout the period of the useful lives of the underlying assets ranging from 4 to 40 years.

(ii) For the year ended 31 December 2015, the Group obtained grants of approximately RMB39,841,000 (2014: RMB13,378,000) 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

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year	**2,365**	2,671
Amortisation *(Note 8)*	**449**	(306)
At end of the year	**2,814**	2,365

31. DEFERRED INCOME TAX

(a) The analysis of deferred income tax assets and deferred income tax liabilities is as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Deferred income tax assets		
– Deferred income tax assets to be recovered after more than 12 months	**79,526**	60,608
– Deferred income tax assets to be recovered within 12 months	**7,048**	11,907
	86,574	72,515
Deferred income tax liabilities		
– Deferred income tax liabilities to be recovered more than 12 months	**(74,055)**	(48,452)
– Deferred income tax liabilities to be recovered within 12 months	**(1,885)**	(1,827)
	(75,940)	(50,279)
Deferred income tax assets (net)	**10,634**	22,236

The gross movement on the deferred income tax is set out as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year	**22,236**	53,033
Recognised in profit or loss *(Note 13)*	**(11,293)**	(30,579)
Recognised in other comprehensive income *(Note 13)*	**(309)**	(218)
At end of the year	**10,634**	22,236

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31. DEFERRED INCOME TAX *(CONTINUED)*

(b) The movement in the deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows:

Deferred income tax assets

	Provision for impairment of assets	Deferred income	Retirement and termination benefit obligations	Warranty and other accrued expenses	Tax Losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2014	40,056	7,522	2,997	10,477	13,767	74,819
Recognised in other comprehensive income	–	–	110	–	–	110
Recognised in profit or loss	4,439	2,452	(786)	(5,581)	(2,938)	(2,414)
At 31 December 2014	44,495	9,974	2,321	4,896	10,829	72,515
Recognised in other comprehensive income	–	–	(349)	–	–	(349)
Recognised in profit or loss	(11,969)	(5,132)	19,023	1,010	11,476	14,408
At 31 December 2015	32,526	4,842	20,995	5,906	22,305	86,574

31. DEFERRED INCOME TAX *(CONTINUED)*

(b) The movement in the deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, is as follows: *(continued)*

Deferred income 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 Janurary 2014	(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)
Recognised in other comprehensive income	–	40	–	40
Recognised in profit or loss	2,676	–	(28,377)	(25,701)
At 31 December 2015	(16,418)	(757)	(58,765)	(75,940)

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31. DEFERRED INCOME TAX *(CONTINUED)*

(c) In accordance with the PRC 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 2015, the Group did not recognise deferred income tax assets of approximately RMB96,169,000 (2014: RMB61,975,000) in respect of losses amounting to approximately RMB501,706,000 (2014: RMB339,423,000), as management believes it is more than likely that such tax losses would not be utilised before they expire. As at 31 December 2015 and 2014, the tax losses carried forward are as follows:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Year of expiry		
– 2015	**–**	10,672
– 2016	**18,514**	18,514
– 2017	**67,965**	67,965
– 2018	**57,548**	57,548
– 2019	**154,858**	154,858
– 2020	**191,616**	–
	490,501	309,557
No expiry date	**11,205**	29,866
	501,706	339,423

32. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

The amount of retirement and termination benefit obligation recognised in the consolidated balance sheet is determined as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Non-current		
Retirement benefit obligations	180,558	39,358
Termination benefit obligations	6,416	11,093
	186,974	50,451
Current		
Retirement benefit obligations	34,859	5,012
Termination benefit obligations	5,048	6,593
	39,907	11,605
	226,881	62,056

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Present value of defined benefits obligations	226,881	62,056
Less: current portion	(39,907)	(11,605)
	186,974	50,451

Notes to the Consolidated Financial Statements *(Continued)*

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(All amounts in RMB unless otherwise stated)

32. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS *(CONTINUED)*

The movements of retirement and termination benefit obligations for the years ended 31 December 2015 and 2014are as follows:

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
At beginning of the year	**62,056**	46,319
Change for the year		
– Interest cost	**2,039**	1,822
– Remeasurement effects recognised in other comprehensive income	**(9,935)**	2,322
– Additions on termination benefit obligations	**221,297**	21,380
– Payments	**(48,576)**	(9,787)
At end of the year	**226,881**	62,056

The above obligations were actuarially determined by an independent actuarial firm using the projected unit credit method.

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	
	2015	2014
Discount rates	**3.00%**	3.75%

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: 5%-9% (2014: 6%-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.

– Expected maturity analysis of undiscounted pension benefits:

At 31 December 2015	Less than a year *RMB'000*	Between 1-2 years *RMB'000*	Between 2-5 years *RMB'000*	Over 5 years *RMB'000*	Total *RMB'000*
Long-term employee benefit obligations	39,907	34,887	71,332	80,755	226,881

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: *(continued)*

Based on the assessment and HKAS 19, the Group estimated that, at 31 December 2015, a provision of approximately RMB226,881,000 is sufficient to cover all future retirement-related obligations.

Obligation in respect of retirement benefits of approximately RMB226,881,000 is the present value of the unfunded obligations, of which the current portion amounting to approximately RMB39,907,000 (2014: RMB11,605,000) 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 2.8%/3.0%
Average salary increase rate	Increase/decrease by 0.5%	Increase/decrease by 2.2%/2.0%
Rate of mortality	Increase/decrease by 1 year	Decrease/increase by 1.1%/1.1%

In 2015, approximately RMB223,336,000 were charged in administrative expenses (2014: RMB23,202,000), and gain of approximately RMB9,935,000 were charged in other comprehensive income (2014: RMB2,322,000).

33. DIVIDENDS

The dividends paid in 2015 and 2014 were RMB169,493,000 (RMB0.046 per share) and RMB184,232,000 (RMB0.05 per share) respectively. A dividend in respect of the year ended 31 December 2015 of RMB0.025 per share, amounting to a total dividend of RMB92,116,000 is to be proposed at the annual general meeting on 28 June 2016. These financial statements do not reflect this dividend payable.

	2015	2014
	RMB'000	*RMB'000*
Interim dividend	**–**	–
Proposed final dividend of RMB0.025 (2014: RMB0.046) per share	**92,116**	169,493
	92,116	169,493

Notes to the Consolidated Financial Statements *(Continued)*

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34. CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Profit before income tax	**523,896**	630,679
Adjustments for:		
– Depreciation of property, plant and equipment and investment properties	**205,482**	191,510
– Amortisation of intangible assets and lease prepayments	**29,021**	25,583
– Amortisation of deferred income	**(40,081)**	(46,312)
– Amortisation of non-current assets	**9,646**	2,364
– Write-down of inventories	**19,883**	953
– Provision for impairment of property, plant and equipment	**–**	8,162
– Gain on disposal of investments	**(131,720)**	(460)
– Interest income	**(24,395)**	(21,368)
– Interest expense	**133,281**	104,512
– Share of profit from associates and joint venture	**(288,937)**	(368,598)
– Gain on disposals of property, plant and equipment and lease prepayments	**(482,961)**	(169,461)
– Provision for impairment of receivables	**31,953**	26,567
– Gain from financial assets at fair value through profit or loss	**(3,767)**	(5,227)
	(18,699)	378,904
Changes in working capital:		
– Inventories	**(180,559)**	(28,914)
– Trade and other receivables	**(93,775)**	(286,368)
– Contract work-in-progress	**(40,068)**	(26,483)
– Restricted cash	**226,640**	(236,876)
– Retirement and termination benefit obligations	**174,411**	13,525
– Trade and other payables	**330,787**	306,714
	417,436	(258,402)
Cash generated from operations	**398,737**	120,502

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	
	2015	2014
	RMB'000	*RMB'000*
Net book amount of property, plant and equipment and lease prepayments	**72,435**	55,316
Gain on disposals of property, plant and equipment and lease prepayments	**482,961**	169,461
Advance or settled amount from disposal of property, plant and equipment and lease prepayments	**168,227**	195,440
Prepayment on disposal of property, plant and equipment and lease prepayments	**(506,901)**	(114,852)
Proceeds from disposal of property, plant and equipments	**216,722**	305,365

(c) Non-cash transaction

In 2015, the principal non-cash transaction was the endorsement of bills receivable of approximately RMB181,798,000 (2014: RMB21,240,000) for purchasing of property, plant and equipment.

Notes to the Consolidated Financial Statements *(Continued)*

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35. CONTINGENCIES

The Group has certain legal claims arising in the ordinary course of business as at 31 December 2015. 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	
	2015	2014
	RMB'000	*RMB'000*
Property, plant and equipment	**214,429**	485,109
Intangible assets	**238,436**	5,481
	452,865	490,590

Capital expenditure of property, plant and equipment which contracted for as at 31 December 2015 but not yet incurred for CQ Cummins amounted to approximately RMB68,346,000 (2014: RMB61,278,000).

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	
	2015	2014
	RMB'000	*RMB'000*
No later than 1 year	**28,050**	33,052
Later than 1 year and no later than 5 years	**23,198**	6,789
	51,248	39,841

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.

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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 2015 and 2014 and balances arising from related party transactions as at 31 December 2015 and 2014.

(a) Significant related party transactions

For the years ended 31 December 2015 and 2014, the Group had the following significant transactions with related parties.

Continuing related party transactions

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Transactions with the parent company, fellow subsidiaries and associates		
Revenue		
– Revenue from sales of goods	**69,704**	103,410
– Revenue from loans service	**34,441**	30,731
– Revenue from provision of services	**3,754**	3,634
Expenses		
– Purchase of materials	**83,875**	87,508
– Services	**5,481**	1,971
– Expenses for deposit taking service	**5,916**	3,107
– Other expenses	**32,446**	34,514

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions *(continued)*

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Transactions with joint venture and associates		
Revenue		
– Revenue from sales of goods	**10,931**	24,928
– Revenue from provision of services	**3,896**	1,138
Expenses		
– Purchase of materials	**24,339**	43,240
– Expenses for deposit taking service	**460**	435
– Other expenses	**1,360**	512

Discontinuing related party transactions

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Transactions with the parent company, fellow subsidiaries and associates		
Compensation on termination of contract	**10,953**	20,000

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37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Trade and other receivables		
Trade receivables due from		
– Fellow subsidiaries and associates	**43,879**	66,200
– Associates	**2,520**	1,603
Other receivables due from		
– CQMEHG	**438**	180
– Fellow subsidiaries	**2,146**	7,296
– Associates	**187**	1,209
Loans to		
– Fellow subsidiaries and associates	**646,781**	442,485
Prepayments due from		
– Fellow subsidiaries	**4,453**	7
– Associates	**848**	85
	701,252	519,065
Less: long-term other receivables	**(42,409)**	–
Current portion	**658,843**	519,065

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties *(continued)*

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
Trade and other payables		
Trade payables due to		
– Fellow subsidiaries and associates	**22,658**	23,309
– Associates	**2,693**	2,807
Deposit taking from		
– CQMEHG	**814**	156,823
– Fellow subsidiaries and associates	**836,680**	467,573
– Associates	**15,414**	13,183
Other payables due to		
– CQMEHG	**3,653**	2,017
– Associates	**289**	518
– Fellow subsidiaries	**44,685**	22,377
	926,886	688,607

(c) Financial guarantee contracts

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
As guarantee		
– Fellow subsidiaries	**86,250**	82,900
Guaranted by		
– CQMEHG	**1,163,470**	1,182,164

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37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(d) Key management compensation

	Year ended 31 December	
	2015	2014
	RMB'000	*RMB'000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	**3,040**	2,858
Contributions to pension plans	**587**	978
Discretionary bonuses	**6,508**	4,023
	10,135	7,859

(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 Directly held	Attributable equity interest Indirectly held	Principal activities
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 (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
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 (吉林重通成飛新材料股份有限公司)	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

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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 Chongtong Chengfei New Material Co., Ltd (重慶重通新材料有限公司)	PRC/1 April 2015	Limited liability company	5,000	–	100%	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
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-Xing 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
Fu Baotian Cotton Picking Services Co.,Ltd. (新疆福保田採棉服務有限公司)	PRC/10 June 2015	Limited liability company	765	–	51%	Service of cotton picking
Chongqing Huijiang Machine Tools Founding Co., Ltd. (重慶惠江機床鑄造有限公司) (Disposed on November 2015)	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

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
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
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	EUR25	–	100%	Selling of machinery tools
Chongqing Holroyd Precision Rotors Manufacturing Co., Ltd. (重慶霍洛伊德精密螺桿製造有限責任公司)	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	–	100%	Import and export materials and equipments
Precision Technologies Group (US) Ltd (精密技術集團(美國)有限公司)	United Kingdom/ 4 April 2015	Limited liability company	–	–	100%	Investment company
Precision Technologies Group Inc (精密技術集團公司)	United States/ 20 April 2015	Limited liability company	USD1	–	100%	Investment company
Holroyd Precision Rotors Inc (霍洛伊德精密轉子公司)	United States/ 20 April 2015	Limited liability company	USD11,500	–	100%	Manufacture rotor component

(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. is 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	Attributable equity interest			Principal activities
			Issued/paid in capital *(RMB'000)*	Directly held	Indirectly held	
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) *(ii)*	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) *(ii)*	PRC/3 December2003	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,ii)*	PRC/4 August 2004	Limited liability company	USD12,500	–	10.00%	Manufacturing of refrigeration equipment
Chongqing Yongtong GasCo., 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) *(ii)*	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,ii)*	PRC/5 March 1996	Limited liability company	161,410	65.69%	–	Investor of Chongqing ABB Power Transformer Co. Ltd.
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 (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

(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, therefore the entity is accounted for as an associate.

Although the Company owns 10% of equity interests of Midea Tongyong, one representative of the Company has been assigned to Midea Tongyong as its Director of the Board, the Company can exercise significant influence over Midea Tongyong and therefore accounted for as an associate.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(All amounts in RMB unless otherwise stated)

38. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES *(CONTINUED)*

(c) Associates *(continued)*

(ii) Power Transformer provides high-voltage transmitter 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 emission 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 has 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.

Chongqing Youyan mainly produces metallurgical powder, taking the leading position in metallurgy with its production and sales ranking in the forefront.

39. ULTIMATE HOLDING COMPANY

The Directors regard CQMEHG as the ultimate holding company of the Company.

40. EVENTS AFTER THE REPORTING PERIOD

In February 2016, the Company completed the equity transfer agreement with Jiangsu Saideli Machinery Manufacture Co., Ltd., pursuant to which, the Company sold 59% equity interest in Chongqing Jiangbei Machinery Co., Ltd. ("Chongqing Jiangbei Machinery") at the consideration of RMB77,529,000. After the transfer, the Company still holds 41% equity interest in Chongqing Jiangbei Machinery.

41. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	**As at 31 December** **2015** ***RMB'000***	2014 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**7,927**	6,540
Investments in associates		**244,828**	209,206
Investments in subsidiaries		**3,072,596**	2,872,596
Investments in jointly controlled entities		**200,929**	200,929
Available-for-sale financial assets		**20,000**	20,000
Trade and other receivables		**–**	569,932
		3,546,280	3,879,203
Current assets			
Trade and other receivables		**696,787**	334,348
Dividend receivable		**429,679**	313,526
Financial assets at fair value through profit or loss		**–**	194,808
Restricted cash		**561**	5,092
Cash and cash equivalents		**795,955**	727,791
		1,922,982	1,575,565
Total assets		**5,469,262**	5,454,768

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(All amounts in RMB unless otherwise stated)

41. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(CONTINUED)*

Balance sheet of the Company *(continued)*

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		3,684,640	3,684,640
Other reserves	*(Note (a))*	(669,476)	(701,275)
Retained earnings			
– Proposed final dividend	*(Note (a))*	92,116	169,493
– others	*(Note (a))*	1,283,940	1,102,002
Total equity		4,391,220	4,254,860
LIABILITIES			
Non-current liabilities			
Borrowings		–	997,431
Current liabilities			
Borrowings		998,953	25,158
Trade and other payables		79,089	177,319
		1,078,042	202,477
Total liabilities		1,078,042	1,199,908
Total equity and liabilities		5,469,262	5,454,768

The balance sheet of the Company was approved by the Board of Directors on 29 March 2016 and was signed on its behalf.

Director

Director

41. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY *(CONTINUED)*

Note (a) Reserve movement of the 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 2014	(981,212)	248,936	(732,276)	1,182,891	450,615
Profit for the year	–	–	–	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
At 1 January 2015	**(981,212)**	**279,937**	**(701,275)**	**1,271,495**	**570,220**
Profit for the year	**–**	**–**	**–**	**305,853**	**305,853**
Dividends *(Note 33)*	**–**	**–**	**–**	**(169,493)**	**(169,493)**
Transfer to reserves	**–**	**31,799**	**31,799**	**(31,799)**	**–**
At 31 December 2015	**(981,212)**	**311,736**	**(669,476)**	**1,376,056**	**706,580**

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(All amounts in RMB unless otherwise stated)

42. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

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

The remuneration of every director, supervisor and the chief executive is set out below:

For the year ended 31 December 2015:

Emoluments paid or receivable in respect of a person's service as a director, whether of the company or its subsidiary undertaking

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				
Mr. Wang Yuxiang *(Chairman, Acting as general manager from March 2016),*	204	–	525	729
Mr. Yu Gang *(Resigned from March 2016)*	230	57	615	902
Mr. Yang Quan *(Appointed from December 2015)*	209	57	502	768
Mr. Ren Yong	139	38	482	659
Mr. Xiang Hu	209	57	462	728
Mr. Huang Yong	48	–	–	48
Mr. Wang Jiyu	48	–	–	48
Mr. Yang Jingpu	48	–	–	48
Mr. Lo Wah Wai	116	–	–	116
Mr. Ren Xiaochang	68	–	–	68
Mr. Jin Jingyu	68	–	–	68
Mr. Liu Wei	68	–	–	68
Mr. Deng Yong	48	–	–	48
	1,503	209	2,586	4,298

42. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) (CONTINUED)

(a) Directors', supervisors' and senior management's emoluments *(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*
Supervisors				
Mr. Wang Pengcheng	24	–	–	24
Mr. Huang Hui	36	–	–	36
Ms. Wu Yi	36	–	–	36
Mr. Yang Mingquan	48	–	–	48
Mr. Xia Hua *(Appointed from September 2015)*	217	54	608	879
Mr. Zhang Mingzhi *(Appointed from September 2015)*	193	54	389	636
Mr. Zhao Zicheng*	137	38	735	910
Mr. Chen Qing *(Resigned from September 2015)*	149	42	637	828
	840	188	2,369	3,397
Senior management				
Mr. Duan Caijun	209	57	450	716
Mr. Chen Yu	209	57	497	763
Mr. Liu Yonggang	209	57	606	872
Mr. Zhao Zicheng *(Appointed from August 2015)*	70	19	–	89
	697	190	1,553	2,440
	3,040	587	6,508	10,135

* Mr. Zhao Zicheng resigned from the position of as a supervisor from September 2015, and continued as a senior management of the Group.

Notes to the Consolidated Financial Statements *(Continued)*

For the year ended 31 December 2015
(All amounts in RMB unless otherwise stated)

42. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) (CONTINUED)

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

For the year ended 31 December 2014:

Emoluments paid or receivable in respect of a person's service as a director, whether of the company or its subsidiary undertaking

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				
Mr. Wang Yuxiang *(Chairman)*	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. Lo Wah Wai	114	–	–	114
Mr. Ren Xiaochang	68	–	–	68
Mr. Yang Zhimin *(Resigned from September 2014)*	51	–	–	51
Mr. Deng Yong	48	–	–	48
Mr. Jin Jingyu	68	–	–	68
Mr. Liu Wei *(Appointed from September 2014)*	17	–	–	17
	1,493	381	2,050	3,924

42. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(CONTINUED)*

(a) Directors', supervisors' and senior management's emoluments *(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*
Supervisors				
Mr. Yang Mingquan	48	–	–	48
Mr. Zhao Zicheng	170	103	353	626
Mr. Chen Qing	170	103	313	586
Mr. Wang Pengcheng	24	–	–	24
Mr. Liu Xing *(Resigned from September 2014)*	27	–	–	27
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
	484	206	666	1,356
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 2015
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42. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) *(CONTINUED)*

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

For the years ended 31 December 2015 and 2014, 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.

(b) Directors ' retirement benefits and termination benefits

For the years ended 31 December 2015 and 2014, no special retirement and termination benefits plans to the directors for the year except for the plans to all the Group's employees mentioned in Note 9. No other retirement and termination benefits were paid to or receivable by those directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking.

(c) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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