



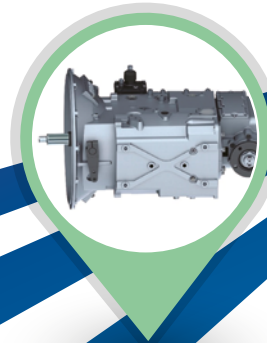
# 重慶機電股份有限公司

CHONGQING MACHINERY & ELECTRIC CO., LTD.\*

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

Stock Code: 02722

INTERIM  
REPORT 2016



***EQUIP CHINA,  
ADVANCE TOWARDS  
THE WORLD***

\* For identification purposes only

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# Corporate Information

## DIRECTORS

### Executive Directors

Mr. Wang Yuxiang (*Chairman*)

Ms. Chen Ping

(appointed on 28 June 2016)

Mr. Yang Quan

### Non-executive Directors

Mr. Huang Yong

Mr. Wei Fusheng

(appointed on 28 June 2016)

Mr. Deng Yong

Ms. He Xiaoyan

(appointed on 28 June 2016)

### Independent Non-executive Directors

Mr. Lo Wah Wai

Mr. Ren Xiaochang

Mr. Jin Jingyu

Mr. Liu Wei

## SUPERVISORS

Mr. Xiang Hu (*Chairman*)

(appointed on 28 June 2016)

Ms. Wu Yi

Mr. Huang Hui

Mr. Zhang Mingzhi

Mr. Xia Hua

## 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. Huang Yong

Mr. Lo Wah Wai

Mr. Jin Jingyu

### Members of the Nomination Committee

Mr. Wang Yuxiang (*Chairman*)

Mr. Ren Xiaochang

Mr. Jin Jingyu

Mr. Liu Wei

### Members of the Strategic Committee

Mr. Wang Yuxiang (*Chairman*)

Ms. Chen Ping

Mr. Yang Quan

Mr. Huang Yong

Mr. Ren Xiaochang

Mr. Jin Jingyu

Mr. Liu Wei

## Corporate Information (Continued)

### 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

Mr. Yang Quan  
No. 60 Middle Section of  
Huangshan Avenue, New North Zone,  
Chongqing City, the PRC  
Postal code: 401123  
Tel.: (86) 023-63075687

Ms. Chiu Hoi Shan  
Room 502, 5th Floor, China Building,  
29 Queen's Road Central, Central,  
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*)  
Beijing Zhong Lun (Chongqing) Law Firm  
(*As to the PRC 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](http://www.chinacqme.com)

## Corporate Information (Continued)

### 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

# Results Highlights

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

- Revenue of the Group for the six months ended 30 June 2016 amounted to approximately RMB4,793.5 million, representing an increase of approximately 10.2% from the corresponding period of last year.
- Gross profit of the Group for the six months ended 30 June 2016 amounted to approximately RMB499.4 million, representing a decrease of approximately 2.6% from the corresponding period of last year.
- Profit attributable to the shareholders of the Company for the six months ended 30 June 2016 amounted to approximately RMB172.8 million, representing a decrease of approximately 6.7% from the corresponding period of last year.
- Basic earnings per share for the six months ended 30 June 2016 amounted to approximately RMB0.05.

# Chairman's Statement

## Dear Shareholders,

The board of directors (the "Board") of the Company is pleased to announce the interim results of the Group for the six months ended 30 June 2016 (the "Period"). The Group's interim results have not been audited but have been reviewed by the audit and risk management committee and the Company's auditor, PricewaterhouseCoopers.

## RESULTS

Total revenue of the Group for the six months ended 30 June 2016 amounted to approximately RMB4,793.5 million, representing an increase of around 10.2% from approximately RMB4,350.5 million for the corresponding period of last year.

Profit attributable to the shareholders of the Company for the six months ended 30 June 2016 amounted to approximately RMB172.8 million, representing a decrease of around 6.7% from approximately RMB185.2 million for the corresponding period of last year.

For the six months ended 30 June 2016, earnings per share amounted to approximately RMB0.05 (for the first half of 2015: approximately RMB0.05). Total assets of the Group as at 30 June 2016 amounted to approximately RMB14,749.7 million (as at 31 December 2015: approximately RMB14,767.1 million), while total liabilities amounted to approximately RMB8,066.0 million (as at 31 December 2015: approximately RMB8,212.3 million); total equity was approximately RMB6,683.7 million (as at 31 December 2015: approximately RMB6,554.8 million); net asset value per share was approximately RMB1.81 (as at 31 December 2015: approximately RMB1.78).

In the first half of 2016, the global economy recorded a slow growth. All economies faced the risk of wide stagnation. The instability and uncertainty of economic prospect were inflicted by Brexit, EU terrorists attack and the tide of refugees, while China's economy was stable overall in the first half of 2016 as China actively adapted to the new normal economic development and put effort in promoting the structural reform on the supply side. The transformation of patterns and adjustment of structures were promoted on a steady basis at the GDP growth of 6.7%. The Group implemented the key initiative of "one policy for one enterprise", clearly carried out work related to production and operation, market expansion, reform and restructuring, innovation and upgrading, mergers and acquisitions, especially actively promoted the expansion of overseas markets in Europe, South Asia and Southeast Asia, and enhanced the growth in export orders. Although the business results varied with the segment, all reached the expected target basically.

# Chairman's Statement (Continued)

## BUSINESS REVIEW AND OUTLOOK

### Vehicle parts and components (transmission systems, steering systems)

In the first half of 2016, according to the data published by the China Association of Automobile Manufacturers, the production and sales volume of automobiles reached 12.892 million and 12.830 million units, representing an increase of 6.47% and 8.14% respectively over last year, continuously maintaining a stable growth. Sales volume of large and medium passenger vehicles and heavy trucks, which are closely related to the Group, reached 73,000 and 340,000 units respectively, representing an increase of 9.13% and 1.87% as compared with last year. Under the policy support by the government of China to vigorously encourage the development of new energy vehicles, the sales of new energy vehicles have achieved fast growth at the rate of approximately 126.90%. Affected by stagnant product development and market expansion, the transmission system business of the Group failed to achieve synchronous growth, while the steering system business was successfully deployed in the supplier systems of Chang'an Automobile and Jiangling Motors, resulting in stable operating results.

It is expected that the production and sales of automobiles in China will continue to maintain its stable growth in 2016, and the Group will accelerate the marketing promotion of transmission system products for new energy vehicles. 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 enterprise of the Group, is engaged in the production of diesel engine. Although the diesel engine business suffered from the effects brought by the decrease in property investment, as well as inadequate demand from power equipment, engineering machinery, petroleum machinery and shipbuilding markets, the operating results of the diesel engine business had a turnaround to subsequently become stabilized by actively enhancing the promotion of high-horsepower products, refining its internal management, and adjusting to adapt to the business policies in the market. The project of high-horsepower engine technology "R&D center and new factory" was granted special low-interest-bearing supportive fund in the amount of RMB120 million by China Development Bank. The new products of QSN diesel-powered engines have achieved sales and became the new market support. The relevant results in the first half of 2016 are set out in the section headed "SHARE OF POST-TAX PROFIT OF JOINT VENTURE" on page 43 of this Interim Report.



## Chairman's Statement (Continued)

### **Power equipment (hydropower equipment, electrical wires and cables, and materials)**

In the first half of 2016, benefiting from the drive promotion of clean energy by the government of China, smart grid projects and accelerated urbanization construction, new energy-saving and environmental wires and insulators independently developed by the wire and cable business achieved rapid market expansion; distribution centers, distributors and e-commerce platforms were actively promoted. In addition, great efforts were made in the integration and withdrawal from low margin businesses, thus achieving outstanding operating results. For hydropower equipment driven by domestic and foreign markets, new orders achieved a rapid growth over the same period of last year, with an extension of the business mode to electrical and mechanical engineering and EPC contract. The operating results maintained stable as a whole.

The “Sanye” trademark of hydropower equipment business was awarded the title of “China Well-known Trademark (中國馳名商標)”; for environmental relocation projects, the relocation has been commenced; and intelligent production lines of hydropower equipment received the support of RMB60 million from the national special-purpose funds with low interest rate. Wire and cable business obtained the administrative license for 200-250km/h railway products from the National Railway Administration in March 2016, which laid solid foundation for the expansion of railway market.

With the acceleration of domestic and foreign market and the expansion of business patterns, the Group expects the segment to maintain stable performance in 2016.

### **General machinery (industrial pumps, gas compressors, refrigeration machines, industry blower and wind power blades, etc.)**

In the first half of 2016, benefitting from the increasing demand of industrial pumps in the middle and high-end and nuclear power markets and the rapid growth in wind power blades business, income from the segment continued to achieve relatively fast growth.

## Chairman's Statement (Continued)

The third-generation centrifugal chiller for nuclear power generation units developed by the Group made technical innovative breakthrough. High pressure ratio centrifugal refrigeration compressors with high efficiency and low noise were successfully developed. Two newly built nuclear power stations won the tender. Jiangsu Rudong Offshore Wind Power Blade Base was completed and put into operation, and the offshore wind power blade industrialization project Phase II commenced. For industrial pump business, the third-generation reactor cavity injection pump and charging pump for nuclear power generation units were certified by an expert panel of China. Continuous efforts were made to promote the "full nuclear power pump development" (核電泵全面拓展) project. For gas compressor business, complete LNG equipment industrialization projects were successfully developed, with orders amounting to RMB18 million achieved. The independently developed air supply system for space launching sites guaranteed the successful initial firing of "Long March 7" launch vehicle in Wenchang, Hainan.

In view of the favorable state policies regarding the nuclear power industry, there is more incentive and support for the development of clean energy, the investment in infrastructures will gradually accelerate. The Group expects that this segment will maintain rapid growth in 2016.

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

In the first half of 2016, under the constant influence of structural adjustment of various domestic industries across the country, shrinking investments and overcapacity, there was a decrease in market demand both of the China's machine tool industry and the CNC machine tools business of the Group, and the revenue continued to decline.

Chongqing Machine Tools (Group) Company Limited, Zhejiang Shuanghuan Driveline Co., Ltd. and KAPP GmbH & Co. KG in Germany established a joint venture company, with an order amounting to over RMB2 million achieved; the improved cotton picker entered into the small batch production, which will be put Xinjiang market in the cotton picking season this year; and the precision screws amounting to RMB5.54 million were exported to the United States.

With the accelerating of pace of the state intelligent manufacturing, the Group expects the intelligent development of the equipment manufacturing industry will bottom out towards intelligent development. Driven by product upgrading, industrial transformation and the new increment in intelligent equipment and agricultural machinery, the Group expects the segment will be stabilized in 2016.

## Chairman's Statement (Continued)

### Financial Services

In the first half of 2016, revenue of the financial services of the Group amounted to approximately RMB22.1 million, representing a year-on-year decrease of approximately 19.6%.

### Trade Business

In the first half of 2016, the bulk commodity central procurement platform of the Group directly reduced procurement cost of the Group by approximately RMB607 million, and sales increased by approximately 107.5% year-on-year.

## DEVELOPMENT STRATEGIES

With the implementation of various business encouragement policies in China and the drive of "Made in China 2025" and other strategies, the Group developed external market, strengthened internal management and made continuous innovations, controlled risks strictly, while leveraging on the new "321" strategy to chart its overall direction, focusing on the three major themes of upgrading and transformation, innovation-driven, reform and development, continuously promoting "one policy for one enterprise", with a view to fully implementing the work priorities in the second half of 2016.

### Work priorities in the second half of 2016

#### (I) Focus on the market and achieve the goal for improved operation quality and efficiency

We will support the development of the work falling within the scope of affiliates' Chairman and General Managers, attach importance to market orders on a personal basis, strengthen the responsibility of the management for market zoning, focus on sales team motivation and timely optimize marketing strategies and business policies. We will encourage the attempt to establish the "Internet +" marketing pattern and give continuous drive to market expansion in South Asia and Southeast Asia. We will set up a Europe-based sales platform to advance the new European market forward.

## Chairman's Statement (Continued)

### **(II) Focus on priorities and strengthen guidance ensuring the effect of “one policy for one enterprise”**

We will implement different solutions to superior enterprises and weak enterprises, pool labor forces, financial and materials resources for an uphill battle, bring into full play the role of superior enterprises in promoting work in all areas by drawing upon the experience gained on key points and strengthen the follow-up, inspection, assistance and guidance for weak enterprises, and impose rewards and punishments strictly. We will attach importance to the implementation and execution of “one policy for one enterprise”. In particular, we will attach importance to capital allocation and financial control, strictly control the indicators including receivables, inventory, cash flow, operating profits, etc., and strengthen information, supplier, logistics and energy consumption management, promote intelligent production process, foster new production patterns and enhance R&D, production, management and service intelligence in all respects.

### **(III) Focus on innovation and promote transformation for additional impetus inputs to increment**

We will impose strict product quality control, give more inputs to research and development, accelerate product structure adjustment and improve technical innovation capability. We will focus on accelerating the formation of growth capability, such as new energy transmission system, cotton picker, intelligent manufacturing, tube-in-sheet evaporative cooling air conditioner (板管式蒸發冷空調), high efficiency and energy saving three-element flow fan system, full nuclear power pump development, etc., and accelerate project construction including new PTG plants in the U.S., Jiangsu Rudong Wind Power Blade Base Phase II, high horsepower engine technical R&D centres and new plants.

### **(IV) Focus on reform and promote restructuring for the optimization and reorganization of businesses**

We will speed up business integration and restructuring, and complete the closure, reform of diversified ownership, development and M&A of several businesses, particularly the integration and restructuring of transmission system and CNC machine businesses, deepen the institutional reform of human resources, enhance the labour productivity of all staff, promote the pilot reform of affiliates' divisional organizations and strengthen the management of project M&A progress.

## Chairman's Statement (Continued)

### (V) Promote audit and strengthen internal control, and focus on the effectiveness of risk management

Through promoting supervision featuring with “dynamic and appropriate services + professional tracking and audit”, the Company will promote assessment on internal control and take remedial measures in respect of any defect, monitor key risk data, mainly track and implement the management of budget control, supervise the data analysis of implementation and budget index, and make efforts to reduce the regulation of accounts receivable and inventories, so as to revitalize the stock assets, and ensure the effectiveness of risk management and the internal supervision system.

### SUMMARY

The global economy is expected to be difficult and uncertain in the second half of 2016, while China's economy will maintain a steady development under the “New Norm”. With the gradual implementation of various national strategies including “One Belt, One Road” and “the Yangtze River Economic Belt” as well as the accelerated construction of new-type urbanization infrastructure, the Group will capture the opportunities brought by the development of the sophisticated equipment manufacturing industry in China; unswervingly promote the development of external market and strengthening of internal management; firmly drive the new “321” strategy; unswervingly promote technological progress and talents revitalizing the enterprise; unswervingly deepen reform and increase vitalization; unswervingly adhere to the principles of supporting the optimal and stronger as well as the survival of the fittest, so as to speed up the industrial upgrade and product innovation, the cultivation of internationalized control level, the pace of go-out market strategy, achieve steady and healthy development, and create more returns for shareholders.

On behalf of the Board, I would like to extend my heartfelt gratitude to our shareholders for their support and trust. My sincere appreciation also goes to our directors, supervisors and all of our staff members for their efforts in contributing to the Group.

**Wang Yuxiang**

*Executive Director and Chairman*

Chongqing, the PRC, 25 August 2016

# Report on Review of Interim Financial Information



羅兵咸永道

**TO THE BOARD OF DIRECTORS OF CHONGQING MACHINERY & ELECTRIC CO., LTD.**  
*(incorporated in the People's Republic of China with limited liability)*

## INTRODUCTION

We have reviewed the interim financial information set out on pages 15 to 59, which comprises the interim condensed consolidated balance sheet of Chongqing Machinery & Electric Co., Ltd. (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2016 and the related interim condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of Interim Financial Information Performed by the Independent Auditor of the Entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## Report on Review of Interim Financial Information *(Continued)*

### CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

#### **PricewaterhouseCoopers**

*Certified Public Accountants*

Hong Kong, 25 August 2016

# Unaudited Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2016

		<b>Unaudited</b>	
		<b>Six months ended 30 June</b>	
	<i>Note</i>	<b>2016</b>	2015
		<b>RMB'000</b>	<i>RMB'000</i>
Revenue	6	<b>4,793,500</b>	4,350,470
Cost of sales		<b>(4,294,119)</b>	(3,837,877)
<b>Gross profit</b>		<b>499,381</b>	512,593
Distribution costs		<b>(119,801)</b>	(117,573)
Administrative expenses		<b>(391,068)</b>	(614,190)
Other gains – net		<b>140,558</b>	331,793
Other income		<b>23,435</b>	24,995
<b>Operating profit</b>	7	<b>152,505</b>	137,618
Finance income		<b>8,025</b>	14,823
Finance costs		<b>(56,345)</b>	(65,998)
Share of post-tax profits of associates	11	<b>18,950</b>	15,348
Share of post-tax profit of joint venture	12	<b>120,086</b>	134,274
<b>Profit before income tax</b>		<b>243,221</b>	236,065
Income tax expense	8	<b>(28,858)</b>	(31,123)
<b>Profit for the period</b>		<b>214,363</b>	204,942



## Unaudited Interim Condensed Consolidated Statement of Comprehensive Income (Continued)

For the six months ended 30 June 2016

	Note	Unaudited	
		Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
<b>Other comprehensive income</b>			
Items that will not be reclassified subsequently to profit or loss			
– Remeasurements of retirement benefit obligations	19	(20)	(1,170)
– Income tax relating to remeasurements of retirement benefit obligations		10	91
– Share of other comprehensive income of investments accounted for using the equity method		157	–
		<u>147</u>	<u>(1,079)</u>
Items that may be reclassified subsequently to profit or loss			
– Fair value losses on available-for-sale financial assets		(599)	–
– Income tax relating to available-for-sale financial assets		90	–
– Currency translation differences		6,602	2,307
		<u>6,093</u>	<u>2,307</u>
<b>Other comprehensive income for the period, net of tax</b>		<u>6,240</u>	<u>1,228</u>
<b>Total comprehensive income for the period</b>		<u><u>220,603</u></u>	<u><u>206,170</u></u>

# Unaudited Interim Condensed Consolidated Statement of Comprehensive Income *(Continued)*

For the six months ended 30 June 2016

	Note	Unaudited	
		Six months ended 30 June	
		2016	2015
		RMB'000	RMB'000
<b>Profit attributable to:</b>			
– Owners of the Company		172,839	185,161
– Non-controlling interests		41,524	19,781
		<u>214,363</u>	<u>204,942</u>
<b>Total comprehensive income attributable to:</b>			
– Owners of the Company		179,079	186,389
– Non-controlling interests		41,524	19,781
		<u>220,603</u>	<u>206,170</u>
<b>Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)</b>			
– Basic and diluted	9	<u>0.05</u>	<u>0.05</u>

The notes on pages 25 to 59 are an integral part of this unaudited interim condensed consolidated financial information.

# Unaudited Interim Condensed Consolidated Balance Sheet

As at 30 June 2016

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
	<i>Note</i>	<b>2016</b>	2015
		<b>RMB'000</b>	<i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	10	<b>3,690,501</b>	3,715,249
Investment properties	10	<b>7,875</b>	25,958
Lease prepayments	10	<b>531,706</b>	616,515
Intangible assets	10	<b>297,481</b>	297,956
Investments in associates	11	<b>554,332</b>	484,977
Investment in joint venture	12	<b>447,076</b>	326,990
Trade and other receivables	13	<b>40,995</b>	41,985
Deferred income tax assets		<b>81,045</b>	86,574
Available-for-sale financial assets		<b>7,164</b>	7,763
Other non-current assets		<b>56,493</b>	23,613
<b>Total non-current assets</b>		<b>5,714,668</b>	5,627,580
<b>Current assets</b>			
Inventories		<b>1,604,396</b>	1,880,756
Amounts due from customers for contract work		<b>577,467</b>	527,389
Trade and other receivables	13	<b>4,877,214</b>	4,301,327
Dividend receivable		<b>129,090</b>	428,645
Restricted cash		<b>456,291</b>	457,399
Cash and cash equivalents		<b>1,390,581</b>	1,543,975
<b>Total current assets</b>		<b>9,035,039</b>	9,139,491
<b>Total assets</b>		<b>14,749,707</b>	14,767,071

# Unaudited Interim Condensed Consolidated Balance Sheet *(Continued)*

As at 30 June 2016

	<i>Note</i>	<b>Unaudited 30 June 2016 RMB'000</b>	Audited 31 December 2015 RMB'000
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital	14	<b>3,684,640</b>	3,684,640
Other reserves		<b>(672,160)</b>	(678,400)
Retained profits		<b>3,180,890</b>	3,100,167
		<b>6,193,370</b>	6,106,407
<b>Non-controlling interests</b>		<b>490,280</b>	448,395
<b>Total equity</b>		<b>6,683,650</b>	6,554,802
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	17	<b>819,138</b>	668,779
Deferred income		<b>398,250</b>	411,518
Deferred income tax liabilities	18	<b>68,134</b>	75,940
Long-term employee benefit obligations	19	<b>164,904</b>	186,974
<b>Total non-current liabilities</b>		<b>1,450,426</b>	1,343,211

## Unaudited Interim Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2016

	<i>Note</i>	<b>Unaudited 30 June 2016 RMB'000</b>	Audited 31 December 2015 RMB'000
<b>Current liabilities</b>			
Trade and other payables	15	<b>4,346,458</b>	4,588,696
Dividend payable		<b>106,239</b>	24,190
Amounts due to customers for contract work		<b>6,094</b>	4,535
Current income tax liabilities		<b>55,389</b>	56,559
Borrowings	17	<b>2,017,903</b>	2,101,047
Deferred income		<b>32,743</b>	38,605
Current portion of long-term employee benefit obligations	19	<b>36,389</b>	39,907
Provision for warranty	16	<b>14,416</b>	15,519
<b>Total current liabilities</b>		<b>6,615,631</b>	6,869,058
<b>Total liabilities</b>		<b>8,066,057</b>	8,212,269
<b>Total equity and liabilities</b>		<b>14,749,707</b>	14,767,071

The notes on pages 25 to 59 are an integral part of this unaudited interim condensed consolidated financial information.

# Unaudited Interim Condensed Consolidated Statement of Changes In Equity

For the six months ended 30 June 2016

		Unaudited					
		Attributable to owners of the Company					
Note	Share capital RMB'000	Other reserves RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000	
	<b>Balance at 1 January 2016</b>	3,684,640	(678,400)	3,100,167	6,106,407	448,395	6,554,802
	<b>Comprehensive income</b>						
	Profit for the period	-	-	172,839	172,839	41,524	214,363
	<b>Other comprehensive income</b>						
	Remeasurements of retirement benefit obligations, net of tax	-	(10)	-	(10)	-	(10)
	Changes in fair value of available-for-sales financial assets, net of tax	-	(509)	-	(509)	-	(509)
	Share of other comprehensive income of investments accounted for using the equity method	-	157	-	157	-	157
	Currency translation differences	-	6,602	-	6,602	-	6,602
	<b>Total other comprehensive income</b>	-	6,240	-	6,240	-	6,240
	<b>Total comprehensive income for the period ended 30 June 2016</b>	-	6,240	172,839	179,079	41,524	220,603
	<b>Total transactions with owners, recognised directly in equity</b>						
	Dividends relating to 2015	-	-	(92,116)	(92,116)	-	(92,116)
	Effects of changes in subsidiaries	-	-	-	-	361	361
	<b>Total transactions with owners, recognised directly in equity</b>	-	-	(92,116)	(92,116)	361	(91,755)
	<b>Balance at 30 June 2016</b>	<u>3,684,640</u>	<u>(672,160)</u>	<u>3,180,890</u>	<u>6,193,370</u>	<u>490,280</u>	<u>6,683,650</u>

## Unaudited Interim Condensed Consolidated Statement of Changes In Equity (Continued)

For the six months ended 30 June 2016

	Unaudited						
	Attributable to owners of the Company					Non-controlling interests	Total equity
	Share capital	Other reserves	Retained profits	Total			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
<b>Balance at 1 January 2015</b>	3,684,640	(723,987)	2,883,825	5,844,478	406,491	6,250,969	
<b>Comprehensive income</b>							
Profit for the period	–	–	185,161	185,161	19,781	204,942	
<b>Other comprehensive income</b>							
Remeasurements of retirement benefit obligations, net of tax	–	(1,079)	–	(1,079)	–	(1,079)	
Currency translation differences	–	2,307	–	2,307	–	2,307	
<b>Total other comprehensive income</b>	–	1,228	–	1,228	–	1,228	
<b>Total comprehensive income for the period ended 30 June 2015</b>	–	1,228	185,161	186,389	19,781	206,170	
<b>Total transactions with owners, recognised directly in equity</b>							
Dividends relating to 2014	–	–	(169,493)	(169,493)	–	(169,493)	
<b>Total transactions with owners, recognised directly in equity</b>	–	–	(169,493)	(169,493)	–	(169,493)	
<b>Balance at 30 June 2015</b>	3,684,640	(722,759)	2,899,493	5,861,374	426,272	6,287,646	

The notes on pages 25 to 59 are an integral part of this unaudited interim condensed consolidated financial information.

# Unaudited Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2016

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	<i>RMB'000</i>
<b>Cash flows from operating activities</b>		
Cash used in operations	<b>(408,865)</b>	(51,145)
Income tax paid	<b>(36,881)</b>	(31,277)
Interest paid	<b>(34,902)</b>	(47,943)
	<hr/>	<hr/>
<b>Cash flows from operating activities – net</b>	<b>(480,648)</b>	(130,365)
	<hr/>	<hr/>
<b>Cash flows from investing activities</b>		
Purchase of financial assets at fair value through profit or loss	–	(70,000)
Proceeds from the disposal of financial assets at fair value through profit or loss	–	196,463
Proceeds from government grants related to assets	<b>9,909</b>	3,837
Purchases of property, plant and equipment	<b>(303,597)</b>	(340,655)
Proceeds on disposal of property, plant and equipment, investment properties and lease prepayment	<b>197,876</b>	200,037
Purchase of intangible assets	<b>(7,171)</b>	(11,189)
Increase in lease prepayments	<b>(3,923)</b>	(38,363)
Dividends received	<b>299,100</b>	7,337
Interest received	<b>8,025</b>	13,236
Gain on disposal of subsidiary, net of cash disposed	<b>62,934</b>	–
Investments in associates	<b>(15,273)</b>	–
	<hr/>	<hr/>
<b>Cash flows from investing activities – net</b>	<b>247,880</b>	(39,297)
	<hr/>	<hr/>



## Unaudited Interim Condensed Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2016

	<b>Unaudited</b>	
	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	<i>RMB'000</i>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings	<b>392,862</b>	949,371
Repayments of borrowings	<b>(279,898)</b>	(899,198)
Proceeds from finance lease obligations	–	150,000
Payments of finance lease obligations	<b>(11,248)</b>	(903)
Dividends paid to non-controlling interests	<b>(7,334)</b>	(11,648)
<b>Cash flows from financing activities – net</b>	<b>94,382</b>	187,622
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(138,386)</b>	17,960
Cash and cash equivalents at the beginning of the period	<b>1,543,975</b>	1,203,508
Exchange (losses)/gains	<b>(15,008)</b>	2,252
<b>Cash and cash equivalents at end of the period</b>	<b>1,390,581</b>	1,223,720

The notes on pages 25 to 59 are an integral part of this unaudited interim condensed consolidated financial information.

# Notes to Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2016

## 1. GENERAL INFORMATION

Chongqing Machinery & Electric Co., Ltd. (the “Company”) and its subsidiaries (together 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 were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 13 June 2008.

This interim condensed consolidated financial information is presented in Chinese Renminbi (“RMB”), unless otherwise stated.

This interim condensed consolidated financial information has not been audited.

### **Key event**

In February 2016, the Company sold 59% equity interest in Chongqing Jiangbei Machinery Co., Ltd. (“Chongqing Jiangbei Machinery”), a wholly owned subsidiary of the Group, at the consideration of RMB77,529,000. After the disposal, the Group holds 41% equity interest in Chongqing Jiangbei Machinery, and is accounted as an associate. A gain on disposal of the equity interest of RMB45,814,000 and a gain on retained interest of RMB17,156,000 were resulted and had been recognised in profit or loss.

## Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

### 2. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2016 has been prepared in accordance with HKAS 34, “Interim financial reporting”. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2015, which have been prepared in accordance with HKFRSs.

### 3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2015, as described in those annual financial statements.

- (a) Amendments to HKFRSs effective for the financial year ending 31 December 2016 do not have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

- (b) **Impact of standards issued but not yet applied by the Group**

- (i) **HKFRS 9 Financial instruments**

HKFRS 9 Financial Instruments addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The standard does not need to be applied until 1 January 2018 but is available for early adoption. The Group is currently assessing whether it should adopt HKFRS 9 before its mandatory date.

### 3. ACCOUNTING POLICIES *(CONTINUED)*

#### (b) Impact of standards issued but not yet applied by the Group *(continued)*

##### (i) HKFRS 9 Financial instruments *(continued)*

While the Group has yet to undertake a detailed assessment of the classification and measurement of financial assets, debt instruments currently classified as available-for-sale (AFS) financial assets would appear to satisfy the conditions for classification as at fair value through other comprehensive income (FVOCI) and hence there will be no change to the accounting for these assets.

The other financial assets held by the Group include

- equity instruments currently classified as AFS for which a FVOCI election is available; and
- equity investments currently measured at fair value through profit or loss (FVPL) which would likely continue to be measured on the same basis under HKFRS 9.

Accordingly the Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 Financial Instruments: Recognition and Measurement and have not been changed.

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

**3. ACCOUNTING POLICIES (CONTINUED)****(b) Impact of standards issued but not yet applied by the Group (continued)****(i) HKFRS 9 Financial instruments (continued)**

The new impairment model requires the recognition of impairment provisions based on expected credit losses (ECL) rather than only incurred credit losses as is the case under HKAS 39. It applies to financial assets classified at amortised cost, debt instruments measured at FVOCI, contract assets under HKFRS 15 Revenue from Contracts with Customers, lease receivables, loan commitments and certain financial guarantee contracts. While the Group has not yet undertaken a detailed assessment of how its impairment provisions would be affected by the new model, it may result in earlier recognition of credit losses.

The new standard also introduces expanded disclosure requirements and changes in presentation. These are expected to change the nature and extent of the Group's disclosures about its financial instruments particularly in the year of the adoption of the new standard.

**(ii) HKFRS 15 Revenue from contracts with customers**

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers revenue arising from the sale of goods and the rendering of services and HKAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer.

The standard permits either a full retrospective or a modified retrospective approach for the adoption. The new standard is effective for first interim periods within annual reporting periods beginning on or after 1 January 2018, and will allow early adoption.

### 3. ACCOUNTING POLICIES *(CONTINUED)*

#### (b) Impact of standards issued but not yet applied by the Group *(continued)*

##### (ii) HKFRS 15 Revenue from contracts with customers *(continued)*

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following areas that are likely to be affected:

- accounting for costs incurred in fulfilling a contract – certain costs which are currently expensed may need to be recognised as an asset under HKFRS 15, and
- rights of return – HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the effect of the new rules on the Group's financial statements. The Group will make more detailed assessments of the effect over the next twelve months. The Group does not expect to adopt the new standard before 1 January 2018.

##### (iii) HKFRS 16 Leases

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 Group is currently assessing the impact of HKFRS 16.

There are no other amended standards or interpretations that are not effective that would be expected to have a material impact on the Group.

## Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

### **4. ESTIMATES**

The preparation of interim financial information requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing this interim condensed consolidated financial information, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2015.

### **5. FINANCIAL RISK MANAGEMENT**

#### **5.1 Financial risk factors**

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2015.

There have been no changes in the risk management department and in any risk management policies since year end.

# Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

## 5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### 5.2 Liquidity risk

The contractual maturities of the Group's financial liabilities were as follows:

	Less than 1 years <i>RMB'000</i>	Between 1 and 2 years <i>RMB'000</i>	Between 2 and 5 years <i>RMB'000</i>	Over 5 years <i>RMB'000</i>
<b>At 30 June 2016</b>				
Trade and other payables (i)	3,366,210	-	-	-
Bank borrowings	1,022,538	58,498	303,463	490,802
Other borrowings	3,100	-	-	-
Corporate bonds	1,010,983	-	-	-
Finance lease liabilities	44,632	111,845	-	-
Financial guarantee contracts	-	-	46,250	-
<b>Total financial liabilities</b>	<b>5,447,463</b>	<b>170,343</b>	<b>349,713</b>	<b>490,802</b>
<b>At 31 December 2015</b>				
Trade and other payables (i)	3,688,806	-	-	-
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	-	-
Financial guarantee contracts	-	-	86,250	-
<b>Total financial liabilities</b>	<b>5,914,527</b>	<b>171,329</b>	<b>368,520</b>	<b>359,929</b>

Note:

- (i) Trade and other payables include trade and bills payables, other payables, interest payables and deposit taking (Note 15).



Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

**5. FINANCIAL RISK MANAGEMENT (CONTINUED)****5.3 Fair value estimation**

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

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

The following table presents the Group's financial assets that are measured at fair value at 30 June 2016.

	<b>Level 1</b> <i>RMB'000</i>	<b>Level 2</b> <i>RMB'000</i>	<b>Level 3</b> <i>RMB'000</i>	<b>Total</b> <i>RMB'000</i>
<b>Assets</b>				
Available-for-sale financial assets				
– Equity securities	4,164	–	3,000	7,164
<b>Total assets</b>	<b>4,164</b>	<b>–</b>	<b>3,000</b>	<b>7,164</b>

# Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

## 5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### 5.3 Fair value estimation *(continued)*

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

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
<b>Assets</b>				
Available-for-sale financial assets				
– Equity securities	4,763	–	3,000	7,763
<b>Total assets</b>	<b>4,763</b>	<b>–</b>	<b>3,000</b>	<b>7,763</b>

During the six months ended 30 June 2016, there were no transfers between levels of the fair value hierarchy used in measuring the fair value of the Group's financial assets, and there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets. In addition, there were no reclassifications of financial assets.

There were no other changes in valuation techniques during the period.

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

**5. FINANCIAL RISK MANAGEMENT (CONTINUED)****5.4 Fair value measurements using significant unobservable inputs (Level 3)**

	<b>30 June 2016</b>	30 June 2015
	<b>RMB'000</b>	RMB'000
Opening balance at 1 January	<b>3,000</b>	194,808
Acquisition	—	70,000
Disposal	—	(194,808)
Gains or losses recognised	—	1,752
Closing balance at 30 June	<b>3,000</b>	71,752
Total unrealised gains for the period including in profit or loss for assets held at the end of the reporting period	—	1,752

**5.5 Group's valuation processes**

The Group has an established control framework with respect to the measurement of fair values. The management has overall responsibility for overseeing all significant fair value measurements, including Level 3 fair values and reports directly to the management.

The management regularly reviews significant unobservable inputs and valuation adjustments. If third party information is used to measure fair values, then the management assesses the evidence obtained from the third parties to support the conclusion that such valuations meet the requirements of HKFRS, including the level in the fair value hierarchy in which such valuations should be classified.

# Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

## 5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

### 5.6 Fair value of financial assets and liabilities measured at amortised cost

The fair value of borrowings are as follows:

	<b>30 June 2016 RMB'000</b>	31 December 2015 RMB'000
Non-current	<b>769,387</b>	700,946
Current	<b>2,017,903</b>	2,101,047
	<b>2,787,290</b>	2,801,993

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Cash and banks
- Trade and other payables

## 6. 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, transmission systems, hydropower 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.

## Notes to Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2016

**6. SEGMENT INFORMATION (CONTINUED)**

Sales between segments are carried out in the ordinary course of business and in accordance with the terms 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 interim condensed consolidated statement of comprehensive income.

The segment results for the six months ended 30 June 2016 are as follows:

	Engines	Transmission systems	Hydropower equipment	Electrical wires and cables	General machinery	Financial services	Machinery tools	High-voltage transformers	Material sales	All other segments	Total
	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	-	190,509	201,462	627,101	915,378	44,780	306,619	-	2,361,602	428,085	5,095,536
Inter-segment revenue	-	-	(16)	(1,263)	(2,674)	(22,698)	(1,240)	-	(274,145)	-	(302,036)
Revenue from external customers	-	190,509	201,446	625,838	912,704	22,082	305,379	-	2,107,457	428,085	4,793,500
Operating profit/(loss)	-	(38,227)	1,346	152,314	36,241	10,712	(40,963)	-	(1,144)	32,226	152,505
Finance income	-	94	285	1,322	984	-	980	-	44	4,316	8,025
Finance costs	-	(256)	-	(8,301)	(2,404)	-	(15,883)	-	(789)	(28,712)	(56,345)
Share of post-tax profits/(losses) of associates and joint venture	120,086	6	-	-	1,764	(4,641)	-	4,563	-	17,258	139,036
<b>Profit before income tax</b>											243,221
Income tax expense	-	3,009	(2)	(23,400)	(4,342)	(6,308)	5,109	-	-	(2,924)	(28,858)
<b>Profit for the period</b>											<u>214,363</u>
<b>Other items</b>											
Depreciation on property, plant and equipment and investment properties	-	10,780	4,080	7,854	34,962	127	29,808	-	29	16,022	103,662
Amortisation of lease prepayments and intangible assets	-	1,888	1,108	691	3,470	134	5,992	-	-	1,290	14,573
Write down/(write back) of inventories	-	-	-	-	-	-	75	-	-	(2,170)	(2,095)
Provision for/(reversal of) impairment on trade and other receivables	-	-	380	3,075	1,794	728	(348)	-	(82)	30,168	35,715
Additions to non-current assets (other than financial instruments and deferred income tax assets)	-	30,501	44,598	24,595	72,378	9	59,457	-	-	7,728	239,266

# Notes to Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2016

## 6. SEGMENT INFORMATION (CONTINUED)

The segment results for the six months ended 30 June 2015 are as follows:

	Engines RMB'000	Transmission systems RMB'000	Hydropower equipment RMB'000	Electrical wires and cables RMB'000	General machinery RMB'000	Financial services RMB'000	Machinery tools RMB'000	High-voltage transformers RMB'000	Material sales RMB'000	All other segments RMB'000	Total RMB'000
Total segment revenue	-	252,439	195,355	1,342,136	700,709	55,206	394,461	-	1,469,256	441,022	4,850,604
Inter-segment revenue	-	(15)	-	(584)	-	(27,668)	(18,130)	-	(453,737)	-	(500,134)
Revenue from external customers	-	252,424	195,355	1,341,552	700,709	27,538	376,351	-	1,015,519	441,022	4,350,470
Operating profit/(loss)	-	(271,396)	5,685	43,167	45,022	15,346	303,842	-	676	(4,724)	137,618
Finance income	-	15	840	818	3,283	-	8,588	-	36	1,263	14,823
Finance costs	-	-	-	(9,507)	(9,180)	-	(35,946)	-	(1,286)	(10,079)	(65,999)
Share of post-tax profits of associates and joint venture	134,274	121	-	-	3,674	1,277	-	2,042	-	8,234	149,622
<b>Profit before income tax</b>											236,065
Income tax expense	-	27,181	(459)	(166)	(603)	(9,804)	(47,141)	-	-	(131)	(31,123)
<b>Profit for the period</b>											<u>204,942</u>
<b>Other items</b>											
Depreciation on property, plant and equipment and investment properties	-	13,307	4,744	9,265	29,580	252	27,276	-	31	16,488	100,943
Amortisation of lease prepayments and intangible assets	-	1,891	661	655	2,668	114	5,539	-	-	1,707	13,235
Write down of inventories	-	-	-	-	-	-	1,078	-	-	135	1,213
Provision for/(reversal of) impairment on trade and other receivables	-	733	2,753	(596)	-	1,665	(15)	-	579	414	5,533
Additions to non-current assets (other than financial instruments and deferred income tax assets)	-	81,448	118,821	35,516	133,189	10	116,629	-	-	37,384	490,997

## Notes to Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2016

**6. SEGMENT INFORMATION (CONTINUED)**

The segment assets as at 30 June 2016 and 31 December 2015 are as follows:

Total assets	Transmission		Hydropower equipment	Electrical wires and cables	General machinery	Financial services	Machinery tools	High-voltage transformers	Material sales	All other segments	Total
	Engines	systems									
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>30 June 2016</b>	<u>447,076</u>	<u>1,260,101</u>	<u>1,693,679</u>	<u>788,219</u>	<u>2,587,931</u>	<u>1,701,927</u>	<u>3,081,123</u>	<u>171,919</u>	<u>237,905</u>	<u>2,779,827</u>	<u>14,749,707</u>
Total assets include:											
Investments in associates and joint venture	<u>447,076</u>	<u>3,368</u>	<u>9,855</u>	<u>-</u>	<u>27,833</u>	<u>88,694</u>	<u>-</u>	<u>171,919</u>	<u>-</u>	<u>252,663</u>	<u>1,001,408</u>
<b>31 December 2015</b>	<u>326,990</u>	<u>1,364,065</u>	<u>1,574,299</u>	<u>825,272</u>	<u>2,369,620</u>	<u>1,985,444</u>	<u>3,087,112</u>	<u>158,084</u>	<u>185,367</u>	<u>2,890,818</u>	<u>14,767,071</u>
Total assets include:											
Investments in associates and joint venture	<u>326,990</u>	<u>4,399</u>	<u>10,371</u>	<u>-</u>	<u>20,428</u>	<u>93,335</u>	<u>20,741</u>	<u>158,084</u>	<u>-</u>	<u>177,619</u>	<u>811,967</u>

**7. OPERATING PROFIT**

The following items have been charged/(credited) to the operating profit during the period:

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
(Write back)/write down of inventories	<b>(2,095)</b>	1,213
Provision for impairment on trade and other receivables	<b>35,715</b>	5,533
Gains on financial assets at fair value through profit or loss	<b>(507)</b>	(5,647)
Gains on disposal of property, plant and equipment and lease prepayment	<b>(75,163)</b>	(324,779)
(Gain)/expense arising from the termination benefit obligations (Note 19)	<b>(3,927)</b>	234,140
Gain on disposal of subsidiary with loss of control		
– gain on retained interest	<b>(17,156)</b>	–
– gain on disposal of interest	<b>(45,814)</b>	–

# Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

## 8. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2016	2015
	RMB'000	RMB'000
Current income tax	36,151	20,280
Deferred income tax	(7,293)	10,843
	<u>28,858</u>	<u>31,123</u>

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended 30 June 2016 is 21% (the estimated tax rate for the six months ended 30 June 2015 was 22%).

On 6 April 2012, State Taxation Administration issued Notice 12 (2012) ("the Notice") in respect of favourable 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.



Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

**9. EARNINGS PER SHARE**

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
Profit attributable to owners of the Company (RMB'000)	<b>172,839</b>	185,161
Weighted average number of ordinary shares in issue (thousands)	<b>3,684,640</b>	3,684,640
Basic and diluted earnings per share (RMB per share)	<b>0.05</b>	0.05

Diluted earnings per share is the same as basic earnings per share as there are no potential dilutive shares outstanding for all periods presented.

# Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

## 10. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, LEASE PREPAYMENTS AND INTANGIBLE ASSETS

The movement of property, plant and equipment, investment properties, lease prepayments and intangible assets are as follows:

	Property, plant and equipment <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Lease prepayments <i>RMB'000</i>	Other intangible assets <i>RMB'000</i>	Goodwill <i>RMB'000</i>
<b>Six months ended 30 June 2016</b>					
<b>Opening net book amount at</b>					
<b>1 January 2016</b>	3,715,249	25,958	616,515	154,938	143,018
Transfers	2,445	(2,445)	-	-	-
Additions	227,394	538	4,022	7,312	-
Disposals	(153,409)	(13,692)	(81,905)	(140)	-
Depreciation and amortisation	(101,178)	(2,484)	(6,926)	(7,647)	-
<b>Closing net book amount at</b>					
<b>30 June 2016</b>	<u>3,690,501</u>	<u>7,875</u>	<u>531,706</u>	<u>154,463</u>	<u>143,018</u>
<b>Six months ended 30 June 2015</b>					
<b>Opening net book amount at</b>					
<b>1 January 2015</b>	3,105,368	29,828	466,672	146,451	143,018
Additions	332,063	-	154,150	4,784	-
Disposals	(39,035)	-	(22,044)	(20)	-
Depreciation and amortisation	(98,662)	(2,281)	(5,928)	(7,307)	-
<b>Closing net book amount at</b>					
<b>30 June 2015</b>	<u>3,299,734</u>	<u>27,547</u>	<u>592,850</u>	<u>143,908</u>	<u>143,018</u>

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

**10. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, LEASE PREPAYMENTS AND INTANGIBLE ASSETS (CONTINUED)***Note:*

- (a) As at 30 June 2016, bank borrowings amounting to approximately RMB613,000,000 (31 December 2015: RMB639,000,000) were secured by certain property, plant and equipment and land use rights of the Group with carrying value of approximately RMB484,178,000 and RMB168,223,000, respectively (31 December 2015: RMB522,801,000 and RMB170,295,000 respectively).

**11. INVESTMENTS IN ASSOCIATES**

	<b>Six months ended 30 June 2016</b>
	<i>RMB'000</i>
Beginning of the period	484,977
Additions <i>(i)</i>	15,273
Share of post-tax profits of associates	18,950
Others <i>(ii)</i>	39,352
Dividend declared	<u>(4,220)</u>
End of the period	<u><u>554,332</u></u>

- (i) The Group increased investment of RMB9,273,000 in Chongqing Power Transformer Co., Ltd., and its equity interest increased from 65.69% to 69.02%. In addition, the Group injected capital of RMB6,000,000 into Chongqing Chongtong Turbine Technology Company Limited for 40% equity interest of the company.

# Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

## 11. INVESTMENTS IN ASSOCIATES *(CONTINUED)*

- (ii) The Group disposed 59% equity interest of Chongqing Jiangbei Machinery, which changed the company from a subsidiary to an associate, and approximately RMB39,195,000 were included in investments in associates.

The Group's share of the assets and liabilities, revenue and results of associates, all of which are unlisted, are shown below:

	<b>Six months ended 30 June 2016</b>
	<i>RMB'000</i>
Assets	942,693
Liabilities	388,361
Revenue	314,300
Share of post-tax profits	<u>18,950</u>

## 12. INVESTMENT IN JOINT VENTURE

	<b>Six months ended 30 June 2016</b>
	<i>RMB'000</i>
Beginning of the period	326,990
Share of post-tax profit of joint venture	<u>120,086</u>
End of the period	<u>447,076</u>

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

**12. INVESTMENT IN JOINT VENTURE (CONTINUED)**

The Group's share of the assets and liabilities, revenue and results of the joint venture, which is unlisted, are shown below:

	<b>Six months ended</b>
	<b>30 June 2016</b>
	<i>RMB'000</i>
Assets	1,009,593
Liabilities	562,517
Revenue	607,775
Share of post-tax profit	<u>120,086</u>

# Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

## 13. TRADE AND OTHER RECEIVABLES

	<b>30 June 2016 RMB'000</b>	31 December 2015 RMB'000
Trade and bills receivables	<b>3,588,070</b>	3,163,828
Less: provision for impairment of trade receivables	<b>(275,650)</b>	(283,672)
Trade and bills receivables – net	<b>3,312,420</b>	2,880,156
Other receivables	<b>862,519</b>	853,069
Less: provision for impairment of other receivables	<b>(28,806)</b>	(29,318)
Other receivables – net	<b>833,713</b>	823,751
Loans	<b>810,022</b>	646,781
Less: provision for impairment of loans	<b>(37,946)</b>	(7,376)
Loans – net	<b>772,076</b>	639,405
Less: Long-term loans	<b>(41,409)</b>	(42,409)
Provision for impairment of long-term loans	<b>414</b>	424
Less: long-term loans – net	<b>(40,995)</b>	(41,985)
	<b>4,877,214</b>	4,301,327

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

**13. TRADE AND OTHER RECEIVABLES (CONTINUED)**

The general credit period granted to customers is up to 90 days. As at 30 June 2016 and 31 December 2015, the ageing analysis of the trade and bills receivables were as follows:

	<b>30 June 2016 RMB'000</b>	31 December 2015 RMB'000
<b>Trade and bills receivables</b>		
Less than 30 days	<b>1,226,412</b>	363,548
31 days to 90 days	<b>954,721</b>	669,243
91 days to 1 year	<b>667,449</b>	1,338,943
1 year to 2 years	<b>322,502</b>	411,163
2 years to 3 years	<b>131,348</b>	142,268
Over 3 years	<b>285,638</b>	238,663
	<b>3,588,070</b>	3,163,828

**14. SHARE CAPITAL**

	Number of shares <i>thousands</i>	Domestic shares <i>RMB'000</i>	H shares <i>RMB'000</i>	Shares capital <i>RMB'000</i>
Registered, issued and fully paid At 30 June 2016 and 1 January 2016 (nominal value of RMB1.00 each)	<b>3,684,640</b>	<b>2,584,453</b>	<b>1,100,187</b>	<b>3,684,640</b>
At 30 June 2015 and 1 January 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.

# Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

## 15. TRADE AND OTHER PAYABLES

	<b>30 June 2016 RMB'000</b>	31 December 2015 RMB'000
Trade and bills payables	<b>2,330,756</b>	2,436,050
Deposit taking	<b>654,919</b>	852,908
Other taxes payables	<b>100,686</b>	95,646
Other payables	<b>318,332</b>	369,015
Interest payables	<b>61,582</b>	28,875
Accrued payroll and welfare	<b>74,285</b>	104,213
Advances from customers	<b>805,898</b>	701,989
	<b><u>4,346,458</u></b>	<u>4,588,696</u>

As at 30 June 2016 and 31 December 2015, the ageing analysis of the trade and bills payables were as follows:

	<b>30 June 2016 RMB'000</b>	31 December 2015 RMB'000
<b>Trade and bills payables</b>		
Less than 30 days	<b>497,195</b>	387,204
31 days to 90 days	<b>624,784</b>	642,619
91 days to 1 year	<b>1,004,415</b>	1,187,388
1 year to 2 years	<b>113,393</b>	105,414
2 years to 3 years	<b>32,407</b>	36,035
Over 3 years	<b>58,562</b>	77,390
	<b><u>2,330,756</u></b>	<u>2,436,050</u>



Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

**16. PROVISION FOR WARRANTY**

Provision 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.

	<i>RMB'000</i>
<b>Six months ended 30 June 2016</b>	
Opening net book amount at 1 January 2016	15,519
Additional provisions	11,048
Utilised during the period	(12,151)
<b>Closing net book amount at 30 June 2016</b>	<b>14,416</b>
<b>Six months ended 30 June 2015</b>	
Opening net book amount at 1 January 2015	16,395
Additional provisions	10,290
Utilised during the period	(9,869)
<b>Closing net book amount at 30 June 2015</b>	<b>16,816</b>

# Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

## 17. BORROWINGS

	<b>30 June 2016 RMB'000</b>	31 December 2015 RMB'000
<b>Non-current</b>		
Long-term bank borrowings	<b>719,134</b>	550,960
Finance lease liabilities	<b>100,004</b>	117,819
Total non-current borrowings	<b>819,138</b>	668,779
<b>Current</b>		
Short-term bank borrowings	<b>979,560</b>	1,070,057
Other borrowings	<b>3,100</b>	3,100
Corporate bonds	<b>999,739</b>	998,953
Finance lease liabilities	<b>35,504</b>	28,937
Total current borrowings	<b>2,017,903</b>	2,101,047
<b>Total borrowings</b>	<b>2,837,041</b>	2,769,826

## Notes to Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2016

**17. BORROWINGS (CONTINUED)**

Movements in borrowings is analysed as follows:

	<i>RMB'000</i>
<b>Six months ended 30 June 2016</b>	
Opening amount as at 1 January 2016	2,769,826
Additions	392,862
Repayments	(291,146)
Disposal of subsidiary	(19,050)
Currency translation differences	(15,451)
<b>Closing amount as at 30 June 2016</b>	<b>2,837,041</b>
<b>Six months ended 30 June 2015</b>	
Opening amount as at 1 January 2015	2,494,961
Additions	1,100,152
Repayments	(905,957)
<b>Closing amount as at 30 June 2015</b>	<b>2,689,156</b>

Interest expense on borrowings for the six months ended 30 June 2016 is approximately RMB70,500,000 (2015: approximately RMB81,900,000).

The Group had the following undrawn borrowing facilities:

	<b>30 June 2016 <i>RMB'000</i></b>	31 December 2015 <i>RMB'000</i>
Fixed rate		
– expiring within 1 year	594,445	749,294
– expiring beyond 1 year	648,000	1,194,000
	<b>1,242,445</b>	<b>1,943,294</b>

# Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

## 18. DEFERRED INCOME TAX LIABILITIES

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Opening balance at 1 January	75,940	50,279
Recognised in profit or loss	(7,806)	45,776
Closing balance at 30 June	<u>68,134</u>	<u>96,055</u>

## 19. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

The amounts of retirement and termination benefit obligations recognised in the balance sheet were as follows:

	<b>30 June</b>	31 December
	<b>2016</b>	2015
	<b>RMB'000</b>	RMB'000
Present value of defined benefits obligations	201,293	226,881
Liability in the balance sheet	201,293	226,881
Less: current portion	(36,389)	(39,907)
	<u>164,904</u>	<u>186,974</u>

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

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

The movements of retirement and termination benefit obligations were as follows:

	<b>Six months ended 30 June</b>	
	<b>2016</b>	2015
	<b>RMB'000</b>	<i>RMB'000</i>
At beginning of the period	<b>226,881</b>	62,056
For the period		
– Interest costs	<b>3,075</b>	1,021
– Actuarial losses	<b>12</b>	128
– Disposal of subsidiary	<b>(823)</b>	–
– (Deductions)/Additions on termination benefit obligations	<b>(3,927)</b>	234,140
– Remeasurement effects recognised in other comprehensive income	<b>20</b>	1,170
– Payment	<b>(23,945)</b>	(27,778)
At end of the period	<b>201,293</b>	270,737

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

**20. DIVIDENDS**

A dividend of approximately RMB92,116,000 (RMB0.025 per share) that relates to the year ended 31 December 2015 was approved at the Annual General Meeting on 28 June 2016 and was recorded as a liability as at 30 June 2016 in this interim condensed consolidated financial information.

The Company's Board of Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2016 (2015: Nil).

# Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

## 21. CONTINGENCIES

The Group has certain legal claims arising in the ordinary course of business as at 30 June 2016. 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.

## 22. COMMITMENTS

### (a) Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	<b>30 June 2016 RMB'000</b>	31 December 2015 RMB'000
Property, plant and equipment	<b>346,855</b>	214,429
Intangible assets	<b>169,361</b>	238,436
	<b>516,216</b>	452,865

### (b) Operating lease commitments

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	<b>30 June 2016 RMB'000</b>	31 December 2015 RMB'000
No later than 1 year	<b>34,165</b>	28,050
Later than 1 year and no later than 5 years	<b>26,808</b>	23,198
Later than 5 years	<b>34,036</b>	34,036
	<b>95,009</b>	85,284

## Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

### **23. RELATED-PARTY TRANSACTIONS**

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.

The Group has adopted HKAS 24 (Revised), "Related Party Disclosures" from 1 January 2011. In accordance with 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. On that basis, 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.

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 six months ended 30 June 2015 and 2016, respectively.

# Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

## 23. RELATED-PARTY TRANSACTIONS *(CONTINUED)*

### (a) Significant related party transactions

	Six months ended 30 June	
	2016	2015
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Transactions with the parent company, fellow subsidiaries and associates</b>		
Revenue		
– Revenue from sales of goods	31,359	43,039
– Revenue from provision of services	1,177	4,460
– Revenue from loans service	13,461	10,191
Expenses		
– Purchase of materials	30,172	25,699
– Services	8,147	5,432
– Expenses for deposit taking service	3,821	2,283
– Other expenses	15,917	18,091
<b>Transactions with associates</b>		
Revenue		
– Revenue from sales of goods	6,317	5,118
Expenses		
– Purchase of materials	9,585	12,180
<b>Transactions with joint venture</b>		
Revenue		
– Revenue from loans service	403	–



Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

**23. RELATED-PARTY TRANSACTIONS (CONTINUED)****(b) Balances with related parties**

	<b>30 June</b>	31 December
	<b>2016</b>	2015
	<b>RMB'000</b>	<i>RMB'000</i>
<b>Trade and other receivables</b>		
Trade receivables due from		
– Fellow subsidiaries and associates	<b>54,368</b>	43,879
– Associates	<b>3,144</b>	2,520
Other receivables due from		
– CQMEHG	<b>461</b>	438
– Fellow subsidiaries	<b>9,175</b>	2,146
– Joint venture	<b>403</b>	–
– Associates	<b>1,014</b>	187
Prepayments due from		
– Fellow subsidiaries	<b>25,359</b>	4,453
– Associates	<b>379</b>	848
Loans to		
– Fellow subsidiaries and associates	<b>660,113</b>	646,781
– Associates	<b>149,909</b>	–
	<b>904,325</b>	701,252

# Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

## 23. RELATED-PARTY TRANSACTIONS *(CONTINUED)*

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

	<b>30 June</b>	31 December
	<b>2016</b>	2015
	<b>RMB'000</b>	<i>RMB'000</i>
<b>Trade and other payables</b>		
Trade payables due to		
– Fellow subsidiaries and associates	<b>27,488</b>	22,658
– Associates	<b>2,626</b>	2,693
Other payables due to		
– CQMEHG	<b>16,086</b>	3,653
– Associates	<b>9,815</b>	289
– Fellow subsidiaries	<b>63,006</b>	44,685
Deposit taking from		
– CQMEHG	<b>164,749</b>	814
– Fellow subsidiaries and associates	<b>449,238</b>	836,680
– Associates	<b>40,932</b>	15,414
	<b>773,940</b>	926,886

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2016

**23. RELATED-PARTY TRANSACTIONS (CONTINUED)****(c) Financial guarantee contracts**

	<b>30 June 2016 RMB'000</b>	31 December 2015 RMB'000
<b>As guarantee</b>		
– Fellow subsidiaries	<u>46,250</u>	<u>86,250</u>
<b>Guaranteed by</b>		
– CQMEHG	<u>1,182,000</u>	<u>1,163,470</u>

**(d) Key management compensation**

	<b>Six months ended 30 June</b>	
	<b>2016 RMB'000</b>	2015 RMB'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	1,272	1,341
Contributions to pension plans	388	256
Discretionary bonuses	651	3,080
	<u>2,311</u>	<u>4,677</u>

## **23. RELATED-PARTY TRANSACTIONS *(CONTINUED)***

### **(e) Transactions with government-related entities in PRC**

Apart from the 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; 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.

## **24. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE**

As at 25 August 2016, the Group has no material events occurring after the balance sheet date.

# Management's Discussion and Analysis

## RESULTS OVERVIEW

### SALES

For the six months ended 30 June 2016, the Group's total revenue amounted to approximately RMB4,793.5 million, an increase of approximately 10.2% as compared with approximately RMB4,350.5 million for the same period of last year.

Overall, revenue of the vehicle parts and components segment was approximately RMB358.5 million (accounting for approximately 7.5% of the total revenue), a decrease of approximately 12.7%; revenue of the power equipment segment was approximately RMB827.9 million (accounting for approximately 17.3% of the total revenue), a decrease of approximately 46.2%; revenue of the general machinery segment was approximately RMB1,172.2 million (accounting for approximately 24.4% of the total revenue), an increase of approximately 19.3%; and revenue of the CNC machine tools segment was approximately RMB305.4 million (accounting for approximately 6.4% of the total revenue), a decrease of approximately 18.9%; revenue of financial services was approximately RMB22.1 million (accounting for approximately 0.4% of the total revenue), a decrease of approximately 19.6%; and revenue of the trade business was approximately RMB2,107.4 million (accounting for approximately 44.0% of the total revenue), an increase of approximately 107.5%.

Despite the decline in sales revenue of the Group due to the decreased market demand in the vehicle parts and components segment, power equipment segment and CNC machine tools segment, the overall sales revenue of the Group rose due to the faster growth achieved in sales revenue from the general machinery segment and trade segment during the Period. It is expected that the sales revenue of the Group will maintain a stable growth in the second half of 2016.

There has been no significant change in the possible future development of the Group's business and the Group's outlook for the financial year of 2016 since the publication of the Group's annual report for the year ended 31 December 2015.

# Management's Discussion and Analysis (Continued)

## **GROSS PROFIT**

The gross profit for the six months ended 30 June 2016 was approximately RMB499.4 million, a decrease of approximately RMB13.2 million or approximately 2.6% as compared with approximately RMB512.6 million for the same period of last year; gross profit margin was approximately 10.4%, a slight decrease of approximately 1.4 percentage points as compared with approximately 11.8% for the same period of last year. Eliminating trade business and financial services, the gross profit margin was approximately 18.0%, an increase of approximately 3.3 percentage points as compared with approximately 14.7% for the same period of last year. The Group's gross profit margin is expected to remain stable at its current level in the second half of 2016.

## **OTHER INCOME AND GAINS**

Other income and gains for the six months ended 30 June 2016 were approximately RMB164.0 million, a significant decrease of approximately RMB192.8 million or approximately 54% as compared with approximately RMB356.8 million for the same period of last year, which was mainly due to the decrease of income from land during the Period.

## **SELLING AND ADMINISTRATIVE EXPENSES**

The selling and administrative expenses for the six months ended 30 June 2016 were approximately RMB510.9 million, a significant decrease of approximately RMB220.9 million or approximately 30.2% as compared with approximately RMB731.8 million for the same period of last year. The percentage of selling and administrative expenses accounted for the total sales decreased to approximately 10.7% from approximately 16.8% of the same period of last year, mainly attributable to a year-on-year sharp decrease of approximately RMB223.1 million in administrative expenses, which was mainly due to one-off provision of long-term employee benefit obligations of transmission systems business for the same period of last year.

## **OPERATING PROFIT**

The operating profit for the six months ended 30 June 2016 was approximately RMB152.5 million, an increase of approximately RMB14.9 million or approximately 10.8% as compared with approximately RMB137.6 million for the same period of last year.

## Management's Discussion and Analysis (Continued)

### NET FINANCE COSTS

The net interest expense for the six months ended 30 June 2016 was approximately RMB48.3 million, a decrease of approximately RMB2.9 million or approximately 5.7% as compared to approximately RMB51.2 million for the same period of last year, which was mainly due to the decrease of loan interest rate.

### SHARE OF PROFITS OF ASSOCIATES

The Group's share of profits of associates for the six months ended 30 June 2016 was approximately RMB18.9 million, an increase of approximately RMB3.6 million or approximately 23.5% as compared with approximately RMB15.3 million for the same period of last year. This was due to an increase of approximately RMB2.5 million in results of Chongqing ABB Power Transformer Co., Ltd., an increase of approximately RMB2.0 million in results of Exedy (Chongqing) Driving System Co., Ltd. (愛思帝(重慶)驅動系統有限公司), an increase of approximately RMB3.1 million in results of Chongqing Jiangbei Machinery Company Limited, and an increase of approximately RMB2.1 million in 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) by turning loss into gain. In contrast, Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd. (重慶市北部新區機電小額貸款有限公司) recorded a loss of approximately RMB4.6 million during the Period, and results of Chongqing Midea General Refrigeration Equipment Co., Ltd. (重慶美的通用製冷設備有限公司) decreased by approximately RMB1.9 million.

### SHARE OF PROFIT OF JOINT VENTURE

The Group's share of profit of joint venture for the six months ended 30 June 2016 was approximately RMB120.1 million, a decrease of approximately RMB14.2 million or approximately 10.6% as compared with approximately RMB134.3 million for the same period of last year. Such decrease was due to the decline in the sales of Chongqing Cummins Engine Co., Ltd.

### INCOME TAX EXPENSES

The corporate income tax expenses for the six months ended 30 June 2016 were approximately RMB28.9 million, a decrease of approximately RMB2.2 million or approximately 7.1% as compared with approximately RMB31.1 million for the same period of last year, mainly due to the change in deferred income tax.

# Management's Discussion and Analysis (Continued)

## PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS

Profit attributable to the shareholders of the Company for the Period was approximately RMB172.8 million, a decrease of approximately RMB12.4 million or approximately 6.7% as compared with approximately RMB185.2 million for the same period of last year. Earnings per share maintained at approximately RMB0.05, which was same as the same period of last year.

## BUSINESS PERFORMANCE

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

	Revenue		Gross Profit		Segment Results	
	Period ended		Period ended		Period ended	
	30 June	2015	30 June	2015	30 June	2015
	2016	2015	2016	2015	2016	2015
<i>(RMB in million, except for percentage)</i>						
<b>Vehicle parts and components</b>						
<b>Domestic</b>						
Transmission systems	190.5	252.4	15.0	26.9	(38.2)	(271.4)
Steering systems	168.0	158.3	24.5	21.4	1.9	2.7
Total	<u>358.5</u>	<u>410.7</u>	<u>39.5</u>	<u>48.3</u>	<u>(36.3)</u>	<u>(268.7)</u>
% of total	7.5%	9.4%	7.9%	9.4%	(23.8%)	(195.3%)
<b>Power equipment</b>						
<b>Domestic</b>						
Hydropower equipment	201.5	195.3	40.2	43.5	1.3	5.7
Electrical wires and cables	625.8	1,341.6	119.9	83.4	152.3	43.2
Other products	0.6	1.3	0.6	0.8	0.9	(4.5)
Total	<u>827.9</u>	<u>1,538.2</u>	<u>160.7</u>	<u>127.7</u>	<u>154.5</u>	<u>44.4</u>
% of total	17.3%	35.4%	32.2%	24.9%	101.3%	32.3%



## Management's Discussion and Analysis (Continued)

	Revenue		Gross Profit		Segment Results	
	Period ended		Period ended		Period ended	
	30 June		30 June		30 June	
	2016	2015	2016	2015	2016	2015
<i>(RMB in million, except for percentage)</i>						
<b>General machinery</b>						
<b>Domestic</b>	<u>1,172.2</u>	982.2	<u>214.1</u>	226.7	<u>48.4</u>	56.1
Total	<u>1,172.2</u>	<u>982.2</u>	<u>214.1</u>	<u>226.7</u>	<u>48.4</u>	<u>56.1</u>
% of total	<b>24.4%</b>	22.6%	<b>42.9%</b>	44.2%	<b>31.7%</b>	40.8%
<b>CNC machine tools</b>						
<b>Domestic</b>	<u>246.0</u>	212.9	<u>47.3</u>	46.2	<u>(20.5)</u>	300.9
<b>Overseas</b>	<u>59.4</u>	163.5	<u>19.0</u>	38.1	<u>(20.4)</u>	2.9
Total	<u>305.4</u>	<u>376.4</u>	<u>66.3</u>	<u>84.3</u>	<u>(4.09)</u>	<u>303.8</u>
% of total	<b>6.4%</b>	8.7%	<b>13.3%</b>	16.5%	<b>(26.8%)</b>	220.8%
<b>Financial services</b>						
<b>Domestic</b>	<u>22.1</u>	27.5	<u>16.5</u>	22.7	<u>10.7</u>	15.4
Total	<u>22.1</u>	<u>27.5</u>	<u>16.5</u>	<u>22.7</u>	<u>10.7</u>	<u>15.4</u>
% of total	<b>0.4%</b>	0.6%	<b>3.3%</b>	4.4%	<b>7.0%</b>	11.2%
<b>Trade business</b>						
<b>Domestic</b>	<u>2,107.4</u>	1,015.5	<u>2.3</u>	2.9	<u>(1.1)</u>	0.7
Total	<u>2,107.4</u>	<u>1,015.5</u>	<u>2.3</u>	<u>2.9</u>	<u>(1.1)</u>	<u>0.7</u>
% of total	<b>44.0%</b>	23.3%	<b>0.4%</b>	0.6%	<b>(0.7%)</b>	0.5%
<b>Headquarters</b>						
Total	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>17.2</u>	<u>(14.1)</u>
% of total	<b>— %</b>	<b>— %</b>	<b>— %</b>	<b>— %</b>	<b>11.3%</b>	<b>(10.3%)</b>
<b>Total</b>	<u>4,793.5</u>	<u>4,350.5</u>	<u>499.4</u>	<u>512.6</u>	<u>152.5</u>	<u>137.6</u>

# Management's Discussion and Analysis (Continued)

## VEHICLE PARTS AND COMPONENTS

Revenue from the vehicle parts and components segment for the six months ended 30 June 2016 was approximately RMB358.5 million, a decrease of approximately RMB52.2 million or approximately 12.7% as compared with approximately RMB410.7 million for the six months ended 30 June 2015. As compared with the figures for the same period of last year, revenue from the business of transmission systems for vehicles decreased by approximately RMB61.9 million or approximately 24.5%, which was primarily due to transmission system business failed to realize the synchronized growth due to the influence of product development and the lagged market development as compared to the same period of last year.

During the Period, the gross profit for the vehicle parts and components segment was approximately RMB39.5 million, a decrease of approximately RMB8.8 million or approximately 18.2% as compared with approximately RMB48.3 million for the six months ended 30 June 2015, which was primarily due to the changes in sales structure of transmission system business. Its gross profit margin declined by 2.8 percentage points as compared to the same period of last year.

The results for the vehicle parts and components segment for the six months ended 30 June 2016 recorded a loss of approximately RMB36.3 million, a significant decrease of approximately RMB232.4 million or about 86.5% as compared with a loss of approximately RMB268.7 million for the six months ended 30 June 2015, primarily due to one-off increase in long-term employee benefit obligations of transmission system business over last year.

## POWER EQUIPMENT

Revenue from the power equipment segment for the six months ended 30 June 2016 was approximately RMB827.9 million, a decrease of approximately RMB710.3 million or approximately 46.2% as compared with approximately RMB1,538.2 million for the six months ended 30 June 2015, primarily due to a significant integration of electrical wires and cables business and the termination of operating lower margin business, leading to a decrease of approximately RMB715.8 million or about 53.4% in the sales revenue.

## Management's Discussion and Analysis (Continued)

During the Period, gross profit for the power equipment segment was approximately RMB160.7 million, an increase of approximately RMB33.0 million or approximately 25.8% as compared with approximately RMB127.7 million for the six months ended 30 June 2015, primarily due to the increase in sales of high profit margin products of the electrical wires and cables business, with an increase of approximately RMB36.5 million or approximately 43.8% in gross profit. Gross profit margin increased to approximately 19.4% for the six months ended 30 June 2016 from 8.3% for the six months ended 30 June 2015, primarily due to a significant integration of electrical wires and cables business and the termination of operating lower margin business.

For the six months ended 30 June 2016, the results for the power equipment segment amounted to approximately RMB154.5 million, an increase of approximately RMB110.1 million or approximately 2.48 times as compared with approximately RMB44.4 million for the six months ended 30 June 2015, primarily due to one-off increase of approximately RMB75.7 million in revenue of land transfer in electrical wires and cables business.

### GENERAL MACHINERY

Revenue from the general machinery segment for the six months ended 30 June 2016 was approximately RMB1,172.2 million, an increase of approximately RMB190.0 million or approximately 19.3% as compared with approximately RMB982.2 million for the six months ended 30 June 2015, mainly due to the rapid growth in wind power blades business.

During the Period, gross profit for the general machinery segment was approximately RMB214.1 million, a decrease of approximately RMB12.6 million or approximately 5.6% as compared with approximately RMB226.7 million for the six months ended 30 June 2015, which was mainly due to the fact that the separation machine business was not included in the scope of consolidation as the controlling right was lost after the joint venture reorganization during the Period. Gross profit margin decreased to approximately 18.3% for the six months ended 30 June 2016 from approximately 23.1% for the six months ended 30 June 2015, mainly due to the fact that the separation machine business was not included in the scope of consolidation and the fall of selling price in wind power blades.

For the six months ended 30 June 2016, the results for the general machinery segment amounted to approximately RMB48.4 million, a decrease of approximately RMB7.7 million or approximately 13.7% as compared with approximately RMB56.1 million for the six months ended 30 June 2015.

# Management's Discussion and Analysis (Continued)

## CNC MACHINE TOOLS

Revenue from the CNC machine tools segment for the six months ended 30 June 2016 was approximately RMB305.4 million, a decrease of approximately RMB71.0 million or approximately 18.9% as compared with approximately RMB376.4 million for the six months ended 30 June 2015, mainly due to the decrease in market demand for CNC machine tools in China and the decrease in revenue from the British PTG subsidiary. Revenue from the PTG for the Period was approximately RMB59.4 million, a significant decrease of approximately RMB104.1 million or approximately 63.7% as compared with approximately RMB163.5 million for the six months ended 30 June 2015.

During the Period, gross profit for the CNC machine tools segment was approximately RMB66.3 million, a decrease of approximately RMB18.0 million or approximately 21.4% as compared with approximately RMB84.3 million for the six months ended 30 June 2015, mainly due to the significant decrease in sales income of PTG.

For the six months ended 30 June 2016, the results loss for the CNC machine tools segment amounted to a loss of approximately RMB40.9 million, a decrease of approximately RMB344.7 million as compared with the gain of approximately RMB303.8 million for the six months ended 30 June 2015, mainly attributable to the absence of one-off gain from land disposal of CNC machine tools in the first half of 2016 as compared to the same period of last year.

## FINANCIAL BUSINESS

Revenue from the financial business segment for the six months ended 30 June 2016 was approximately RMB22.1 million, a decrease of approximately RMB5.4 million or approximately 19.6% as compared with approximately RMB27.5 million for the six months ended 30 June 2015, mainly attributable to lower interest income due to adjustments of credit policies in China.

During the Period, the gross profit of financial business was approximately RMB16.5 million, a decrease of approximately RMB6.2 million or approximately 27.3% as compared with approximately RMB22.7 million for the six months ended 30 June 2015.

For the six months ended 30 June 2016, the results of the financial services segment amounted to approximately RMB10.7 million, a decrease of approximately RMB4.7 million or approximately 30.5% as compared with approximately RMB15.4 million for the six months ended 30 June 2015.

## Management's Discussion and Analysis (Continued)

### TRADE BUSINESS

Revenue from the trade business segment for the six months ended 30 June 2016 was approximately RMB2,107.4 million, a significant increase of approximately RMB1,091.9 million or approximately 107.5% as compared with approximately RMB1,015.5 million for the six months ended 30 June 2015.

During the Period, gross profit for the trade business segment was approximately RMB2.3 million, a decrease of approximately RMB0.6 million or approximately 20.7% as compared with approximately RMB2.9 million for the six months ended 30 June 2015.

For the six months ended 30 June 2016, the results loss for the trade business segment amounted to approximately RMB1.1 million, a decrease of approximately RMB1.8 million or approximately 2.6 times as compared with a profit of approximately RMB0.7 million for the six months ended 30 June 2015.

### CASH FLOW

As at 30 June 2016, the cash and bank deposits (including restricted cash) of the Group amounted to approximately RMB1,846.9 million (31 December 2015: approximately RMB2,001.4 million), representing a decrease of approximately RMB154.5 million or approximately 7.7%.

During the Period, the Group had a net cash inflow used in operating activities of approximately RMB480.6 million (for the six months ended 30 June 2015: net cash outflow of approximately RMB130.4 million), a net cash inflow from investing activities of approximately RMB247.9 million (for the six months ended 30 June 2015: a net cash outflow of approximately RMB39.3 million), and a net cash inflow from financing activities of approximately RMB94.4 million (for the six months ended 30 June 2015: generated a net cash of approximately RMB187.6 million).

### TRADE AND OTHER RECEIVABLES

As at 30 June 2016, the total trade receivables and other receivables of the Group amounted to approximately RMB4,918.2 million, an increase of approximately RMB574.9 million as compared with approximately RMB4,343.3 million as at 31 December 2015, primarily due to an increase of revenue in wind power blades business of approximately RMB512.0 million. Please refer to note 13 to the interim condensed consolidated financial information for detailed ageing analysis of the trade and bills payables.

# Management's Discussion and Analysis (Continued)

## TRADE AND OTHER PAYABLES

As at 30 June 2016, the total trade payables and other payables of the Group amounted to approximately RMB4,346.5 million, a decrease of approximately RMB242.2 million as compared with approximately RMB4,588.7 million as at 31 December 2015, primarily due to a decrease in the deposits from financial business of approximately RMB198.0 million. Please refer to note 15 to the interim condensed consolidated financial information for detailed ageing analysis of the trade and bills payables.

## ASSETS AND LIABILITIES

As at 30 June 2016, the total assets of the Group amounted to approximately RMB14,749.7 million, a decrease of approximately RMB17.4 million as compared with approximately RMB14,767.1 million as at 31 December 2015. The total current assets amounted to approximately RMB9,035.0 million, a decrease of approximately RMB104.5 million as compared with approximately RMB9,139.5 million as at 31 December 2015, accounting for approximately 61.3% of the total assets (31 December 2015: approximately 61.9%). However, the total non-current assets amounted to approximately RMB5,714.7 million, an increase of approximately RMB87.1 million as compared with approximately RMB5,627.6 million as at 31 December 2015, and accounting for approximately 38.7% of the total assets (31 December 2015: approximately 38.1%).

As at 30 June 2016, the total liabilities of the Group amounted to approximately RMB8,066.0 million, a decrease of approximately RMB146.3 million as compared with approximately RMB8,212.3 million as at 31 December 2015. The total current liabilities amounted to approximately RMB6,615.6 million, a decrease of approximately RMB253.5 million as compared with approximately RMB6,869.1 million as at 31 December 2015, accounting for approximately 82.0% of the total liabilities (31 December 2015: approximately 83.6%). However, the total non-current liabilities amounted to approximately RMB1,450.4 million, an increase of approximately RMB107.2 million as compared with approximately RMB1,343.2 million as at 31 December 2015, and accounting for approximately 18.0% of the total liabilities (31 December 2015: approximately 16.4%).

As at 30 June 2016, the net current assets of the Group amounted to approximately RMB2,419.4 million, an increase of approximately RMB149.0 million as compared with approximately RMB2,270.4 million as at 31 December 2015.

## Management's Discussion and Analysis (Continued)

### CURRENT RATIO

As at 30 June 2016, the current ratio (the ratio of current assets over current liabilities) of the Group was 1.37 : 1 (31 December 2015: 1.33 : 1).

### GEARING RATIO

As at 30 June 2016, by dividing borrowings by total capital, the gearing ratio of the Group was 29.8% (31 December 2015: 29.7%).

### INDEBTEDNESS

As at 30 June 2016, the Group had an aggregate bank and other borrowings of approximately RMB2,837.0 million, an increase of approximately RMB67.2 million as compared with approximately RMB2,769.8 million as at 31 December 2015.

Borrowings repayable by the Group within one year amounted to approximately RMB2,017.9 million, a decrease of approximately RMB83.1 million as compared with approximately RMB2,101.0 million as at 31 December 2015. Borrowings repayable after one year amounted to approximately RMB819.1 million, an increase of approximately RMB150.3 million as compared with approximately RMB668.8 million as at 31 December 2015.

### SIGNIFICANT EVENTS

#### EVENTS FOR THE PERIOD

- (1) The annual general meeting of the Company convened on 28 June 2016 re-elected the members of the Board. It was resolved at the annual general meeting to elect the following members of the fourth session of the Board: Mr. Wang Yuxiang, Ms. Chenping and Mr. Yang Quan as executive Directors, Mr. Huang Yong, Mr. Wei Fusheng, Mr. Deng Yong and Ms. He Xiaoyan as non-executive Directors, Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei as independent non-executive Directors of the Company. The term of aforesaid Directors commences from the date of the meeting until expiry of the term of the fourth session of the Board. The Board was authorized to fix the remuneration of each Director pursuant to the remuneration standard for Directors passed at the 2015 annual general meeting and to enter into a service agreement with each of them on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.

## Management's Discussion and Analysis (Continued)

- (2) The annual general meeting of the Company convened on 28 June 2016 re-elected the members of the Supervisory Committee. It was resolved at the general meeting to elect the following members of the fourth session of the Supervisory Committee: Mr. Xiang Hu, Ms. Wu Yi and Mr. Huang Hui as Supervisors of the Company. Mr. Zhang Mingzhi and Mr. Xia Hua were democratically elected as employee representative Supervisors. The term of aforesaid Supervisors commences from the date of the meeting until expiry of the term of the fourth session of the Supervisory Committee. The Board was authorized to fix the remuneration of each Supervisor pursuant to the remuneration standard for Supervisors passed at the 2015 annual general meeting and to enter into a service agreement with each of them on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.
- (3) The Company approved its wholly-owned subsidiary Chongqing Gas Compressor Factory Co., Ltd. to enter into the two Expropriation and Compensation Agreements with Shapingba Building Management Bureau, pursuant to which Gas Compressor Company will sell the Disposal Land No. 1 measuring approximately a total of 1,304 square meters and certain assets thereon for the consideration of RMB4,888,453.58; and sell the Disposal Land No. 2 measuring approximately a total of 84,488 square meters and certain assets thereon for the consideration of RMB325,111,546.42. For details, please refer to the announcement of the Board of the Company published on the website of the Stock Exchange and the Company on 28 June 2016.

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

### CONTINGENT LIABILITIES

As at 30 June 2016, the Group had no significant contingent liabilities.

### CAPITAL EXPENDITURE

During the Period, the total capital expenditure of the Group was approximately RMB239.3 million, which was principally used for plant expansion, production technology improvement, equipment and productivity upgrade (for the six months ended 30 June 2015: approximately RMB491.0 million).



## Management's Discussion and Analysis (Continued)

### **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.

### **EMPLOYEES**

As at 30 June 2016, the Group had a total of 12,435 employees (30 June 2015: 13,173 employees in total). The Group will continue the upgrade of its technical talent base, foster and recruit technical and management personnel with extensive technical and management experience, enhance the distribution system that links remunerations with performance, improve training on safety so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

# Other Information

## INTERESTS OF SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS IN SHARES AND UNDERLYING SHARES

As at 30 June 2016, so far as the Directors are aware, the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

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

Name of shareholder	Number of shares	Class of shares	Capacity	Note	Percentage of total issued domestic shares (%)	Percentage of total issued H shares (%)	Percentage of total issued shares (%)
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	1,924,225,189	Domestic Shares	Beneficial owner	(1)	74.46 (L)	-	52.22
Chongqing Yufu Assets Management Group Co., Ltd.	11,652,000	H Shares	Beneficial owner	(1)	-	1.06 (L)	0.32
Chongqing Construction Engineering Group Corporation Limited	232,132,514	Domestic Shares	Beneficial owner	(1)	8.98 (L)	-	6.30
China Huarong Asset Management Co., Ltd.	232,132,514	Domestic Shares	Beneficial owner	(2)	8.98 (L)	-	6.30
State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government	195,962,467	Domestic Shares	Interest in controlled corporations	(3)	7.58 (L)	-	5.32
Ministry of Finance of the PRC	2,388,490,217	Domestic Shares	Interest in controlled corporations	(1)	92.42 (L)	-	64.82
	11,652,000	H Shares	Beneficial owner	(1)	-	1.06 (L)	0.32
	195,962,467	Domestic Shares	Interest in controlled corporations	(3)	7.58 (L)	-	5.32

(L) Long Position

## Other Information (Continued)

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

Name of shareholder	Number of shares	Capacity	Note	Percentage of total issued H shares	Percentage of total issued shares
Templeton Asset Management Ltd.	142,803,300 (L)	Investment manager		12.98 (L)	3.88 (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 shareholders	(4)	7.93 (L) 7.93 (P)	2.37 (L) 2.37 (P)
GE Asset Management Incorporated	75,973,334 (L)	Investment manager		6.91 (L)	2.06 (L)

(L) Long Position

(S) Short Position

(P) Lending Pool

Notes:

- (1) As Chongqing Machinery and Electronics Holding (Group) Co., Ltd. and Chongqing Yufu Assets Management Group Co., Ltd. are wholly owned by 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, 11,652,000 H shares and 232,132,514 domestic shares of the Company held by the two companies respectively.
- (2) Chongqing Construction Engineering Group Corporation Limited is held as to 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., its owned subsidiary. 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 Corporation Limited.

## Other Information (Continued)

- (3) China Huarong Asset Management Co., Ltd.\* (中國華融資產管理股份有限公司) is held as to 63.36% directly by the Ministry of Finance of the People's Republic of China and as to 4.22% indirectly by the Ministry of Finance of the People's Re-public of China through China Life Insurance (Group) Company, its wholly-owned subsidiary. Therefore, the Ministry of Finance of the People's Republic of China is deemed to be interested in 195,962,467 domestic shares of the Company held by China Huarong Asset Management Co., Ltd.
- (4) The Bank of New York Mellon Corporation holds 100% interest in The Bank of New York Mellon (formerly known as "The Bank of New York"), which holds 87,276,000 H shares of the Company. The interest in 87,276,000 H shares relates to the same block of shares in the Company and includes a lending pool of 87,276,000 H shares of the Company.

Save as disclosed above, the Directors of the Company are not aware of any persons holding any interests or short positions in the shares or underlying shares which were required to be recorded in the register pursuant to Section 336 of the SFO as at 30 June 2016.

### **COMPLIANCE WITH CORPORATE GOVERNANCE CODE**

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

### **THE MODEL CODE FOR SECURITIES TRANSACTIONS**

The Company has complied with and adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code for securities transactions by directors of the Company. The Company has obtained the respective confirmations by all of its directors that they have strictly complied with the provisions set out in the Model Code for the six months ended 30 June 2016.

### **PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY**

During the six months ended 30 June 2016, neither the Group nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **INTERIM DIVIDEND**

The Board does not recommend the payment of interim dividends.

## Other Information (Continued)

### AUDIT AND RISK MANAGEMENT COMMITTEE

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

### THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE

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

As at the date of this report, the members of the Supervisory Committee of the Company are Mr. Xiang Hu, Ms. Wu Yi, Mr. Huang Hui, Mr. Zhang Mingzhi and Mr. Xia Hua.

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

The interim results announcement has been published on the websites of the Company (<http://www.chinacqme.com>) and the Stock Exchange. The interim report will also be available on the websites of the Company and the Stock Exchange on or around 5 September 2016 and will be dispatched to the shareholders of the Company thereafter by the means of receipt of corporate communications they selected.

By Order of the Board

**Chongqing Machinery & Electric Co., Ltd.**

**Wang Yuxiang**

*Executive Director and Chairman*

Chongqing, the PRC  
25 August 2016