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

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

Stock Code: 02722

ANNUAL REPORT

2016

* For identification purposes only

CONTENTS

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. Lo Wah Wai
Mr. Jin Jingyu
Mr. Huang Yong

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

LEGAL REPRESENTATIVE

Mr. Wang Yuxiang

COMPANY SECRETARY

Ms. 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,
Hong Kong
Tel.: 852-2166 9738

ALTERNATE AUTHORIZED REPRESENTATIVE AND CONTACT INFORMATION

Mr. Lo Wah Wai
33rd Floor, Shui On Centre,
No. 6-8 Harbour Road, Wanchai,
Hong Kong
Tel.: 852-2802 2191

REGISTERED ADDRESS

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

HONG KONG SHARE REGISTRAR

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

INTERNATIONAL AUDITOR

PricewaterhouseCoopers

LEGAL ADVISOR TO THE COMPANY

S.H. Leung & Co. *(As to Hong Kong Laws)*
Beijing Zhong Lun (Chongqing) Law Firm
(As to Chinese Law)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

WEBSITE OF THE COMPANY

www.chinacqme.com

PRINCIPAL BANKER

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

SHARE INFORMATION

Listing Place

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

Stock Code

02722

FINANCIAL YEAR END

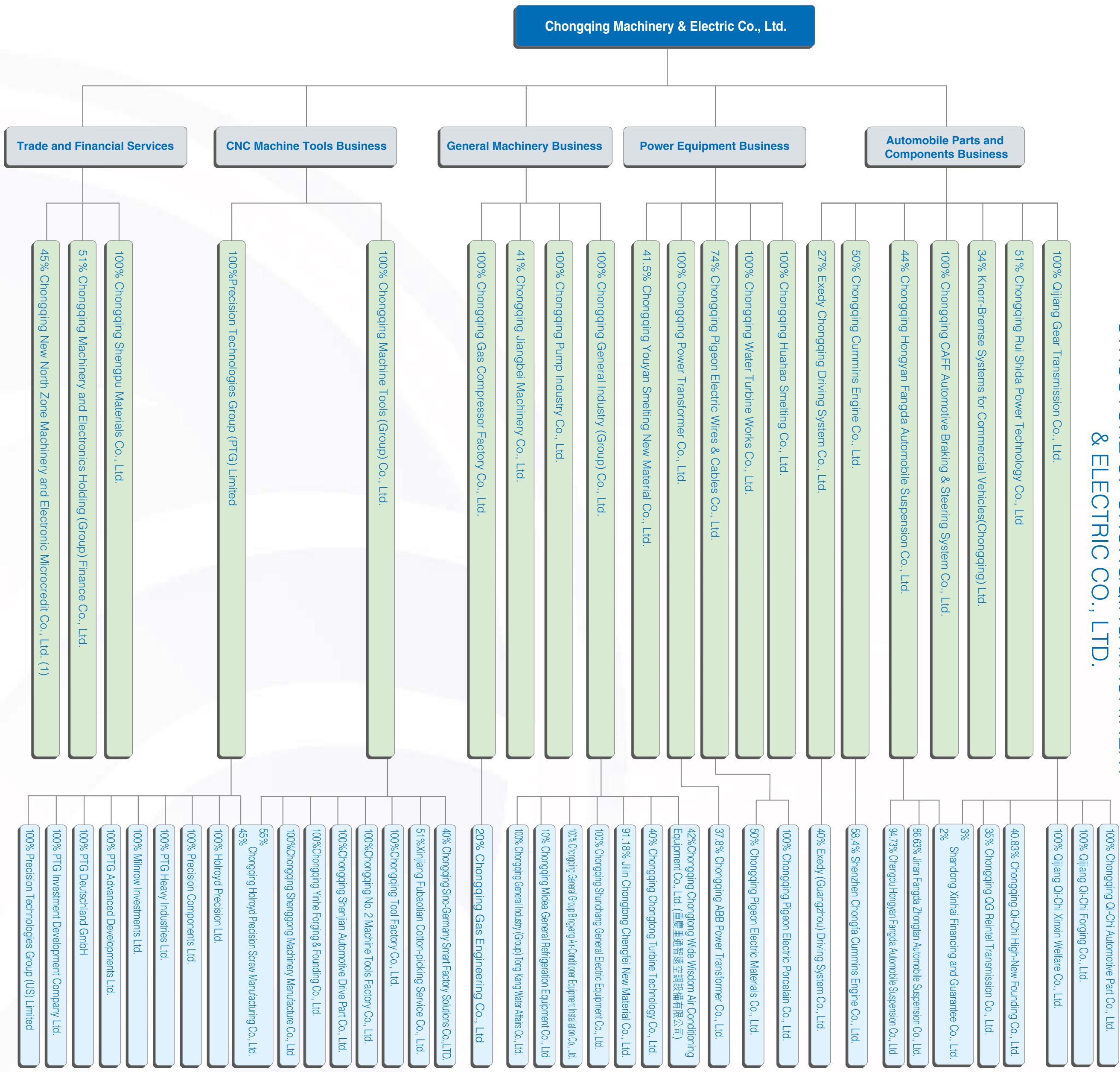
31 December

Financial Highlights

(RMB'000)	2012 (Restated)	2013	2014	2015	**2016**
Revenue and profit					
Revenue	8,908,032	9,701,044	9,485,570	9,010,422	**9,129,302**
Profit before taxation	488,874	585,223	630,679	523,896	**534,700**
Taxation	(30,525)	(44,785)	(66,906)	(57,311)	**(28,501)**
Profit for the year	458,349	540,438	563,773	466,585	**506,199**
Attributable to					
Equity holders of the Company	443,446	506,829	511,943	417,634	**443,502**
Non-controlling Interests	14,903	33,609	51,830	48,951	**62,697**
Dividends – Proposed final dividends	128,962	184,232	169,493	92,116	**128,962**
Earnings per share attributable to equity holders of the Company – Basic *(RMB)*	0.12	0.14	0.14	0.11	**0.12**
Assets and liabilities					
Non-current assets	3,786,175	4,441,363	4,852,425	5,627,580	**5,998,704**
Current assets	8,457,330	8,408,940	8,782,188	9,139,491	**9,343,438**
Current liabilities	5,001,485	4,940,234	5,420,311	6,869,058	**6,095,933**
Net current assets	3,455,845	3,468,706	3,361,877	2,270,433	**3,247,505**
Total assets less current liabilities	7,242,020	7,910,069	8,214,302	7,898,013	**9,246,209**
Non-current liabilities	1,759,829	2,023,804	1,963,333	1,343,211	**2,229,002**
Net assets	5,482,191	5,886,265	6,250,969	6,554,802	**7,017,207**
Equity attributable to equity holders of the Company	5,143,392	5,518,845	5,844,478	6,106,407	**6,463,840**
Non-controlling interests	338,799	367,420	406,491	448,395	**553,367**

Group Structure

STRUCTURE OF CHONGQING MACHINERY & ELECTRIC CO., LTD.



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

Results Highlights

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

The revenue of the Group for the year ended 31 December 2016 amounted to approximately RMB9,129.3 million, representing an increase of approximately 1.3% as compared with approximately RMB9,010.4 million for the same period of 2015.

Profit attributable to the shareholders of the Company for the year ended 31 December 2016 was approximately RMB443.5 million, representing an increase of approximately 6.2% as compared with approximately RMB417.6 million for the same period of 2015.

Basic earnings per share for the year ended 31 December 2016 amounted to approximately RMB0.12 (2015: approximately RMB0.11).

The board of directors (the "Board") proposed to declare a final dividend of RMB0.035 per share for the year ended 31 December 2016 (2015: RMB0.025).

Chairman's Statement

Dear Shareholders,

On behalf of the Board, I am pleased to announce the annual results of the Group for the year ended 31 December 2016 (the "Period" or the "Year"). The Group's annual results have been audited by the Company's auditor, PricewaterhouseCoopers. It is my pleasure to present the annual results of the Group as well as its sustainable development strategy and outlook to shareholders.

RESULTS REVIEW

In 2016, global economy remained turmoil and anti-globalization trend intensified the world economic uncertainty. The recovery of major economies slowed down. Brexit weakened the pound, and terrorist attack and the tide of refugees in Europe intensified economic instability. The rise of trade protectionism in the US further undermined global trade liberalization, which may pose new challenges to the Sino-US relations. China continued to deepen the reform in the supply side, implemented economic policy of making progress while maintaining stability. China's economy recorded GDP growth at 6.7%. The Group deepened the adjustment of industrial structure and implemented the general idea of "deepening the reform in the supply side and stimulating the innovation vitality of the enterprise" to improve the operation quality, effectively control the cost management, promote the high-end product structure, and gain the new source of growth in the domestic and foreign markets. The Group basically completed various intended targets and tasks of the year under the joint efforts of the new Board of Directors and management through sustaining growth, gaining increment, boosting projects, expanding market, making innovation, and planning development.

Total revenue of the Group for the year ended 31 December 2016 was approximately RMB9,129.3 million (2015: RMB9,010.4 million), representing an increase of approximately RMB118.9 million or approximately 1.3% over last year. Gross profit was approximately RMB1,010.5 million (2015: RMB987.5 million), representing an increase of approximately RMB23.0 million or approximately 2.3% over last year. Profit attributable to the shareholders of the Company amounted to approximately RMB443.5 million (2015: RMB417.6 million), representing an increase of approximately RMB25.9 million or approximately 6.2% from 2015.

During the Period, the Group's administrative expenses accounted for approximately 8.6% of the revenue while distribution and selling expenses accounted for approximately 2.7%, slightly lower than last year for approximately 24.3% in general. The Group maintained a stable financial position during the Period. As at 31 December 2016, total cash and bank deposits of the Group amounted to approximately RMB1,793.6 million, representing a decrease of approximately 10.4% as compared to the same period of last year.

Earnings per share for the Period were approximately RMB0.12 (2015: approximately RMB0.11). Total assets as at 31 December 2016 amounted to approximately RMB15,342.1 million (31 December 2015: RMB14,767.1 million), while total liabilities amounted to approximately RMB8,324.9 million (31 December 2015: RMB8,212.3 million); and net asset value per share was approximately RMB1.90 (31 December 2015: RMB1.78).

BUSINESS REVIEW AND OUTLOOK

Automobile parts and components (transmission systems, steering systems)

In 2016, according to the data published by the China Association of Automobile Manufacturers, the production and sales volume of automobiles reached 28.119 million and 28.028 million units, representing an increase of 14.5% and 13.7% respectively over the corresponding period of last year, reaching a new height. Sales volume of large and medium passenger vehicles and heavy trucks, which are closely related to the Group, reached 190,000 and 730,000 units respectively, representing an increase of 16.2% and 33.1% as compared with last year. Supported by the policy of Chinese government's strong encouragement in developing the new energy vehicles, the sales volume of new energy vehicles achieved rapid growth and reached 507,000 units, representing an increase of approximately 53%. Affected by intensifying competition and stagnant development of products related to new energy vehicles, the transmission system business of the Group failed to achieve synchronous growth, while the steering system business was successfully deployed in the domestic large-scale CBUs supplier systems, such as Chang'an Automobile and Jiangling Motors, ensuring its stable performance in the whole year. The automobile parts and components business of the Group recorded a turnover of approximately RMB720.1 million for the whole year, representing a decrease of approximately 15.3% from the same period of last year.

During this Period, in order to seize the market opportunity arising from the fast growth in new energy vehicles, the Group established a joint venture which is devoted to engineering the power system assembly of new energy vehicles and industrializing related technologies to produce series products with the ability of mass production.

According to the data published by the China Association of Automobile Manufacturers, in 2017, the production and sales volume of automobiles in China will keep growing as driven by domestic rigid demand of China, but the growth rate will slow down as compared with that of 2016; meanwhile, the segment of commercial vehicles, which is closely associated with the Group, will decline slightly while maintaining stable. Benefiting from the expedition of market exploitation, structure adjustment effect and the growth of new energy power system assembly, the Group expects the segment of auto parts will capture steady growth after recovery in 2017.

In addition, although the diesel engine business operated by Chongqing Cummins Engine Company Limited, a joint venture of the Group, is influenced by the sluggish demand for generating equipment, engineering machinery, petro machinery, and vessels in the market, it proactively accelerated market promotion for high-horsepower products, properly adjusted market commercial policies. As a result, its operation performance bottomed out and rallied. The project of high-horsepower engine technology "R&D center and new factory" was also pushed forward continuously. The annual results of it's associates are set out in note 12 to the consolidated financial statement.

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

In 2016, benefiting from the promotion of clean energy by the government of China, smart grid projects, infrastructure investment in "Yangtze River Economic Belt" project 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, e-commerce platforms and other modes were actively promoted, making new progress in expanding the Southeast Asian market. In addition, great efforts made in the integration of the segment and withdrawal from low margin products, resulting in a substantial decline in turnover, but the operating results gained substantial growth compared with the previous year. For hydropower equipment driven by domestic and foreign power markets, new orders soared 30% over the same period of last year, with an extension of the business mode to electrical and mechanical engineering and hydropower project EPC contract. The operating results maintained stable as a whole. The power equipment business of the Group recorded turnover of approximately RMB1,630.3 million for the whole year, representing a year-on-year decrease of approximately 35.5%.

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. The "Sanye" trademark of hydropower equipment business was awarded the title of "China Well-known Trademark (中國馳名商標). The intelligent production lines of hydropower equipment received the support of RMB60 million from the national special-purpose funds with low interest rate.

On 4 November 2016, the Company signed the agreement of sale of shares and capital increase of WGP company with Mario Bianchi, the sole shareholder of Water Gen Power S.r.l. ("WGP"), acquiring 35% of its equity and making further capital increase by 14% equity at a total consideration of EUR720,000. Through investment in WGP, the Company positively expanded the international hydropower market, promoted the transformation and upgrading of manufacturing and service and established the marketing platform in Europe.

With the deepening of the "One Belt and One Road" strategy of the PRC government and more efforts of power investment in international market especially markets in Southeast Asia, South Asia, Africa and Middle East as well as the steady growth of Chinese real estate market in 2017, the Group will be engaged in domestic and foreign market expansion, and exploitation and innovation of business model of power equipment. The segment is expected to grow steadily.

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

In 2016, the general machinery industry witnessed an overall downturn. However, benefited from the transformation of industrial pumps business to middle and high-end intelligent products and nuclear power markets, the Group actively expanded the market in Southeast Asia and achieved orders rapidly. Aiming at the development opportunity in the domestic environmental and energy-saving new market, including electric power, chemical engineering and sewage treatment, the industry blower business developed the new energy-efficient centrifugal blower, the third-generation centrifugal chiller for nuclear power generation units and dual-stage high-efficient centrifugal chillers, and achieved good marketing promotion effect. In addition, the wind power blades business maintained its rapid growth, which fuelled the segment to continue to achieve relatively fast growth in revenue. The general machinery business of the Group recorded revenue of approximately RMB2,327.3 million for the whole year, representing an increase of approximately 8.5% from the same period of 2015.

The Group's industrial pump business was approved as the "National Enterprise Technology Center" and the SDZ300-400 ultra-high pressure large-scale multi-stage centrifugal pump and 3DMF-500/12 slurry diaphragm pump passed the national identification. The independently developed third-generation centrifugal chiller for nuclear power generation units and high pressure ratio centrifugal refrigeration compressors with high efficiency and low noise won the tender for two newly built nuclear power stations. Jiangsu Rudong Offshore Wind Power Blade Base was completed and put into operation, and the offshore wind power blade industrialization project Phase II commenced. The gas compressor business was approved as the "Chongqing Technology Innovation Demonstration Enterprise" and received the support of RMB67 million from the national special-purpose funds with low interest rate. The independently developed air supply system for space launching sites successfully completed the firing of "Long March 7" launch vehicle in Wenchang, Hainan and was awarded the outstanding unit of "initial flight mission for Long March 7 and Long March 5".

With national nuclear power policy changing for the better in 2017, environmental protection and clean energy industries will still be positively encouraged and supported by national policies, which is beneficial for keeping robust market demand for the businesses of this segment especially for the constant growth of wind power blade business. Moreover, due to the influence of the new business of tube-in-sheet evaporative cooling air conditioner, the Group expects the segment to maintain rapid growth.

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

In 2016, under the constant influence of structural adjustment of various domestic industries, shrinking investments and de-capacity, there was a decrease in market demand from both of the China's machine tool industry and the CNC machine tools business of the Group, and the revenue continued to decline. The high-end precision screws were successfully exported to the United States, and the independently developed cotton picker realized its technical identification and initial formation. The CNC machine tools business of the Group recorded revenue of approximately RMB679.1 million for the whole year, representing a decrease of approximately 22.5% from the same period of 2015.

During this Period, many technological innovation projects of CNC machine business were successfully applied for, acquiring approximately RMB16 million of funding of national financial assistance.

In 2017, 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 and rallied in 2017.

Trade Business

In 2016, the bulk commodity procurement platform of the Group increased the types of procurement, directly reduced procurement cost of the Group by approximately RMB10 million. The total revenue of this segment amounted to approximately RMB3,716.6 million, representing a year-on-year increase of approximately 45.4%.

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

Financial Business

In 2016, affected by the adjustment of credit policy, the interest income recorded a slight decrease, and the total operation revenue amount to approximately RMB55.9 million for the year, representing a slight decrease of approximately 0.7% as compared to the same period of last year. In 2017, new business and capital accumulation will be actively expanded to maintain steady development.

DEVELOPMENT FOUNDATION AND ADVANTAGES

As the largest integrative equipment manufacturing company in western China, the Group will stick to the following foundation and advantages in the future development:

Regional advantages of "One Belt and One Road", "Yangtze River Economic Belt" and Chongqing Free Trade Area will be taken advantage of to bring favorable development opportunities for the Group. Meanwhile, the Group benefits from preferential policies such as western development and enjoys special tax advantages.

Four core businesses of the Group accord with national industrial policies. The Group has obvious competitive advantages in its products and services in many domestic market segments and overseas markets. Diverse product mix enhances its ability to guard against market risk.

The Group has many state-level technical centers, Chinese brands, Chinese well-known trademarks, Chongqing technical centers, Chongqing famous brands and many patented technologies, which accumulates rich technical and craft experience with continuous investment in research and development.

The Group has highly efficient and standardized corporate governance structure and institutional system and develops good management and control mechanism efficiently run and managed.

The Group has perfect human resource management system and incentive mechanism and possesses excellent and leading technical elites. It makes efforts to improve quality and ability of employees so as to provide talented people for its sustainable development.

DEVELOPMENT STRATEGIES

Development strategies and work priorities of the Group in 2017 are as follows

I. Development strategies

There are still a lot of challenges faced by the continuous recovery of the global economy in 2017, and new and old kinetic energy of China's industrial and economic growth shifts in an accelerating way. In the case of uncertainties, the Group will unswervingly implement the new "321" development strategy, keep the market increment externally, enhance the management efficiency internally, promote the innovation with transformation, deepen the reform with vitality, fully implement the industrial structure optimization and adjustment, focus on tracking and implementation of key projects, and comprehensively enhance the Group's economic efficiency and core competitiveness.

II. Work priorities

(I) Seize the two markets continuously for breaking through incremental growth

The Group is committed to realization of foundation consolidation and increment breakthrough in the domestic market. It will promote realization of full commercial harvesting of cotton pickers; rapid acquisition of intelligent manufacturing project; Chongqing manufacturing of plate-type evaporative cold air-conditioning project; new progress of wind turbine blade recycling economy project; new breakthrough of nuclear pump project order; as well as established goals of new energy power assembly project.

The Group will carry out intensive development and expanded effectiveness in the international market. It will focus on tracking the progress of Vietnam, Pakistan, Afghanistan, Nepal and other projects; take India and Vietnam offices as the fulcrum, leading expansion in South Asia and Southeast Asia markets; rely on Italian WGP and British PTG as platforms; establish the European innovation and marketing center; as well as promote further internationalization of the Group.

(II) Implement the technology leadership strategy to achieve effective transformation and upgrading

The Group constantly increase R&D investment for speeding up the development of new products. It will promote the development of a number of new products, such as 5MW wind power blades, nuclear power high-pressure pump, new vertical hydroelectric generating set, 5MW synchronous motor, high-speed and middle-pressure high-pressure compressor, new energy automobile power system assembly, recycling wind turbine blade material, etc.

The Group also focuses on brand building to enhance the technological advantages. It continues striving for the state-level enterprise technology center, and actively declares national projects for a new level of patent licensing.

Furthermore, the Group tries to speed up the implementation of major construction projects to enhance the level of intelligent manufacturing. It starts the gas compressor business relocation project; continues to promote the construction of high-powered engine project; and puts the phase–II offshore wind power blade, PTG US factory, and hydro power equipment business relocation project into operation.

In addition, the Group continuously deepens the quality management and cultivates the spirit of craftsmen. With the concept and system model of lean management, it establishes and improves the quality management system. Also, the result-oriented incentive mechanism of major quality accident zero tolerance is implemented to ensure that the quality loss of annual RMB100 sales income falls by 5% year-on-year.

At the same time, the Group will actively explore the development into robot and intelligent equipment, high-end traffic equipment, new energy auto part, environmental protection and other industries.

(III) Promote mixed ownership reform to achieve a viable capital operation

The Group actively develops the mixed ownership reform program of the Group's business to enhance the vitality of capital operation through the reorganization of capital, equity transfer, equity incentive, removal of invalid assets and other ways.

(IV) Strengthen operation and management to achieve improvement of quality and efficiency

By identifying problems, the Group continues to promote the "One Enterprise, One Policy" to strengthen the standard management and seek improvement directions and measures. It will develop data center business intelligence system, and strengthen dynamic monitoring of key operation indicators. By completing the trial operation of e-commerce platforms, it manages to achieve supply chain integration. And it strengthens energy management, improves energy efficiency, explores the establishment of energy online monitoring platform, and ensures that the annual RMB10,000 industrial added value comprehensive energy consumption decreases by 5%. It does well in safety production, periodic re-evaluation of safety standardization, as well as risk investigation and management, to ensure that there are no major accidents of safety, environmental protection, and occupational health.

(V) Promote comprehensive budget management and takes measures to optimize the assets structure

The Group deeply advances the overall budget management, and strengthens the financial precision and regulatory execution. It will strengthen the target management of accounts receivable, inventory, cash flow and operating profit. Also, it optimizes the asset structure, debt structure of rational allocation, and reduces the debts and interests. At the same time, it will strengthen the centralized management of funds, and start supply chain finance.

(VI) Deepen the reform of three systems to optimize the human resources structure

The Group continues to deepen the reform of three human resource systems, to gradually form a working mechanism with a clear process and standardized system. Meanwhile, it will strengthen control of labor costs and total wages, and focus on the introduction and training of high-quality professionals, with the establishment of transnational personnel training mechanism.

(VII) Strengthen internal risk control to provide guidance for corporate governance

The Group strictly abides by the obligation of information disclosure, standardizes the work procedures of the directors and supervisors, standardizes the corporate governance structure, and improves the independent decision-making and value judgment of the board of directors. At the same time, it pays attention to key project tracking and completion settlement audit. It will also conscientiously implement 100% legal review for economic contracts, rules and regulations and major decision-making. And, it continues to do internal control evaluation and rectification. By establishing a comprehensive risk management system, it will enhance early warning and timely disposal of risk, to ensure that risk management and internal monitoring systems are effective.

AWARDS

During this period, the Group was awarded:

- The "Sanye" trademark of Chongqing Water Turbine Limited Liability Company, an affiliate of the Company, was identified as "Chinese Well-known Trademark";
- The characters "Chong Tong" and the figurative mark of Chongqing General Industry (Group) Limited Liability Company (Chongqing General), an affiliate of the Company, was recognized as "Chinese Well-known Trademark";
- Chongqing General, an affiliate of the Company, were approved as the "Municipal Engineering and Technological Research Center" and "Municipal Post-doctoral Scientific Research Station";
- Chongqing General, an affiliate of the Company, was regarded as National Superior Intellectual Property Right Company;
- Chongqing General, an affiliate of the Company, was awarded the title of "A-Level Taxpaying Enterprise" of Chongqing in 2015;
- Chongqing Water Pump Limited Liability Company, an affiliate of the Company, successfully established the "National Enterprise Technical Center";

- Chongqing Gas Compressor Limited Liability Company, an affiliate of the Company, was considered as "Chongqing Technological Innovation Demonstration Enterprise";

- Chongqing Dove-brand Wire and Cable Limited Company, an affiliate of the Company, ranked "the Top 100 Enterprises of 2016 in Chinese Cable industry".

SUMMARY

Looking forward to 2017, global economic recovery still faces numerous challenges and the economic prospect of Europe and emerging countries are still not optimistic. US economic policies may have apparent changes and interest rate increase of FRB will influence global financial environment. The PRC government will persistently push the supply side reform of "de-capacity, destocking, de-leverage, cost reduction, and shortage improvement" to secure economic stability and push the continuous growth of enterprises. At the same time, along with the gradual deepening of national strategies of "One Belt and One Road" and "Yangtze River Economic Belt", it will boost the confidence of equipment manufacturing enterprises.

The Group will stick to the new "321" development strategy. It will externally seize the market to secure the increment, internally strengthen management to boost profit, drive transition via innovation, deepen reform for new vitality, make effort in tracking and implementation of significant projects, and spare no effort in executing optimization and adjustment of industry structure to lay a solid foundation for boosting the economic profit and core competences of the Group.

On behalf of the Board of Directors, I would like to express my heartfelt thanks to our customers, suppliers, business partners and shareholders for their strong support. In particular, I would also like to give my gratitude to all staff members for their hard work and great contributions over the past year. The Group will work with all staff members to create value for shareholders, create wealth for the community, create welfare for our employees, and make unremitting efforts to realize the vision of "China's equipment going to the world".

Wang Yuxiang
Executive Director and Chairman

Chongqing, the PRC
31 March 2017

Management's Discussion and Analysis

OUTLOOK AND PROSPECT

Looking ahead into 2017, as the international economic recovery still faces many challenges, and economic outlooks in Europe and other emerging countries are still not optimistic, U.S. economic policy may appear obvious changes and the global financial environment may be affected by the interest rate hike in the Federal Reserve. The Chinese Government firmly accelerated the supply-side reform of "de-capacity, destocking, de-leverage, cost reduction, and shortage improvement" to guarantee the stable economic situation and boost the sustainable growth for enterprises. In addition, the implementation of "One Belt and One Road", "Yangtze River Economic Belt" and other national strategies is conducive to raise the confidence in equipment manufacturing industry. By adhering to the new "321" strategy, the Group develops external market for increment, strengthens internal management for efficiency, becomes innovation-driven for transformation, deepens reform for vitality, focuses on the tracking and implementation of major projects, and endeavors to optimize and adjust the industrial structure, so as to lay a solid foundation to improve the economic benefits and core competitiveness of the Group. The Group expects that the business will continue to maintain a stable development in 2017.

BUSINESS REVIEW

Stabilized business operation and greatly improved management quality

In 2016, the operating profit of the Group dramatically improved as a whole, and both the wire and cable business and the general machinery business maintained stable performance. The performance of joint ventures and associates witnessed a steady rise. The implementation of "one policy for one enterprise" promoted the improvement of quality and benefits of the Group as a whole. The Group reduced its procurement cost of over RMB10 million through bulk commodity central procurement for the year. The establishment of quality recovery mechanism against supplier led to a decrease of about 26% in quality loss for the year. Due to the execution of energy conservation and transformation, the Group achieved a year-on-year reduction of approximately 6% in the comprehensive energy consumption of RMB10,000 added value for the year. The hydropower equipment business changed business mode and realized the extension to electrical and mechanical engineering contract and EPC contract of hydroelectric projects, with a year-on-year growth of approximately 30% in the newly increased orders. The wire and cable business reached a new height in its operating profit by innovating the marketing mode and adjusting the product structure. Effective in the adjustment of traditional product structure, the general machinery business maintained a continuous and stable growth. Through another strategic positioning, the CNC machine tools business boosted new businesses while sharpening up the existing business. The finance corporations had new growth points by making out electronic bills and dealing with "Dai Dai Tong (貸貸通)".

Comprehensive layout of two markets and realization of incremental business

In 2016, the Group expanded the "Big Marketing (大營銷)" network in China, and newly established two offices in Guangzhou and Xinjiang respectively. The newly-established joint venture company recorded the sales of approximately RMB45 million in terms of the intelligent manufacturing business; recorded the sales of approximately RMB130 million in terms of tube-in-sheet evaporative cooling air conditioner. The orders of nuclear power pumps realized a relatively fast growth. In the international market, the Group newly established an office in Vietnam, and led to expand the market of the industrial pump business and the wire and cable business towards Vietnam market and received orders already. Furthermore, the hydropower equipment business realized the EPC contract in Pakistan.

Technological innovation led by goals with obvious effect on achievement transformation

In 2016, the Group adjusted the performance assessment indexes of the management, and added two assessment indexes of the newly granted patents and the R&D investment. The R&D investment increased from the average proportion of 1.66% for last three years to 1.87% in 2016. The Group applied for 199 new patents, including 32 patents for invention; up to then, the Group has been granted 1,873 patents, including 114 patents for invention. The Group funded seven major projects with the innovation project support fund of RMB3 million. The industrial pump business was awarded as "National-level Corporate Technology Center (國家級企業技術中心)". SDZ300-400 ultrahigh-pressure multiple-stage centrifugal pump and 3DMF-500/12 ore pulp diaphragm pump successfully passed the national-level appraisal, and filled in the domestic gap. The general machinery business was awarded as "City-level Engineering Technology Research Center (市工程技術研究中心)", "City-level Post-doctoral Research Station (市級博士後科研工作站)", and "China Well-known Trademark (中國馳名商標)". The energy conservation and transformation project of efficient centrifugal blowers obtained partial results. The gas compressor business received the recognition of "Technology Innovation Demonstration Enterprises of Chongqing City (重慶市技術創新示範企業)". The over-ground air supply system ensured the success of "Long March 7" launch vehicle. The Group received a total of RMB263 million fund subsidy from the various national policies for the year.

Simplifying the major structure and motivating the internal vitality

The Group was optimized and integrated by simplifying the major structure and disposing the invalid equity interests. In 2016, the Group had one enterprise under industrial and commercial cancellation, one under consolidation by merger, one under business closure and one under equity sale respectively. The Group conducted equity investment while focusing on its principal business, and completed the formation of its intelligent manufacturing business, tube-in-sheet evaporative cooling air conditioner business, and new energy automobile power system assembly business. The acquisition of 49% equity interests in Italian WGP Company has been approved by the municipal government now. The Group completed the acquisition of 30.98% equity interests in Chongqing Power Transformer Co., Ltd. held by Three Gorges Capital Holdings Co., Ltd., the increase of equity interests in Knorr-Bremse CAFF Systems for Commercial Vehicles (Chongqing) Ltd., and the transfer of 59% equity interests in Chongqing Jiangbei Machinery Co., Ltd.

Deepening the reform of the human resources to optimize the personnel structure

In 2016, the Group actively promoted reform of our labor force, personnel matters and remuneration system. Pursuant to the HR management standard of "four designations, three mechanisms and one channel" (namely designated organization, designated position, designated personnel and designated salary; free promotion/demotion of management, reasonable join-in and withdrawal of employees and unrestricted income adjustment; and career development channel), the Group evaluated the reform effect of ten enterprises, and the effect was obvious. The total number of employees was controlled to a rational extent, representing a decrease of approximately 11.9% on year-on-year basis. There was a decrease of approximately 14% on year-on-year basis in the secondary administrative department; a decrease of approximately 14.3% on year-on-year basis in the head count of middle management; and a decrease of approximately 8.7% on year-on-year basis in the head count of non-production employees. The Group saved approximately RMB17.56 million in the labor cost expenditure. The sales revenue per capita and profit per capita increased by approximately 13.5% and 23.2% respectively on year-on-year basis.

Strengthening operation control security and improving enterprise management capacity

In 2016, the Group comprehensively advanced the centralized fund management through the credit assignment of accounts receivable, the acquisition of relatively preferential borrowing rate and acquisition of zero cash deposit for negotiable instruments. The Group saved approximately RMB47.6 million in financial costs by successfully issuing RMB800 million corporate bonds. In 2016, the new session of the Supervisory Committee discussed and approved 17 proposals including the annual centralized supervision and inspection report, and continued the supervision of enterprise construction projects and the economic responsibility audit of leaders. In the meantime, the Group conducted special inspection or audit for key financial revenues and expenditures and sales process, etc. The Group reviewed 73 rules and regulations, 66 economic contracts and 13 major decisions for the whole year. Furthermore, the Group evaluated and inspected the operation of internal control system, and analyzed the business risks. As for the construction of information system, the data center system was integrated with finance, HR and enterprise ERP systems.

Comprehensive promotion of corporate governance by law, and strengthening the corporate responsibility and burden of the public

In 2016, the Group rationalized the procedure rules of the Board and the management, and emphasized the role of independent directors in strict accordance with corporate governance structure. The Group actively organized roadshows of corporate performance and reception of investors, and strictly performed the information disclosure obligations. The Group focused on review of legal risks, and comprehensively promoted the corporate governance by law. The long-term effective mechanism of safety production was improved to realize the intrinsic safety of the Group. In addition, the Group attached great importance to enterprise culture construction and improvement of its brand image.

RESULTS OVERVIEW

Operation Analysis

Automobile Parts and Components

In 2016, according to the data published by the China Association of Automobile Manufacturers, the production and sales volume of automobiles reached 28.119 million and 28.028 million units, representing an increase of 14.5% and 13.7% respectively over the corresponding period of last year, reaching a new height. Sales volume of large and medium passenger vehicles and heavy trucks, which are closely related to the Group, reached 190,000 and 730,000 units respectively, representing an increase of 16.2% and 33.1% as compared with last year. Support by the policy of Chinese government's strong encouragement in developing the new energy vehicles, the sales volume of new energy vehicles achieved rapid growth and reached 507,000 units, representing an increase of approximately 53%. Affected by intensified competition and stagnant development of products related to new energy vehicles, the transmission system business of the Group failed to achieve synchronous growth, while the steering system business was successfully deployed in the domestic large-scale CBUs supplier systems, such as Chang'an Automobile and Jiangling Motors, ensuring its stable performance in the whole year. The automobile parts and components business of the Group recorded a turnover of approximately RMB720.1 million for the whole year, representing a decrease of approximately 15.3% from the same period of last year.

Power Equipment

In 2016, benefiting from the promotion of clean energy by the government of China, smart grid projects, infrastructure investment in "Yangtze River Economic Belt" project 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, e-commerce platforms and were actively promoted, making new progress in expanding the Southeast Asian market. In addition, great efforts made in the integration of the segment and withdrawal from low margin products, resulting in a substantial decline in turnover, but the operating results gained substantial growth compared with the previous year. For hydropower equipment driven by domestic and foreign power markets, new orders soared 30% over the same period of last year, with an extension of the business mode to electrical and mechanical engineering and hydropower project EPC contract. The operating results maintained stable as a whole. The power equipment business of the Group recorded turnover of approximately RMB1,630.3 million for the whole year, representing a year-on-year decrease of approximately 35.5%.

General Machinery

In 2016, the general machinery industry witnessed an overall downturn. However, benefited from the transformation of industrial pumps business to middle and high-end intelligent products and nuclear power markets, the Group actively expanded the market in Southeast Asia and achieved orders rapidly. Aiming at the development opportunity in the domestic environmental and energy-saving new market, including electric power, chemical engineering and sewage treatment, the industry blower business developed the new energy-efficient centrifugal blower, the third-generation centrifugal chiller for nuclear power generation units and dual-stage high-efficient centrifugal chillers, and achieved good marketing promotion effect. In addition, the wind power blades business maintained its rapid growth, which fuelled the segment to continue to achieve relatively fast growth in revenue. The general machinery business of the Group recorded revenue of approximately RMB2,327.3 million for the whole year, representing an increase of approximately 8.5% from the same period of 2015.

CNC Machine Tools

In 2016, under the constant influence of structural adjustment of various domestic industries, shrinking investments and de-capacity, 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. The high-end precision screws were successfully exported to the United States, and the independently developed cotton picker realized its technical identification and initial formation. The CNC machine tools business of the Group recorded revenue of approximately RMB679.1 million for the whole year, representing a decrease of approximately 22.5% from the same period of 2015.

Trade Business

In 2016, the bulk commodity procurement platform of the Group increased the types of procurement, directly reduced procurement cost of the Group by approximately RMB10 million. The total revenue of this segment amounted to approximately RMB3,716.6 million, representing a year-on-year increase of approximately 45.4%.

Financial Business

In 2016, affected by the adjustment of credit policy, the interest income recorded a slight decrease, and as compared to the same period of last year, but the total operation revenue amount to approximately RMB55.9 million for the year, representing a decrease of approximately 0.7% as compared to the same period of last year.

SALES

For the year ended 31 December 2016, the Group's total revenue amounted to approximately RMB9,129.3 million, an increase of approximately RMB118.9 million or approximately 1.3% as compared with approximately RMB9,010.4 million for the same period of 2015. As compared with 2015, the revenue of automobile parts and components was approximately RMB720.1 million (accounting for approximately 7.9% of total revenue), a decrease of approximately 15.3%; revenue of power equipment was approximately RMB1,630.3 million (accounting for approximately 17.9% of total revenue), a decrease of approximately 35.5%; revenue of general machinery was approximately RMB2,327.3 million (accounting for approximately 25.5% of total revenue), an increase of approximately 8.5%; revenue of CNC machine tools was approximately RMB679.1 million (accounting for approximately 7.4% of total revenue), a decrease of approximately 22.5%; revenue of trade business was approximately RMB3,716.6 million (accounting for approximately 40.7% of total revenue), an increase of approximately 45.4%; and revenue of financial services was approximately RMB55.9 million (accounting for approximately 0.6% of total revenue), a decrease of approximately 0.7%.

Despite the decline in sales revenue of the Group due to the decreased market demand in the vehicle parts and components segment and CNC machine tools segment and the termination of lower margin products in the power equipment 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.

GROSS PROFIT

The gross profit for 2016 was approximately RMB1,010.5 million, increased by approximately RMB23.0 million or approximately 2.3%, as compared with approximately RMB987.5 million for the same period of 2015. Gross profit margin was approximately 11.1%, slightly increased by 0.1 percentage points as compared with 11.0% of the same period last year. Excluding the trade business and financial services, the gross profit margin was approximately 18.0% (2015: approximately 14.6%).

As compared with 2015, gross profit for power equipment, general machinery and CNC machine tools increased. On the contrary, the gross profit for automobile parts and component dropped.

OTHER INCOME AND GAINS

The other income and gains for 2016 were approximately RMB300.2 million, a decrease of approximately RMB413.7 million or approximately 57.9%, as compared with approximately RMB713.9 million for the same period of 2015, mainly due to decrease in gain from land disposal during the Period.

DISTRIBUTION AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for 2016 were approximately RMB1,027.0 million, a significant decrease of approximately RMB330.5 million or approximately 24.3%, as compared with approximately RMB1,357.5 million for the same period of 2015. The proportion of the selling and administrative expenses in total sales decreased to approximately 11.2% from approximately 15.1% of the same period last year. The distribution expenses decreased by approximately RMB27.9 million as compared with the same period last year; the administrative expenses significantly decreased by approximately RMB302.6 million as compared with the same period last year, mainly due to the decrease in labor cost of transmission system business of approximately RMB253.5 million and the adjustment of property tax and other taxes from administrative expense to sales cost since 1 May 2016 of approximately RMB30.4 million.

OPERATING PROFITS

The operating profits for 2016 was approximately RMB283.6 million, a decrease of approximately RMB60.2 million or approximately 17.5%, as compared with approximately RMB343.8 million for the same period of 2015. The decrease was mainly attributable to the decrease in administrative expenses without payment of long-term employee benefit obligations during the Period and the decrease in gains from land disposal and equity disposal.

NET FINANCE COSTS

Net interest expense for 2016 amounted to approximately RMB100.6 million, a decrease of approximately RMB8.3 million or approximately 7.6%, as compared with approximately RMB108.9 million for the same period of 2015, mainly due to a decrease in the scale of corporate bonds and interest rate.

SHARE OF POST-TAX PROFITS OF ASSOCIATES

The Group's share of post-tax profits of associates for the year ended 31 December 2016 was approximately RMB100.6 million, a significant increase of approximately RMB76.8 million or approximately 322.7%, as compared with approximately RMB23.8 million for the same period of 2015. The increase was attributable to a significant increase of approximately RMB61.6 million in results of Chongqing ABB Power Transformer Co., Ltd., an increase of approximately RMB4.5 million in results of Chongqing Jiangbei Machinery Co., Ltd. (重慶江北機械有限責任公司), and an increase of approximately RMB4.0 million in results of Exedy (Chongqing) Driving System Co., Ltd. (愛思帝(重慶)驅動系統有限公司). 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 an increased loss of approximately RMB4.1 million as compared with the results in 2015.

SHARE OF PROFITS OF JOINT VENTURE

The Group's share of post-tax profits of joint venture for the year ended 31 December 2016 was approximately RMB251.0 million, a decrease of approximately RMB14.1 million or approximately 5.3%, as compared with approximately RMB265.1 million for the same period last year. Such decrease was due to the decline in the profits of Chongqing Cummins Engine Co., Ltd.

INCOME TAX EXPENSES

The income tax expenses for the year ended 31 December 2016 were approximately RMB28.5 million, a decrease of approximately RMB28.8 million, or approximately 50.3%, as compared with approximately RMB57.3 million for the same period of 2015, mainly due to the change in deferred income tax.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year ended 31 December 2016 was approximately RMB443.5 million, an increase of approximately RMB25.9 million or approximately 6.2% as compared with approximately RMB417.6 million for the same period of 2015. Earnings per share amounted to approximately RMB0.12, increased by approximately 9.1% as compared with approximately RMB0.11 of the same period of 2015.

DISTRIBUTABLE RESERVES

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

The Company's reserves available for distribution as at 31 December 2016 under HKFRSs and CAS were RMB1,380,890,000 and RMB1,590,505,000 respectively. Thus, as at 31 December 2016, the Company's distributable reserve attributable to shareholders of the Company amounted to RMB1,380,890,000.

BUSINESS PERFORMANCE

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

	Revenue		Gross profit		Segment Results	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2016	2015	**2016**	2015	**2016**	2015
	(RMB in millions, except for percentage)					
Automobile parts and components						
Domestic						
Transmission systems	**386.3**	527.1	**16.1**	53.9	**(72.9)**	(282.5)
Steering systems	**333.8**	323.2	**48.8**	43.0	**2.7**	9.9
Total	**720.1**	850.3	**64.9**	96.9	**(70.2)**	(272.6)
% of total	**7.9%**	9.5%	**6.4%**	9.8%	**(24.8%)**	(79.3%)
Power equipment						
Domestic						
Hydroelectric generation equipment	**405.9**	366.9	**75.1**	70.7	**3.0**	164.1
Electrical wires and cables	**1,223.1**	2,154.7	**212.1**	179.0	**211.1**	101.8
Other products	**1.3**	4.4	**(0.4)**	(2.9)	**(3.7)**	(14.6)
Total	**1,630.3**	2,526.0	**286.8**	246.8	**210.4**	251.3
% of total	**17.9%**	28.0%	**28.4%**	25.0%	**74.2%**	73.1%
General machinery						
Domestic						
Total	**2,327.3**	2,144.9	**471.3**	461.4	**169.0**	186.2
% of total	**25.5%**	23.8%	**46.7%**	46.7%	**59.6%**	54.2%

	Revenue		Gross profit		Segment Results	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2016	2015	**2016**	2015	**2016**	2015
	(RMB in millions, except for percentage)					
CNC machine tools						
Domestic	**529.9**	552.8	**80.5**	46.8	**(48.6)**	173.9
Foreign	**149.2**	323.3	**61.0**	84.9	**(12.3)**	7.1
Total	**679.1**	876.1	**141.5**	131.7	**(60.9)**	181.0
% of total	**7.4%**	9.7%	**14.0%**	13.3%	**(21.5%)**	52.7%
Trade business						
Domestic						
Total	**3,716.6**	2,556.8	**3.3**	5.8	**0.2**	0.4
% of total	**40.7%**	28.4%	**0.3%**	0.6%	**0.1%**	0.1%
Financial business						
Domestic						
Total	**55.9**	56.3	**42.7**	44.9	**21.6**	32.1
% of total	**0.6%**	0.6%	**4.2%**	4.6%	**7.6%**	9.3%
Headquarters						
Total	**–**	–	**–**	–	**13.5**	(34.6)
% of total	**–%**	–%	**–%**	–%	**4.8%**	(10.1%)
Total	**9,129.3**	9,010.4	**1,010.5**	987.5	**283.6**	343.8

AUTOMOBILE PARTS AND COMPONENTS

Revenue from the automobile parts and components segment for the year ended 31 December 2016 was approximately RMB720.1 million, representing a decrease of approximately RMB130.2 million or approximately 15.3%, as compared with approximately RMB850.3 million for the same period of 2015.

As compared with the same period of 2015, revenue from the business of transmission systems for vehicles decreased by approximately RMB140.8 million or approximately 26.7%, 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. Revenue from the business of steering systems for vehicles increased by approximately RMB10.6 million or approximately 3.3%, which was primarily due to the increase in sales volume driven by the demand growth in passenger vehicles market.

During the Period, gross profit for the automobile parts and components segment was approximately RMB64.9 million, representing a decrease of approximately RMB32.0 million or approximately 33.0%, as compared with approximately RMB96.9 million for the same period of 2015. Gross profit margin decreased to approximately 9.0% for 2016 from approximately 11.4% for 2015, primarily due to increase in unit cost resulting from the decreased sales volume of transmission system business. The gross profit margin of such business dropped approximately 6 percentage points compared with the same period of 2015.

Overall, the results loss for the automobile parts and components segment for the year ended 31 December 2016 amounted to approximately RMB70.2 million, representing a significant decrease in loss of approximately RMB202.4 million, as compared with the loss of approximately RMB272.6 million for the same period of 2015, mainly 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 year ended 31 December 2016 was approximately RMB1,630.3 million, a significant decrease of approximately RMB895.7 million or approximately 35.5%, as compared with approximately RMB2,526.0 million for the same period of 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 RMB931.6 million or about 43.2% in the sales revenue.

During the Period, gross profit for the power equipment segment was approximately RMB286.8 million, an increase of approximately RMB40.0 million or approximately 16.2%, as compared with approximately RMB246.8 million for the same period of 2015. The overall gross profit margin increased to approximately 17.6% for 2016 from approximately 9.8% for 2015, primarily due to a significant integration of electrical wires and cables business and the termination of operating lower margin business.

Overall, the results for the power equipment segment for the year ended 31 December 2016 amounted to approximately RMB210.4 million, a decrease of approximately RMB40.9 million or approximately 16.3%, as compared with approximately RMB251.3 million for the same period of 2015, primarily due to decrease in gain from land transfer of hydroelectric generation equipment business.

GENERAL MACHINERY

Revenue from the general machinery segment for the year ended 31 December 2016 was approximately RMB2,327.3 million, an increase of approximately RMB182.4 million or approximately 8.5% as compared with approximately RMB2,144.9 million for the same period of 2015, primarily due to the ongoing growth in wind power blades business.

During the Period, gross profit for the general machinery segment was approximately RMB471.3 million, an increase of approximately RMB9.9 million or approximately 2.1% as compared with approximately RMB461.4 million for the same period of 2015. Gross profit margin slightly dropped to approximately 20.3% for 2016 from approximately 21.5% for 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.

Overall, the results for the general machinery segment for the year ended 31 December 2016 amounted to approximately RMB169.0 million, a decrease of approximately RMB17.2 million or approximately 9.2%, as compared with approximately RMB186.2 million for the same period of 2015, mainly due to the loss from the disposal of equity interests.

CNC MACHINE TOOLS

Revenue from the CNC machine tools segment for the year ended 31 December 2016 was approximately RMB679.1 million, a decrease of approximately RMB197.0 million or approximately 22.5% as compared with approximately RM876.1 million for the same period of 2015, mainly due to the effect of decline in market demand of domestic CNC machine tools. The PTG UK, a subsidiary of the Company, achieved revenue of approximately RMB149.2 million during the Period, representing a significant decrease of approximately RMB174.1 million or approximately 53.9%, as compared to approximately RMB323.3 million for the year ended 31 December 2015, mainly due to the significant decrease in trade business of PTG HK and impact of decreased demand in global precision CNC machine tools on PTG UK.

During the Period, gross profit for the CNC machine tools segment was approximately RMB141.5 million, an increase of approximately RMB9.8 million or approximately 7.4%, as compared with approximately RMB131.7 million for the same period of 2015. Gross profit margin increased to approximately 20.8% for 2016 from approximately 15.0% for 2015, primarily due to adjustment in product structure of CNC machine tools.

Overall, the total loss for the CNC machine tools segment for the year ended 31 December 2016 amounted to approximately RMB60.9 million, a significant decrease of approximately RMB241.9 million or approximately 133.6%, as compared with RMB181.0 million profit for the same period of 2015, mainly due to gain from land disposal of CNC machine tools.

TRADE BUSINESS

For the year ended 31 December 2016, the trade business segment recorded revenue of approximately RMB3,716.6 million, representing an increase of approximately RMB1,159.8 million or approximately 45.4%, as compared with approximately RMB2,556.8 million for the same period of 2015.

During the Period, the gross profit for the trade business segment amounted to approximately RMB3.3 million, representing a decrease of approximately RMB2.5 million or approximately 43.1%, as compared with RMB5.8 million for the same period of 2015. The gross profit margin decreased to approximately 0.1% for 2016 from approximately 0.2% for 2015.

Overall, for the year ended 31 December 2016, the results attributable to the trade business segment amounted to approximately RMB0.2 million, representing a decrease of approximately RMB0.2 million or approximately 50% as compared with approximately RMB0.4 million for the same period of 2015.

FINANCIAL SERVICES

For the year ended 31 December 2016, the financial services segment recorded revenue of approximately RMB55.9 million, representing a decrease of approximately RMB0.4 million or approximately 0.7%, as compared to approximately RMB56.3 million for the same period of 2015, mainly due to adjustment of the national credit policy and decrease in interest income.

During the Period, the gross profit for the financial services segment amounted to approximately RMB42.7 million, representing a decrease of approximately RMB2.2 million or approximately 4.9%, as compared to approximately RMB44.9 million for the same period of 2015. The gross profit margin decreased to approximately 76.4% in 2016 from approximately 79.8% in 2015.

Overall, for the year ended 31 December 2016, the results of the financial services segment amounted to approximately RMB21.6 million, representing a decrease of approximately RMB10.5 million or approximately 32.7%, as compared to approximately RMB32.1 million for the same period of 2015, mainly due to an increase of provision rate for bad debts of 0.5 percentage point according to the CBRC regulatory requirements.

CASH FLOW

As at 31 December 2016, the cash and bank deposits (including restricted cash) of the Group amounted to approximately RMB1,793.6 million (31 December 2015: approximately RMB2,001.4 million), representing a decrease of approximately RMB207.8 million or approximately 10.4%, mainly due to the subscription of financial assets of RMB150 million and an increase in equity investment expenditure.

During the Period, the Group had a net cash outflow from operating activities of approximately RMB249.1 million (for the year ended 31 December 2015: net cash inflow of approximately RMB180.8 million), a net cash inflow from investing activities of approximately RMB36.1 million (for the year ended 31 December 2015: a net cash inflow of approximately RMB59.5 million), and a net cash inflow from financing activities of approximately RMB58.6 million (for the year ended 31 December 2015: a net cash inflow of approximately RMB100.5 million). Directors believe that the Group is financially sound and has sufficient resources to meet its operating capital needs and fund any predictable capital expenditure.

TRADE AND OTHER RECEIVABLES

As at 31 December 2016, the trade receivables and other receivables assets of the Group totalled approximately RMB5,214.8 million, representing an increase of approximately RMB871.5 million, as compared with approximately RMB4,343.3 million as at 31 December 2015, mainly due to an increase in loans issued under the financial services of approximately RMB521.0 million and an increase of revenue in wind power blades business of approximately RMB433.8 million. In contrast, advance payment decreased by approximately RMB74.8 million. Please refer to note 19 to the consolidated financial statements for detailed ageing analysis of the trade and bills receivables.

TRADE AND OTHER PAYABLES

As at 31 December 2016, the trade payables and other payables of the Group totalled approximately RMB4,637.3 million, representing an increase of approximately RMB48.6 million, as compared with approximately RMB4,588.7 million as at 31 December 2015, primarily due to the increase in the deposits from financial business of approximately RMB297.1 million. In contract, the trade and bills payables and advances from customer decreased approximately RMB100.4 million and RMB113.8 million respectively and the separation machine business was not included in the scope of consolidation which cause a decrease of 151.0 million. Please refer to note 27 to the consolidated financial statements for detailed ageing analysis of the trade and bills payables.

ASSETS AND LIABILITIES

As at 31 December 2016, the total assets of the Group amounted to approximately RMB15,342.1 million, representing an increase of approximately RMB575.0 million as compared with approximately RMB14,767.1 million as at 31 December 2015. Total current assets amounted to approximately RMB9,343.4 million, representing an increase of approximately RMB203.9 million as compared with approximately RMB9,139.5 million as at 31 December 2015, accounting for approximately 60.9% of total assets. However, total non-current assets amounted to approximately RMB5,998.7 million, representing an increase of approximately RMB371.1 million as compared with approximately RMB5,627.6 million as at 31 December 2015, accounting for approximately 39.1% of total assets.

As at 31 December 2016, total liabilities of the Group amounted to approximately RMB8,324.9 million, representing an increase of approximately RMB112.6 million as compared with approximately RMB8,212.3 million as at 31 December 2015. Total current liabilities were approximately RMB6,095.9 million, representing a decrease of approximately RMB773.2 million as compared with approximately RMB6,869.1 million as at 31 December 2015, accounting for approximately 73.2% of total liabilities. However, total non-current liabilities were approximately RMB2,229.0 million, representing an increase of approximately RMB885.8 million as compared with approximately RMB1,343.2 million as at 31 December 2015, and accounting for approximately 26.8% of total liabilities.

As at 31 December 2016, net current assets of the Group were approximately RMB3,247.5 million, representing an increase of approximately RMB977.1 million as compared with approximately RMB2,270.4 million as at 31 December 2015.

CURRENT RATIO

As at 31 December 2016, current ratio (the ratio of current assets to current liabilities) of the Group was 1.53:1 (31 December 2015: 1.33:1).

GEARING RATIO

As at 31 December 2016, by dividing the borrowing by the total capital, the gearing ratio of the Group was 28.9% (31 December 2015: 29.7%).

INDEBTEDNESS

As at 31 December 2016, the Group had an aggregate bank and other borrowings of approximately RMB2,849.9 million, representing an increase of approximately RMB80.1 million as compared with approximately RMB2,769.8 million as at 31 December 2015.

Borrowings repayable by the Group within one year were approximately RMB1,298.5 million, representing a decrease of approximately RMB802.5 million as compared with approximately RMB2,101.0 million as at 31 December 2015. Borrowings repayable after one year were approximately RMB1,551.4 million, representing a significant increase of approximately RMB882.6 million as compared with approximately RMB668.8 million as at 31 December 2015, mainly due to the increase in corporate bonds.

SECURED ASSETS

As at 31 December 2016, approximately RMB407.6 million of the Group was deposited with the banks with pledge or restricted for use (31 December 2015: approximately RMB457.4 million). In addition, certain bank borrowings of the Group were secured by certain land user rights, properties, plants and equipment and investment properties of the Group, and other assets of the Group, which had a net book value of approximately RMB705.5 million as at 31 December 2016 (31 December 2015: approximately RMB705.7 million).

CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no significant contingent liabilities.

SIGNIFICANT EVENTS

Events in the Period

(1) On 28 December 2016, Jilin Chongtong ChengFei New Materials Co., Ltd., Chongqing Machine Tools Group Co., Ltd., Qijiang Gear Transmission Co., Ltd. and Chongqing Pump Industry Co., Ltd. (which are all subsidiaries of the Company) entered into an accounts receivable claim assignment contract with Chongqing Yukang Assets Management and Administration Company respectively, with a consideration of RMB345,345,000. For details, please refer to the announcement of the Board of the Company published on the website of the Hong Kong Stock Exchange and the Company on 28 December 2016.

(2) On 18 November 2016, the Company, Chongqing Mechanical & Electrical Equipment Technology Research Institute Co., Ltd., Shanghai Edrive Co., Ltd. and Ningbo Meishan Duty-Free District Miaojing Investment Management Partnership (Limited Partnership) entered into the JV Contracts to establish the R&D and Manufacturing JV Company and Sales JV Company, with an aim to develop and master relevant engineering and industrialization technologies of power assembly for new energy commercial vehicles with independent intellectual property rights, thus forming the serialization products and bulk production capacity. The Company will hold 51% equity interests in the R&D and Manufacturing JV Company, and 9% equity interests in the Sales JV Company. For details, please refer to the announcement of the Board of the Company published on the website of the Hong Kong Stock Exchange and the Company on 18 November 2016.

(3) On 4 November 2016, the Company's subsidiary Chongqing Water Turbine Works Co., Ltd. ("Chongqing Water Turbine") entered into an agreement for sale and purchase of shares and capital injection (the "SPA") with Mr. Mario Bianchi, the sole shareholder of Water Gen Power S.r.l., an Italian company (the "WGP Company"). Pursuant to the SPA, Chongqing Water Turbine shall acquire 35% equity interests in the WGP Company and further acquire 14% equity interests of the WGP Company through capital injection. The total consideration of the transactions shall be approximately EUR720,000. This acquisition will bring feasible economic benefits through the investment in the WGP Company, promote the active expansion of Chongqing Water Turbine into the international hydroelectric market, and accelerate the transformation and upgrading of the manufacturing and services of Chongqing Water Turbine. 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 4 November 2016.

(4) On 28 June 2016, 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 Hong Kong Stock Exchange and the Company on 28 June 2016.

(5) The Company held an annual general meeting on 28 June 2016 for consideration and approval of the following issues:

(I) The Company re-elected the members of the Board and elected the following members of the fourth session of the Board: Mr. Wang Yuxiang, Ms. Chen Ping 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.

(II) The Company re-elected the members of the Supervisory Committee and elected 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.

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

SUBSEQUENT EVENTS

The Group had no significant discloseable subsequent events.

CAPITAL EXPENDITURE

As at 31 December 2016, the total capital expenditure of the Group was approximately RMB583.7 million, which was principally used for environmental relocation, plant expansion, production technology improvement and equipment upgrade (31 December 2015: approximately RMB1,071.3 million).

CAPITAL COMMITMENT

As at 31 December 2016, the Group had capital commitments of approximately RMB471.5 million (31 December 2015: approximately RMB452.9 million) in respect of fixed assets and intangible assets.

RISK OF FOREIGN EXCHANGE

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

As at 31 December 2016, the bank deposits of the Group included HK dollar valued at approximately RMB0.09 million, US dollar valued at approximately RMB4.94 million, GBP valued at approximately RMB2.39 million and EUR valued at approximately RMB8.25 million (31 December 2015: HK dollar valued at approximately RMB0.07 million, US dollar valued at approximately RMB33.4 million, GBP valued at approximately RMB17.9 million, and EUR valued at approximately RMB7.1 million). Save as the aforesaid, the Group was not exposed to any significant risk of foreign exchange.

EMPLOYEES

As at 31 December 2016, the Group had a total of 11,217 employees (31 December 2015: 12,733 employees). The Group will continue the upgrade of its technical talent base, foster and recruit technical and management personnel possessed with extensive professional experiences, optimise the distribution system that links with the remunerations and performance reviews of our management and employees, improve training on safety so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

Directors, Supervisors and Senior Management

The following table sets out information regarding our directors:

Name	Age	Position
Wang Yuxiang	55	Executive Director, Chairman
Chen Ping	54	Executive Director, General manager
Yang Quan	52	Executive Director
Huang Yong	54	Non-executive Director
Wei Fusheng	55	Non-executive Director
Deng Yong	57	Non-executive Director
He Xiaoyan	54	Non-executive Director
Lo Wah Wai	53	Independent Non-executive Director
Ren Xiaochang	60	Independent Non-executive Director
Jin Jingyu	51	Independent Non-executive Director
Liu Wei	52	Independent Non-executive Director

EXECUTIVE DIRECTORS

Mr. Wang Yuxiang (王玉祥), aged 55, has served as the Chairman, executive Director, chairman of the nomination committee and strategic committee of the Company since 18 June 2013. He joined the Parent Group and served as the chairman and Party Committee secretary since April 2013, and has also served as a director and chairman of Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. since August 2013. Mr. Wang has over 30 years of experience in business and regional economic management. Mr. Wang served as the deputy director and a member of the Party Committee of Chongqing State-owned Assets Supervision and Administration Commission from June 2009 to April 2013 (and concurrently served as the Party Committee secretary of Chongqing Consultation Research Institute (重慶市諮詢研究院) from November 2011 to April 2013), the deputy director and a member of the Party group of Chongqing Economic and Information Technology Commission (重慶市經濟和信息化委員會) from March 2009 to June 2009, the deputy director and a member of the Party Group of Chongqing Economic Commission (重慶市經濟委員會) from April 2004 to March 2009 (during which he was delegated by three ministries and commissions including the Organization Department of the CPC Central Committee to take a temporary post as the deputy director of the Marketing Department of China Southern Power Grid from March to October 2006), the secretary of the Disciplinary Inspection Committee of China National Erzhong Group Co. from July 2000 to April 2004 (and concurrently served as the Party Committee secretary of Deyang Heavy Industry

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

Ms. Chen Ping（陳萍）, aged 54, is the general manager of the Company. Ms. Chen engages in merger and reorganization of enterprises, equity investment, capital operations and other works, owns extended experience in corporate management. She served as a chairman of Chongqing Cummins Engine Co., Ltd. from June 2016 up to now, the chairman of Chongqing Hi-tech Red Horse Capital Management Limited (重慶高新創投紅馬資本管理有限公司) from May 2015 until now, She was the vice president and a member of the Party Committee of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. from February 2004 to May 2016. She has been the chairman of Chongqing Machinery and Electronic Holding Group Xinbo Investment Management Co., Ltd. (重慶機電控股集團信博投資管理有限公司) from January 2016 to July 2016, the executive director (legal representative) of Chongqing Machinery and Electronic Holding Group Assets Management Co., Ltd. (重慶機電控股集團資產管理有限公司) from July 2009 to October 2014. She served as the assistant to the president of Chongqing Light Textile Holding (Group) Co., Ltd. and the manager of Chongqing Super Excellence Co., Ltd. from December 2002 to February 2004, a manager of assets operation department in Chongqing Light Textile Holding (Group) Co., Ltd. from March 2001 to December 2002, the deputy manager of assets operation department of Chongqing Light Textile Holding (Group) Co., Ltd. And president of Chongqing Longhua Printing Co., Ltd. (重慶龍華印務有限公司) from August 2000 to March 2001, the deputy section officer, section officer and assistant researcher of the enterprise management department of Chongqing Light Industry Bureau from October 1983 to August 2000. Ms. Chen is a senior economist with a Bachelor of Science after the graduation in biology from Yuzhou University in August 1983 and obtained a postgraduate degree in business administration from Chongqing Master College of Business Administration (重慶工商管理碩士學院) in July 2001 and a master degree in EMBA (Executive Master of Business Administration) from the school of business and economics of Chongqing University in December 2013.

Mr. Yang Quan (楊泉), aged 52, vice general manager of the Company, has served as a vice general manager of the Company since May 2012, and an executive director of the Company since December 2012. He has been a director of Chongqing Youyan Smelting New Material Co., Ltd. (重慶有研重冶新材料有限公司) since July 2014. He concurrently serves as a director of Chongqing Hongyan Fangda Automotive Suspension Co., Ltd. (重慶紅岩方大汽車懸架有限公司) from June 2013 up to now and a director of Precision Technology Investment and Development Co., Ltd. (精密技術投資發展有限公司) from April 2012 up to now, a director of Chongqing Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司) from December 2011 up to now, and an executive director and general manager of Chongqing Shengpu Materials Co., Ltd. (重慶盛普物資有限公司) from December 2011 up to now. Mr. Yang has over 20 years of experience in enterprise management, once served as the manager of the business management department and assistant to general manager of the Company from August 2007 to May 2012, the head of the economic operation department and head of the business management department of the securities work steering team of Chongqing Machinery and Electronics Holding (Group) Co., Ltd. (重慶機電控股(集團)公司) from March 2004 to August 2007, the party branch secretary of the foundry workshop, deputy director of the "five-initiative" reform office, secretary and deputy director of the hot plate workshop, chief of the equipment division, managing factory director, and chief economist of Chongqing No. 2 Machine Tools Factory (重慶第二機床廠) from July 1987 to March 2004. Mr. Yang is an engineer, graduated from the College of Mechanical Engineering of Sichuan University with a bachelor's degree in foundry in July 1987, and studied for EMBA in Xiamen University from November 2011 to June 2013.

NON-EXECUTIVE DIRECTORS

Mr. Huang Yong (黃勇), aged 54, joined the Parent Group in July 1984. Since July 2007, he has been a non-executive Director of the Company. Mr. Huang has been a director and the general manager of the Parent Company since 2004 to now. Since January 2011 to now, Mr. Huang has concurrently served as the chairman of Chongqing General Aviation Industry Group Co., Ltd. (重慶通用航空產業集團有限公司). He has also served as a Director of Chongqing Jin Tong Scrap Car Recycling (Group) Co., Ltd. (重慶市金通報廢汽車回收處理(集團)有限公司) since March 2014 to now. Mr. Huang has over 20 years of experience in the automobile industry. Since January 2013 to June 2016, he has concurrently served as the chairman of Enstrom Helicopter Corporation (美國恩斯特龍直升機公司). He was the general manager of Chongqing General Aviation Industry Group Co., Ltd. (重慶通用航空產業集團有限公司) from January 2011 to May 2013 and the vice chairman and general manager of Chongqing Hongyan Motor Co., Ltd from 2003 to 2004. From 2000 to 2004, Mr. Huang was the general manger and thereafter the chairman of Chongqing Heavy Vehicle Group Co., Ltd. From 1996 to 2000, he was the deputy plant manager of Sichuan Automobile Manufacturing Plant, and from 1984 to 1996, he worked in Sichuan Automobile Manufacturing Plant. Mr. Huang is a senior engineer and a tutor of postgraduate of Chongqing University of Technology. He graduated from Hunan University with a bachelor's degree in automobile manufacturing in 1984 and obtained his master's degree in engineering from Chongqing University in 2000.

Mr. Wei Fusheng (魏福生), aged 55, currently serving as the secretary of the Party Committee and chairman of Chongqing Construction Engineering Group Co., Ltd. Mr. Wei has extensive working experience in government and enterprise management. He was the deputy director of State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government from May 2014 to January 2016; deputy director, director and Party Committee secretary of Chongqing Coal Mine Safety Supervision Bureau (重慶市煤礦安全監察局) from November 2001 to May 2014; director, deputy chief engineer, deputy director and director of Safety Supervision Bureau of production department of Yongrong Mine bureau (永榮礦務局生產處) from June 1995 to November 2001, technician, deputy chief of mine, deputy chief engineer and chief engineer of Shuanghe Coal Mine of Yongrong Mining Bureau (永榮礦務局雙河煤礦) from July 1983 to June 1995. Mr. Wei is a senior engineer. He graduated in Coal Mining of School of Mining Engineering (採礦工程系煤礦開採專業) from Chongqing University with a bachelor's degree in engineering in July 1983 and obtained a master degree in engineering from Mining & Mineral Engineering (礦業工程專業) of Graduate School of Chongqing University in June 2001.

Mr. Deng Yong（鄧勇）, aged 57, is the chief financial officer of Chongqing Yufu Assets Management Co., Ltd. He joined the Company with the position of non-executive Director since April 2013. He has served as a non-executive director of Bank of Chongqing Co., Ltd. (stock code:1963.HK) since February 2013, a director of Chongqing Chuanyi Automation Co., Ltd. (stock code: 603100.SH) since April 2013. Mr. Deng Yong has over 20 years of experience in the financial industry. He served as a president assistant and the general manager of the planning and financial department of the Southwest Securities Co., Ltd (stock code: 600369.SH) from August 2008 to April 2012, a general manager assistant and the manager of the financial department of Chongqing Yufu Assets Management Co., Ltd. from March 2004 to August 2008, deputy general manager of the Linjiang Road and Jiulongpo Divisions of China Galaxy Securities Co., Ltd. from September 2000 to March 2004, deputy general manager of the Chongqing Securities Division of China Cinda Trust & Investment Company (中國信達信託投資公司重慶證券營業部) from June 1997 to September 2000 (he was seconded to work for the workgroup of red chips of Chongqing Municipal Government (重慶市政府紅籌股工作小組) from September 1997 to June 1998), the manager of the securities investment department of Chongqing Trust & Investment Company (重慶市信託投資公司) from September 1992 to June 1997 and an employee at the Chongqing branch of the China Construction Bank from July 1988 to September 1992. Mr. Deng Yong is an engineer graduated from Chongqing University with a bachelor's degree in Applied Mathematics in July 1982. He studied and obtained a Master of Science degree majoring in econometrics from the Applied Mathematics Faculty of Chongqing University from September 1986 to July 1988.

Ms. He Xiaoyan（何小燕）, aged 54, is now the Commissioner of the audit department of Chongqing branch of China Huarong Assets Management Co., Ltd. (中國華融資產管理股份有限公司) (stock code: 02799.HK). Ms. He has extensive experience in the risk officer financial industry. From July 2015 to November 2016, she was appointed as the chief risk officer, assistant to general manager, and a member of the Party Committee of Chongqing office of China Huarong Assets Management Co., Ltd..From January to June 2015, she was the Chairman and party secretary of Chongqing Bishan ICBC Rural Bank Co., Ltd; from August 2007 to January 2015, she was appointed as the deputy general manager of the corporate department, general manager of the investment bank department and general manager of the department of assets and liabilities management in ICBC Chongqing Branch (中國工商銀行重慶市分行); from March 1989 to August 2007, she was the deputy head, head and deputy president in the Branch of ICBC in south bank district of Chongqing; from August 1980 to March 1989, she worked on statistical analysis and credits in the office of PBC in south bank district of Chongqing. Ms. He is a senior economist. She graduated from Sichuan Bank School (四川銀行學校) in July 1980; graduated from statistics major of the higher education self-learning exam in December 1988 and graduated from financial major of Correspondence school of Chongqing Party School(重慶市委黨校函授學院) in December 1998.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Wah Wai (盧華威), aged 53, joined our Company in January 2008 and has been an independent non-executive Director of the Company and the chairman of the Company's Audit and Risk Management Committee since January 2008. He had more than eight years of experience in auditing and business consulting services in an international accounting firm, two years of which were spent in the United States. Mr. Lo was an independent non-executive director of Far East Pharmaceutical Technology Limited (stock code: 399. HK) in September 2004. A petition was filed on 15 September 2004 to wind up Far East Pharmaceutical Technology Limited in respect of the default of a syndicated bank loan and since then, liquidators have been appointed. Mr. Lo was not involved in the arrangement of the syndicated bank loan and his appointment was made after the said default had occurred. Mr. Lo is currently the chairman of the board of directors of BMI group, Mr. Lo is also an independent non-executive director of Tenfu (Cayman) Holdings Company Limited (stock code: 6868.HK). He has served as an independent non-executive director of Chongqing Medicines (Group) Co., Ltd. (重慶醫藥(集團)股份有限公司) since July 2012. He is a practising member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lo graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration in 1986 and New Jersey Institute of Technology, the U.S., with a master's degree in science in 1992.

Mr. Ren Xiaochang (任曉常), aged 60, joined the Company in July 2007 and has been an independent non-executive Director of the Company and the chairman of our remuneration committee since then. Mr. Ren has over 30 years of experience in the automobile industry. Mr. Ren has been with Chongqing Research Institute of Automobile (renamed as China Automotive Engineering Research Institute Co., Ltd.(stock code: 601965.SH)) since January 1982 to December 2016 and once served as the deputy director of Car Design Department, vice chief, chief, the vice chairman, general manager (superintendent), deputy secretory to the Party Committee of it, chairman and so on in charge of operational management, strategic planning, human resources and assets management, etc. Mr. Ren is also currently an independent director of China Chang'an Automobile Group Co., Ltd. in charge of matters relating to the board of directors. Mr. Ren graduated from Hunan University with a bachelor's degree in engineering in 1982 and the Management School of Wuhan University of Technology with a master's degree in business administration in 2004. Mr. Ren is a senior engineer of researcher's grade, an expert of Machinery Industrial Scientific Technology Specialist of the PRC and an expert with special allowance from the State Council.

Mr. Jin Jingyu (靳景玉), aged 51, joined the Company in June 2012 and has served as an independent non-executive Director of the Company since June 2012. He has been serving at Chongqing Technology and Business University as the Chairman of the Academic Council of the School of Finance, and professor of finance and tutor of postgraduate since March 2009. He has served as an independent non-executive director of Bank of Chongqing Co., Ltd.* (stock code:1963.HK) since March 2014, and an independent director of Chong Qing Financial Products Exchange Co. Ltd since June 2015. Mr. Jin joined the Chongqing Technology and Business University (known as Chongqing Business School before 2003) since May 1997 and served as the deputy director of the Finance and Investment Department from March 2000 to March 2001 and an associate professor and professor of finance from November 2000 to November 2005. He studied in the Mathematics Department of Henan University from September 1988 to July 1992 as an undergraduate student; studied in the University of Science and Technology of China majored in management science from September 1992 to July 1995 and received a master's degree in engineering; studied in the Southwest Jiaotong University majored in management science and engineering from March 2003 to January 2007 and received a doctor's degree in management. Mr. Jin held several concurrent posts as follows: from September 1997 to September 2002, a business director of the Financing Service Company (融資服務公司) and general manager of the 1st Business Department of Dapeng Securities Company Limited (大鵬證券有限責任公司); from July 2002 to June 2003, a director and secretary to the board of directors of Southwest Synthetic Pharmaceutical Co., Ltd. (西南合成製藥股份公司) (Stock code: 000788.SZ); from January 2006 to March 2010, a director and secretary to the board of directors of Chongqing Wanli New Energy Co., Ltd. (stock code 600847.SH, formerly known as Chongqing Wanli Storage Batteries Co., Ltd. (重慶萬里蓄電池股份有限公司)); from June 2005 to February 2010, the chairman of Chongqing Tiandi Pharmaceutical Co., Ltd. (重慶天地藥業有限公司). Mr. Jin is now a member of Guiding Committee on Education of Financial Majors in Universities and Colleges of Ministry of Education (教育部高等學校金融學類專業教學指導委員會), a member of the China Investment Professional Construction Committee (中國投資專業建設委員會), a member of the Enterprises Operations Branch of the Operations Research Society of China, adjunct researcher of the Research Center of the Economy of the Upper Reaches of Yangtze River (a major research center of humanities and social science of the Ministry of Education), a member of the Evaluation Committee of Professional Titles, the Teaching Steering Committee and the School of Economics of Chongqing Technology and Business University.

Mr. Liu Wei (劉偉), aged 52, has served as an independent non-executive director since September 2014. He is currently the head, professor and PhD candidate supervisor of the Business Management Department of the School of Economics and Business Administration of Chongqing University, the vice head of Business Administration and Economics Development Research Centre of Chongqing University. He has concurrently served as an independent director of Chongqing Zaisheng Technology Company Limited (重慶再升科技股份有限公司) (stock code: 603601.SH), Chongqing Fuling Electric Power Industrial Co., Ltd. (重慶涪陵電力實業股份有限公司) (stock code: 60045.SH), and Chongqing Sanxia Paints Company Limited(重慶三峽油漆股份有限公司)(stock code: 000565.SZ), an independent director of Chongqing Iron & Steel (Group) Company Limited and Chongqing Landscaping Construction Investment (Group) Company Limited (重慶園林綠化建設投資(集團)有限公司), and a member of Investment Decision-making Committee of Shanghai Zhongwei Venture Capital Fund (上海中衛創業風險投資基金). Mr. Liu served in Chongqing University since July 1990. He once served as the lecturer, associate professor and assistant to the head of department for Department of Mechanical Engineering, professor of College of Mechanical Engineering, and vice chief of the Industrial Engineering Research Institute. Mr. Liu graduated from Chongqing University with a bachelor's degree in Mining Machinery in July 1984, graduated from Chongqing University with a master's degree in Mechanics in July 1987, and graduated from Chongqing University with a doctorate degree in Mechanical Design and Theory in July 1990. He also conducted post-doctoral research in the University of Manchester Institute of Science and Technology from September 1996 to October 1997. He completed the training for independent directors of listed company by the Securities Association of China in December 2002.

SUPERVISORS

The following table sets out information regarding our Supervisory Committee:

Name	Age	Position
Xiang Hu	52	Chairman of the Supervisory Committee
Wu Yi	43	Independent Supervisor
Huang Hui	46	Independent Supervisor
Zhang Mingzhi	53	Employee Supervisor
Xia Hua	53	Employee Supervisor

Mr. Xiang Hu（向虎）, aged 52, the Chairman of the Supervisory Committee of the Company, joined the Company in September 2012, and has served as a Supervisor of Chongqing General Industry (Group) Co., Ltd. since July 2016, and also a director of Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd since March 2013. Mr. Xiang has over 20 years of experience in government service and news media. From June 2014 to June 2016, he served as an Executive Director of the Company, and also Secretary of the board of the Company since January 2014 to June 2016. From September 2012 to January 2014, he served as a Vice General Manager of the Company. He served as the deputy director of the Chongqing Intellectual Property Rights Bureau from November 2004 to September 2012, the president of the Modern Workers Newspaper (現代工人報報社) (now known as Chongqing Times) from January 2003 to November 2004, the deputy party secretary of Nanchuan, Chongqing from May 1998 to January 2003, the general manager of Chongqing News Development Company (重慶新聞發展公司) under Xinhua News Agency from July 1993 to May 1998, and a journalist of the Sichuan branch office of Xinhua News Agency from July 1986 to July 1993. Mr. Xiang graduated from the Department of Law of Southwest University of Political Science and Law in July 1986, from the Graduate School of Southwest and Law majoring in law of economy in June 1997, and from Nanyang Technological University, Singapore, majoring in managerial economics and acquire the master degree of economics in July 2002.

Ms. Wu Yi (吳怡), aged 43, has been an independent supervisor of the Company since September 2014. She is currently the director of Chongqing Bestone Law Firm (重慶百事得律師事務所), a member of Chongqing Lawyers Association and the Specially-invited Member of the fourth Committee of Chinese People's Political Consultative Conference of Chongqing. Ms. Wu once served as the lawyer of Chongqing Dongfanglianhe Law Firm (重慶東方聯合律師事務所), Chongqing Zhongzhu Law Firm (重慶中柱律師事務所) and Chongqing Branch of Beijing Kaiwen Law Firm (北京凱文律師事務所重慶分所) from August 1997 to April 2008. Ms. Wu studied at the School of Economic Law of Southwest University of Political Science and Law from September 1993 to July 1997 and graduated with a bachelor's degree and at the Graduate School of Southwest University of Political Science and Law from September 2003 to July 2006 and graduated with a master's degree in Laws. She studied at Peking University HSBC School of Business from September 2008 to July 2009 and graduated with a master's degree in Finance.

Mr. Huang Hui (黃輝), aged 46, has been an independent supervisor of the Company since September 2014. He is currently a professor, a tutor of postgraduates in School of Accountancy, and a director of the Department of Financial Management of Chongqing Technology and Business University. Mr. Huang was once a teacher in No.2 Senior High School in Xinxian County of Henan Province (河南省新縣第二高級中學) from September 1991 to July 1998. Since July 2002, he worked in School of Accountancy of Chongqing Technology and Business University. Mr. Huang graduated from the Department of Physics of Luoyang Normal College with a junior degree in 1991. He graduated from the Department of Politics and Laws of Henan College of Education (河南教育學院) with a bachelor's degree in 1996. He graduated from School of Economics and Management of Wuhan University of Technology with a master's degree in 2002. He graduated from the Management College of Huazhong University of Science and Technology with a doctor's degree in 2009. He was a visiting scholar in University of Missouri in US from April to May in 2010 and in the School of Economics and Management of Tsinghua University from September 2011 to July 2012. He completed his post-doctoral research in the Research Institute for Fiscal Science of the Ministry of Finance in 2013.

Mr. Zhang Mingzhi (張明智), aged 53, has been an Employee supervisor of the Company since September 2015. He currently serves as the chairman and secretary of the party committee of Chongqing Machine Tools (Group) Co., Ltd. (重慶機床(集團)有限責任公司), a wholly owned subsidiary of the Company. Mr. Zhang is a senior engineer with over 30 years of experience in the machinery manufacturing industry. From August 1983 to December 2005, he successively served positions such as the designer, deputy director of the sales division, marketing assistant to plant manager, director of the marketing division and deputy plant manager of marketing of Chongqing Machine Tools Plant Co., Ltd. (重慶機床廠). He has successively served positions such as the deputy general manager, marketing director, general manager, chairman, secretary of the party committee of Chongqing Machine Tools (Group) Co., Ltd. since December 2005, and also concurrently served positions such as the plant manager and general manager of Chongqing No.2 Machine Tools Factory (重慶第二機床廠) from August 2006 to February 2010. Mr. Zhang graduated from Chongqing Machinery Manufacturing School (重慶機器製造學校) in July 1983, majoring in machinery manufacturing. He continued his studies in the Correspondence School of the Chongqing Municipal Party School (重慶市委黨校函授學院) from September 1998 to June 2001, majoring in economics and management, and in the Training Class of Enterprise Leaders in Business and Administration of Tsinghua University from September to December 2003.

Mr. Xia Hua (夏華), aged 53, has been an employee supervisor of the Company since September 2015. He currently serves as the chairman and party secretary of Chongqing Pigeon Electric Wire & Cable Co., Ltd. (重慶鴿牌電線電纜有限公司), a subsidiary of the Company. Mr. Xia is a senior economist with over 30 years of experience in the power industry. From August 1981 to August 2000, he successively served positions such as the workshop technician, deputy workshop director, deputy head of branch factory, office director, head of production scheduling division and deputy plant manager of Chongqing Electric Machine Factory (重慶電機廠). From August 2000 to January 2011, he successively served as the office director and department party secretary of Chongqing Machinery and Electronics Holding (Group) Co., Ltd. (重慶機電控股(集團)公司). He has been serving as the chairman and party secretary of Chongqing Pigeon Electric Wire & Cable Co., Ltd. since January 2011. Mr. Xia graduated from Chongqing Second Machinery Manufacturing School (重慶第二機械製造學校) in August 1981, majoring in machine manufacturing. In September 2006, he graduated from the MBA Institute of Chongqing University (重慶工商管理碩士學院) with an MBA degree.

SENIOR MANAGEMENT

The following table sets out information regarding our Senior Management officers:

Name	Age	Position
Chen Ping	54	General Manager
Yang Quan	52	Vice General Manager
Sun Wenguang	50	Vice General Manager
Zhang Shu	48	Vice General Manager
Deng Rui	42	Secretary to the Board
Kam ChunYing, Francis	50	Qualified Accountant

Ms. Chen Ping（陳萍）, aged 54, is an executive Director and General Manager of the Company. For details regarding Ms. Chen's experience, please refer to "Executive Directors" set out above.

Mr. Yang Quan（楊泉）, aged 52, is an executive Director and Vice General Manager of the Company. For details regarding Mr. Yang's experience, please refer to "Executive Directors" set out above.

Mr. Sun Wenguang（孫文廣）, aged 50, is a Vice General Manager of the Company. Mr. Sun has concurrently served as a director of Chongqing Machine Tool (Group) Co, Ltd (重慶機床(集團)有限責任公司) since July 2016, the financial controller of Chongqing Power Transformer Co., Ltd. (重慶變壓器有限責任公司)since July 2016, and a director of Precision Technologies Group (PTG) Limited, Chongqing ABB Power Transformer Co., Ltd. since February 2017. He served as the chief of the Reform and Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (Chongqing Enterprise Merge and Bankruptcy Office (重慶市企業兼併破產工作辦公室)) from July 2010 to June 2016. He served as the deputy chief of the Reform and Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (No. 2 corporate supervision department (企業監管二處)) from August 2005 to July 2010, and worked as chairman and director of Chongqing Luzuofu Equity Fund Management Co., Ltd. (重慶盧作孚股權基金管理有限公司) from March 2010 to June 2016. He served as an assistant researcher of the Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (No. 2 corporate supervision department) from March 2004 to August 2005 and as a senior staff member of the Property Rights Administration Division of Chongqing State-owned Assets Supervision and Administration Commission (No. 2 corporate supervision department) from November 2003 to March 2004. He served as a senior staff member of the No. 2 corporate department of Chongqing Municipal Finance Bureau from January 1998 to March 2003. He worked as a office clerk, clerk and senior staff member of the No. 1 corporate department of Chongqing Municipal Finance Bureau from August 1987 to January 1998. Mr. Sun is a assistant accountant. He graduated from Sichuan Provincial Fiscal School majoring in Corporate and Finance in July 1987 with a technical secondary school education degree and graduated with a bachelor's degree in economic management from the Correspondence School of Party School of the CPC Central Committee in December 1999, and from the MBA Institute of Chongqing University (重慶工商管理碩士學院) with a master's degree in 2009.

Mr. Zhang Shu(張舒), aged 48, is a Vice General Manager of the Company. Mr Zhang has served as directors of many companies including Chongqing Water Turbine Works Co., Ltd., Chongqing General Industrial (Group) Co., Ltd., Chongqing Cummins Engine Co., Ltd., Chongqing Jiangbei Machinery Co., Ltd. since July 2016; Mr. Zhang had held various positions including the manager of the planning and development department of Chongqing Machinery & Electronic Holding (Group) Co., Ltd., the manager of the foreign business department and the manager of the planning and development department of the Company from March 2014 to June 2016; he served as the deputy chief of the Department of Foreign Economic and Business, the deputy chief of Planning and Investment Department and the deputy chief (in charge) of the Industrial Department of Chemical Medicine (化工醫藥工業處) in Chongqing Economic and Information Technology Commission from May 2006 to March 2014, and worked as the head of the Coordination Department of Chongqing MDI Headquarters Office (重慶市MDI指揮部辦公室綜合協調部) in charge of daily work of MDI Office from April 2012 to March 2014; he served as a senior staff member of the food industry department (the food industry office of the municipal government (市政府食品工業辦公室), a senior staff member of the foreign business department, an assistant researcher of the foreign business department and the deputy chief of the foreign business department in Chongqing Economic and Information Commission from July 1999 to April 2006. He worked in Chongqing Liling Food Factory (重慶立林食品廠) from December 1992 to September 1996, and worked as a technical staff in the drink and food factory and head of Bailibao workshop of Chongqing Jinyunshan Garden Spot (重慶縉雲山園藝場) from July 1988 to December 1992. Mr. Zhang graduated from Southwest Agricultural University with a diploma in Food Analysis and Inspection in July 1988, and from College of Economics and Trade of Southwest Agricultural University in agricultural economics management with a master's degree in management in July 1999.

Mr. Deng Rui(鄧瑞), aged 42, is the secretary to the Board. Mr. Deng has served as a director of Chongqing Pigeon Electric Wires & Cables Co. Ltd., a director of Chongqing pump industry Co.,Ltd. since July 2016. Mr. Deng has been working in corporate leaders and office management for a long career with extensive experience in corporate management. He served as vice minister and minister of the Organization Department of the Party Committee (the Leader Management Department) of Chongqing Machinery and Electric Holding (Group) Co., Ltd. from June 2012 to June 2016, the secretary and vice director of Chongqing Machinery and Electric Holding (Group) Co., Ltd. from June 2009 to May 2012. He served as the secretary and head of office of the Company from July 2007 to August 2009, and worked as the secretary and head of the comprehensive management department of securities leading group (證券領導小組綜合管理部) of Chongqing Machinery & Electronic Holding (Group) Co., Ltd. from February 2006 to July 2007, and secretary of the Communist Youth League, the director of promotion division, and workshop supervisor of Chongqing Bearing Industrial Co., Ltd. (重慶軸承工業公司) from May 1998 to February 2006. Mr. Deng is a senior political scientist and graduated from Chongqing Machinery & Electric College (重慶機電工程技術學校) in Bearing Processing with a technical secondary school education degree in May 1998, and graduated from the Correspondence School of the Chongqing Municipal Party School (重慶市委黨校函授學院) in December 2008, majoring in economics and management with a bachelor's degree, and graduated from Xiamen University, majoring in international economy and trade with a bachelor's degree in January 2013. He graduated from the EMBA Professional Graduate Program in the School of Management of Xiamen University in December 2014.

Mr. Kam Chun Ying, Francis (甘俊英), aged 50, has been appointed as the qualified accountant of our Company since February 2008. He has served as the chief risk officer of Precision Technologies Group (PTG) Limited of UK since July 2013. Mr. Kam was the secretary of Xinming China Holdings Limited (a company listed on the Main Board of the Stock Exchange, Stock Code: 02699.HK) in July 2016 and served as the chief investment officer in January 2017. Prior to joining the Company, Mr. Kam was the financial controller of TFH Management Limited, and was responsible for finance operations and corporate compliance in both the private and listed companies within that group. Between August 1986 and April 1989, Mr. Kam worked for Deloitte Touche Tohmatsu, previously known as Deloitte Haskins Sells, as a senior account assistant. He has over 20 years of experience in corporate and finance management. He has been a member of the Hong Kong Institute of Certified Public Accountants since June 1996 and a fellow of the Chartered Association of Certified Accountants since June 2001. Mr. Kam graduated from Heriot-Watt University in the United Kingdom in November 2004 with a master's degree in business administration.

Report of the Board of Directors

The Board is pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December 2016.

PRINCIPAL BUSINESS

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

RESULTS REVIEW

The results of the Group for the year ended 31 December 2016 are set out in the consolidated statement of comprehensive income in this annual report on pages 129 to 131. The business performance regarding the Group required by Schedule 5 to the Hong Kong Companies Ordinance, can be found in the "Chairman's Statement" set out on pages 7 to 18 and "Management Discussion and Analysis" set out on pages 19 to 41. An indication of likely future developments in the Group's business is set out on pages 14 to 17. The part of contents on "Chairman's Statement" and "Management Discussion and Analysis" forms part of this "Report of the Directors".

COMPLIANCE WITH LAWS AND REGULATIONS

Due to the nature of the business of the Group, the Directors are of the opinion that no specific laws and regulations related to environmental protection has significant impact on the operations of the Group. Environmental policies regarding the Group are set out in "Environmental, Social and Governance Report" on pages 105 to 120.

RELATION WITH EMPLOYEE, SUPPLIERS AND CUSTOMERS

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

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

The Group faces significant competition from both state-owned enterprises and privately-owned players in each of the markets in which it operates. Due to intensified competition and that the research and development of related products of new energy automobile lagged behind, the Group's transmission systems business did not experience simultaneous growth. In addition, CNC machine tools were constantly affected by the domestic industrial structural adjustments, investment recession and cut excess capacity has resulted in a decrease in demand for machine tools in China and for the Group's CNC machine tools, thus resulting a decrease in revenue. As the number of competitors in each of the main markets in which the Group operates is large, the Group faces intense competition as a result. In some cases, such fierce competition has already caused downward pricing pressure on certain products in the Group's portfolio. The Group's market position depends on its ability to anticipate and respond to various competitive factors, including its competitors' introduction of new or improved products and services, pricing strategies adopted by competitors and changes in customers' preferences. The Group cannot assure that its current or potential competitors will not offer products comparable or superior to those that it offers, at the same or lower prices, or adapt more quickly than it does to evolving industry trends or changing market requirements. Increased competition may result in price reductions, decreased gross profit margins and decrease in the Group's market share.

(2) Risk of Foreign Exchange

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the HK dollar, US dollar and GBP. 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.

(3) Uncertainties in Financial Market

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Details are set out in Note 3 to the consolidated financial statements.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.035 per share (tax inclusive) for the year ended 31 December 2016 (for the year ended 31 December 2015: RMB0.025 per share), which is calculated based on the total share capital of 3,684,640,154 shares for the year ended 31 December 2016, totalling RMB128,962,405.39 (totalling RMB92,116,003.85 for the year ended 31 December 2015). Subject to approval by shareholders at the Annual General Meeting to be convened on 16 June 2017, the proposed final dividend will be paid on 28 July 2017 to shareholders whose names appear on the Register of Members of the Company on 27 June 2017 ("Record Date").

In order to ascertain the entitlements of the shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Thursday, 22 June 2017 to Tuesday, 27 June 2017 (both days inclusive), during which period no transfer of shares will be registered. All transfer documents accompanied by share certificates of the holders of H Shares of the Company must be lodged at our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Wednesday, 21 June 2017.

WITHHOLDING OF ENTERPRISE INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS

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

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

If any resident enterprise (as defined in the EIT Law) whose name appears on the H Share Register of Members which is duly incorporated in the PRC or under the laws of a foreign country (or a territory) but with a PRC-based de facto management body does not wish to have the 10% enterprise income tax to be withheld by the Company, it should lodge all transfers with and submit a legal opinion issued by a PRC certified lawyer (with affixation of common seal of the law firm thereto) that establishes its resident enterprise status to the Group's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 21 June 2017. Any natural person investor whose H shares are registered in the name of any such non-individual shareholders and who does not wish to have any enterprise income tax to be withheld by the Company may consider transferring the legal title of the relevant H shares into his or her own name and lodging all relevant transfer instruments accompanied by the H share certificates with the Company's H Share Registrars for registration no later than 4:30 p.m. on 21 June 2017. Shareholders are recommended to consult their tax advisors regarding tax issues in respect of the ownership and disposal of H shares in the PRC and Hong Kong and other tax effects.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements of the shareholders to attend and vote on the Annual General Meeting, the register of members of the Company will be closed from Wednesday, 17 May 2017 to Friday, 16 June 2017 (both days inclusive), during which period no transfer of shares will be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Tuesday, 16 May 2017.

FINANCIAL REVIEW

Liquidity and Financial Resources

As at 31 December 2016, equity attributable to the shareholders of the Group amounted to approximately RMB6,463.8 million (31 December 2015: approximately RMB6,106.4 million), representing an increase of approximately RMB357.4 million or approximately 5.9%. During this Period, the Group's working capital was mainly internal working capital flow. As at 31 December 2016, the Group's gearing ratio (calculated as borrowings divided by total capital, total capital comprises equity and borrowings as shown in the consolidated balance sheets) was approximately 28.9% (31 December 2015: approximately 29.7%). The Group's current ratio (being the current assets as a percentage of current liabilities) was approximately 1.53:1 (31 December 2015: approximately 1.33:1).

As at 31 December 2016, cash, bank balances and time deposits (including restricted cash) were approximately RMB1,793.6 million, indicating a stable financial position (31 December 2015: approximately RMB2,001.4 million).

FINANCIAL HIGHLIGHTS

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

INVESTMENT PROPERTIES, REAL PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group invested approximately RMB583.7 million in acquisition of non-current assets, such as real property, plant and equipment, etc. for business expansion (for the year ended 31 December 2015 approximately RMB1,071.3 million). Details of the changes in investment properties, property, plant and equipment of the Group during this year are set out in Note 16 and Note 17 to the consolidated financial statements respectively.

SHARE CAPITAL

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

There was no change in the share capital of the Group as at 31 December 2016, details of which are set out in Note 25 to the consolidated financial statements.

BONDS

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

RESERVES

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

CHARITY DONATIONS

During the Period, the Group's charity donation amounted to approximately RMB0.01 million (for the year ended 31 December 2015 approximately RMB0.3 million).

MAJOR CUSTOMER AND SUPPLIERS

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

State Power Investment Aluminium International Trade Co., Ltd.	7.3%
Middle Light Property Chongqing Co., Ltd. (中輕物產重慶公司)	5.3%
Chongqing Liankai Energy Development Co., Ltd. (重慶聯凱能源開發有限公司)	5.1%
CSIC (Chongqing) Haizhuang Windpower Equipment Co., Ltd.	5.1%
China Aluminum Chongqing International Trade Co., Ltd.	2.5%
Total amount of the top five customers	25.3%

None of the top five customers is connected person of the Group.

Set out below are expenses derived from procured products and service from major suppliers as a percentage of the Group's sale cost during the reporting period:

China Shipbuilding Industry Equipment and Materials (Chongqing) Co., Ltd.	14.2%
Minmetals Aluminium Company Limited	6.2%
Chongqing Dongjie Material Co., Ltd.	5.8%
Chongqing Guozhong Trade Development Co., Ltd. (重慶國中貿發展有限公司)	5.1%
Chongqing Longhao Trade Co., Ltd. (重慶隆皓貿易有限公司)	3.3%
Total amount of the top five suppliers	34.6%

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

None of our Directors or their respective associates, or our substantial shareholders who, to the knowledge of the Board, own 5% or more of our share capital, has any beneficial interest in any of our top five customers and suppliers.

COMPETING INTEREST

For the year ended 31 December 2016, the non-competition agreement entered into between Chongqing Machinery and Electronics Holding (Group) Co., Ltd., the Parent Company, and the Company remained effective. Please refer to the Prospectus for details of such undertakings.

DIRECTORS AND SUPERVISORS

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

Executive Directors	**Date of appointment**
Wang Yuxiang	On 18 June 2013
Chen Ping	On 28 June 2016
Yang Quan	On 8 December 2015
Non-executive Directors	
Huang Yong	On 27 July 2007
Wei Fusheng	On 28 June 2016
Deng Yong	On 10 April 2013
He Xiaoyan	On 28 June 2016
Independent Non-executive Directors	
Lo Wah Wai	On 10 January 2008
Ren Changxiao	On 27 July 2007
Jin Jingyu	On 18 June 2012
Liu Wei	On 29 September 2014
Supervisors	
Xiang Hu	On 28 June 2016
Wu Yi	On 29 September 2014
Huang Hui	On 29 September 2014
Zhang Mingzhi	On 18 September 2015
Xia Hua	On 18 September 2015

INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

DIRECTOR'S SERVICE CONTRACTS

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

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

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

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

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of Directors, Supervisors and senior management of the Company are set out on pages 42 to 55 of this annual report.

DIRECTOR'S REMUNERATION

The Directors' fees of the Company are proposed by the Remuneration Committee, considered by the Board and approved by the Annual General Meeting. Other remunerations are determined by the Remuneration Committee based on the position and responsibilities of each Director and the operating results of the Group. Please refer to note 43 to the Consolidated Financial Statements set out on pages 303 to 308 of this annual report.

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS AND CONNECTED TRANSACTIONS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the year ended 31 December 2016, none of the Group and its subsidiaries purchased, sold or redeemed any listed securities of the Company.

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

As of 31 December 2016, none of the Directors, chief executive or Supervisors of the Company had any interests or short positions in the shares, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND BONDS

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

SIGNIFICANT LITIGATION

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

SIGNIFICANT EVENTS

Please refer to pages 37 to 39 of this annual report.

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

For the year ended 31 December 2016, so far as the Directors of the Company are aware, the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

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

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

(L) means long position

H shares of RMB1.00 each of the Company

Names of shareholders	Number of shares	Status	*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)*	Storekeeper		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)*	Corporate interest under the control of major shareholders	(4)	7.93*(L)* 7.93*(P)*	2.37*(L)* 2.37*(P)*
GE Asset Management Incorporated	75,973,334*(L)*	Investment management		6.91*(L)*	2.06*(L)*

(L) *means long position*
(S) *means short position*
(P) *means lending pool*

Notes:

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

(2) Chongqing Machinery and Electronics Holding (Group) Co., Ltd is held as to 76.53% by Chongqing State Owned Assets Supervision and Administration Commission (重慶市國有資產監督管理委員會) through its wholly owned Chongqing Construction Investment Holding Co., Ltd. (重慶建工投資控股有限責任公司). Therefore, Chongqing State Owned Assets Supervision and Administration Commission is deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Investment Holding Co., Ltd.

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

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

Save as disclosed above, the Directors of the Company are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2016.

CONNECTED TRANSACTIONS

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

On 18 November 2016, the Company and the Chongqing Mechanical & Electrical Equipment Technology Research Institute Co., Ltd., the Shanghai Edrive Co., Ltd. and the Ningbo Meishan Duty-Free District Miaojing Investment Management Partnership (Limited Partnership) entered into a joint venture contract to establish a research and development and manufacturing joint venture company in the name of Chongqing RSDA Power Science & Technology Co., Ltd., which will be owned as to 51%, 20%, 9% and 20% respectively. Details are presented at the board of directors of the Hong Kong Stock Exchange website and the Company's website on 18 November 2016.

On 5 January 2016, the Chongqing General Industry (Group) Co., Ltd. (a wholly owned subsidiary of the Company), the Chongqing City Information Industry Investment Promotion Center and the Chongqing Mechanical & Electrical Equipment Technology Research Institute Co., Ltd. entered into a joint venture contract to establish a joint venture company in the name of Chongqing Chongtong Turbine Technology Company Limited, which will be owned as to 40%, 33.3333% and 26.6667% respectively. Details are published in the announcement of the board of directors of the Hong Kong Stock Exchange website and the Company's website on 5 January 2016.

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2016, the summary of the connected party transactions is set out in notes to the consolidated financial statements, where a majority of the transactions constituted continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules.

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

Master Sales Agreement

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

Additionally, in case where there are material fluctuations in the prices of any or all of the products, the parties shall re-negotiate the terms of the Master Sales Agreement in good faith by way of entering into a supplemental agreement or a new master sales agreement. The Master Sales Agreement is valid for a period of three years from the date of the agreement and can be renewed by the Company for successive term of three years by giving notice at least three months prior to the expiry of the initial term. The approved annual caps of sales was set at RMB310 million for the year ended 31 December 2016 (extraordinary general meeting was held on 30 December 2013). The approved annual caps of sales for each of the year ended 31 December 2017, 2018 and 2019 (annual general meeting was held on 28 June 2016) were set at RMB180 million, RMB180 million and RMB190 million respectively.

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

(i) Through the industry website quoted prices in the market or enquiry (including the website of Alibaba (www.1688.com)) at least two independent third parties in the market (i.e. supplier (except the Company and its subsidiaries) in the same or similar products in the same area in daily operations on normal commercial terms to the independent third party for the price);

(ii) if there is no market price determined by an independent third party, the transaction price between the Group and the independent third party.

(iii) If the aforesaid prices are not applicable, according to the cost plus method to determine price (tax price), i.e.: the tax price = cost * (1+ cost profit rate), which the cost profit rate is not lower than 10%, while of the cost profit rate of 10% is determined based on the average gross margin per cent of the group of similar products in the past three years. Except that the cost profit rate of the raw materials procured by Chongqing Shengpu Materials Co., Ltd. and resold to the parent group was 1%, as the Company's handling fees.

For the year ended 31 December 2016, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB68.6 million (for the year ended 31 December 2015: RMB53.6 million).

Master Supplies Agreement

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

Additionally, in case where there are material fluctuations in the prices of any or all of the products, the parties shall re-negotiate the terms of the Master Supplies Agreement in good faith by way of entering into a supplemental agreement or a new master supplies agreement. The Master Supplies Agreement is valid for successive term of three years from the date of the agreement and can be renewed by the Company for another three years by giving notice at least three months prior to the expiry of the initial term. Pursuant to which, the approved annual caps of sales was set at RMB99 million for the year ended 31 December 2016 (Extraordinary General Meeting was held on 30 December 2013). The approved annual caps of supplies for each of the year ended 31 December 2017, 2018 and 2019 (Director's Meeting was held on 29 March 2016) were set at RMB80 million, respectively.

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

(i) Through the industry website quoted prices or query of at least two independent third party market(i.e. the supplier (except the parent company and its contacts) in the price of the same or similar products in the same area in daily operations on normal commercial terms to provide the independent third party);

(ii) If there is no market price determined by an independent third party, the transaction price between the company and its Affiliated Companies and the independent third party;

(iii) If the above price is not applicant, according to the cost plus method to determine price (tax price), namely: the tax price = cost * (1+ profit), which cost profit rate is less than 10%.

For the year ended 31 December 2016, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB53.7 million (for the year ended 31 December 2015: RMB80.2 million).

Master Leasing Agreement

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

The Parent Group leases land and buildings to the Group as the Group's offices, production facilities, workshops and staff quarters. Accordingly, for the year ended 31 December 2016 as approved by the board of directors, the annual lease limit was set to be RMB45 million. For the years ended 31 December 2017, 2018 and 2019, (the board of directors on 29 March 2016), it was approved that the annual cap of the lease for three years was set to be RMB45 million, respectively.

For the year ended 31 December 2016, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB30.8 million (for the year ended 31 December 2015: RMB32.4 million).

FINANCIAL SERVICES FRAMEWORK AGREEMENT

(I) Parent Group Financial Services Framework Agreement

The Company's subsidiary Chongqing Electrical Holdings Group Finance Company Limited (the "Finance Company") and the Parent Company entered into the Framework of Financial Service Framework Agreement on 14 October 2013 (the "Parent Group Financial Services Framework Agreement"), (i) As approved at the Extraordinary General Meeting held on 30 December 2013, the approved proposed annual caps in respect of loan services transactions for the year ended 31 December 2016 was RMB2,500 million (including the corresponding interest). As approved at the Annual General Meeting held on 28 June 2016, the approved proposed annual cap for loan services for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 are RMB2,500 million, RMB2,800 million and RMB3,000 million respectively; (ii) As approved at the Extraordinary General Meeting held on 30 December 2013, the approved proposed annual cap for guarantee services transactions for the year ended 31 December 2016 was RMB618 million (including the corresponding interests). As approved at the Directors' Meeting held on 29 March 2016, the approved proposed annual caps for guarantee for each of the years ended 31 December 2017, 31 December 2018 and 31 December 2019 are RMB100 million (including corresponding handling fees); (iii) The proposed approved annual cap for financial services transactions for the year ended 31 December 2016 was RMB46 million. As approved at the Directors' Meeting held on 29 March 2016, the approved proposed annual caps for financial services were RMB27.5 million, RMB33 million and RMB38.5 million respectively.

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

Loan services

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

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

Guarantee services

Pursuant to the regulations in "the Interim Measures for the Assessment of Risk Supervision Indicators of Finance Company of Enterprise Group" set by CBRC, the ratio of Guarantee risk exposure to total capital in the Finance Company cannot exceed 100%. The registered capital of the Finance Company is RMB600,000,000. Thus the maximum limit amount in respect of annual caps of the guarantee services of the Finance Company is RMB600,000,000.

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

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

For the year ended 31 December 2016, pursuant to the Parent Group Financial Services Framework Agreement, the daily maximum limit amount in respect of the loan services provided by the Finance Company to the Parent Group was approximately RMB1,502.8 million, the transaction amount in respect of guarantee services was approximately RMB0 million and the transaction amount of other financial services was approximately RMB2.2 million (For the year ended 31 December 2015: the daily maximum limit amount in respect of loan services was approximately RMB778.2 million, the transaction amount in respect of guarantee services was approximately RMB102.6 million and the transaction amount of other financial services was approximately RMB1.7 million).

(II) Group Financial Services Framework Agreement

The Finance Company entered into a financial services framework agreement (the "Group Financial Services Framework Agreement") with the Company on 14 October 2013, (i) as approved at the Extraordinary General Meeting held on 30 December 2013, the approved proposed annual caps for the transactions in respect of the deposit services for the year ended 31 December 2016 was RMB2,116 million (including the corresponding interests). As approved at the Annual General Meeting held on 28 June 2016, the approved proposed annual caps for the transactions in respect of the deposit services for each of the years ended 31 December 2017, 2018 and 2019 are RMB2,600 million, RMB3,000 million and RMB3,500 million respectively; (ii) the proposed annual caps for transactions in respect of other financial services for each of the years ended 31 December 2016 was RMB52 million. As approved at the Directors' Meeting held on 29 March 2016, the approved proposed annual caps for the transactions in respect of the deposit services for each of the year ending 31 December 2017, 2018 and 2019 are RMB29 million, RMB34 million and RMB39 million respectively.

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

Deposit services

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

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

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

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

For the year ended 31 December 2016, pursuant to the Financial Services Framework Agreement, the daily maximum limit amount in respect of deposit services provided by the Finance Company to the Group was approximately RMB1,491.5 million and the other financial services was approximately RMB6.9 million (For the year ended 31 December 2015: the daily maximum limit amount in respect of deposit services was approximately RMB1,061.4 million and other financial services was approximately RMB9.4 million).

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

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

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

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

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

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

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

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

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

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

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

For the purpose of Continuing Connected Transactions, the Company has complied with the disclosure requirements of the Hong Kong Listing Rules from time to time, and the value and the transaction terms of the transaction on 31 December 2016 have been determined in accordance with the pricing policies and guidelines set out in the Hong Kong Stock Exchange's Guidance Letter HKEx-GL73-14.

PRE-EMPTIVE RIGHTS

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

BOARD COMMITTEES

The Board of the Company has established Audit and Risk Management Committee, Remuneration Committee, Nomination Committee and Strategic Committee ("Board Committees"). Details of the Board Committees are set out in the section of Corporate Governance Report on pages 87 to 90 of this annual report.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2016, the Group had a total of 11,217 employees (31 December 2015: 12,733 employees). Their salaries were determined based on market trends and their performance. Welfare benefits included insurance, pension schemes, etc., which were strictly executed in accordance with national regulations.

Remunerations of the Directors of the Company were determined by the Remuneration Committee, taking into consideration the operating results of the Company and comparable market statistics. Please refer to the Report of the Board of Directors set out on pages 65 in this annual report.

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

POST BALANCE SHEET DATE EVENTS

Please refer to relevant contents set out in page 40 after the balance sheet date.

PUBLIC FLOAT

For the year ended 31 December 2016, the Company had 1,100,187,470 H shares of which Chongqing Machinery and Electronics Holding (Group) Co., Ltd. held 11,652,000 H shares in its total share capital of 3,684,640,154 shares. Therefore, public shareholding was 29.54%, indicating a sufficient public float throughout the year.

DISTRIBUTABLE RESERVES

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

The Company's reserves available for distribution as at 31 December 2016 under HKFRS and CAS were RMB1,380,890,000 and RMB1,590,505,000 respectively. Thus, as at 31 December 2016, the Company's distributable reserve attributable to owners of the Company amounted to RMB1,380,890,000.

AUDITORS

The Company has appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the international and domestic auditors respectively for the year ended 31 December 2016. PricewaterhouseCoopers has performed audit on the Group's consolidated financial statements prepared in accordance with HKFRS. A resolution in respect of reappointing PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP will be proposed at the forthcoming Annual General Meeting of the Company.

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

The annual results announcement has been published on the Company's website (http://www.chinacqme.com) and the Stock Exchange's website. The annual report will also be available on the Company's and the Stock Exchange's websites on or about 12 April 2017 and will be dispatched to the shareholders of the Company thereafter according to the means they chose to receive communications.

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

Chongqing, the PRC
31 March 2017

Report of the Supervisory Committee

Dear Shareholders:

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

During the reporting period, the Supervisory Committee conducted supervision closely focusing on the annual business objectives and development strategies of the Company in accordance with the Rules of Procedures of the Supervisory Committee of the Company. In order to improve the effectiveness of supervision, the supervision conducted by the Supervisory Committee was based on the practical conditions of the Company, and the comprehensive and three-dimensional supervision was effectively implemented through strengthening the collaboration with the internal audit department and interacting with the supervisory committees of subsidiaries. During the Year, the Supervisory Committee concentrated on conducting annual intensive inspections, specialized inspections on intangible assets, organisational structure, accounts receivable and inventory occupation and investment on cooperative projects, audit supervision on joint venture, supervision and evaluation of effectiveness of internal control and the audit supervision of the economic liabilities of subsidiaries, "dynamic and timely service+project tracking auditing supervision" for major project. In respect of daily supervision, it reviewed the interim results and annual financial accounts, financial budget and profit distribution plans of the Company as well as participated in the review of the auditor's report and provided constructive advice through convening five special meetings of Supervisory Committee, attending one General Meeting, sitting in eight Board meetings, carrying out audit supervision and conducting on-site inspections for relevant matters. The supervision procedures of the Supervisory Committee were effective and standardized, and the supervision and inspection results were effectively utilized.

With respect to the annual progress of the Company in 2016, the Supervisory Committee has the following views:

- The Supervisory Committee has supervised the operating activities of the Company and with a view that the Company has already established a more thorough internal control system and a corresponding internal control management structure and spent much efforts to implement and improve such system and structure. The rules and regulations have been thoroughly cleaned up. The original 111 systems have been merged and revised into 73 systems in the end. These systems have been effectively implemented, which prevented operational risks for the Company.

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

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

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

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

The Supervisory Committee is satisfied with the business activities conducted by the Company and the economic efficiency achieved in 2016, and is confident in the development prospect of the Company.

The Supervisory Committee has duly reviewed and approved the report of the Board, audited financial report and other proposals to be proposed by the Board at the 2016 Annual General Meeting.

By Order of the Supervisory Committee
Mr. Xiang Hu
Chairman of the Supervisory Committee

Chongqing, the PRC
31 March 2017

Corporate Governance Report

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2016 in compliance with the code provisions under the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Individual confirmation has been obtained from all Directors to confirm compliance with the requirements under the Model Code during the year ended 31 December 2016.

THE BOARD

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

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

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

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

All Directors have full and timely access to all relevant information, including updated datas from the management, monthly, regular reports from the Board committees and briefs on significant legal, regulatory or accounting issues affecting the Group. Directors may take independent professional advice, which will be paid for by the Company.

The Company has arranged appropriate Director and Senior Officer liability insurance for Director and Senior Officer.

The Board of the Company consists of 11 Directors, including 3 executive Directors, 4 non-executive Directors and 4 independent non-executive Directors.

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

ATTENDANCE OF DIRECTORS TO GENERAL MEETING

From 1 January 2016 to 31 December 2016, the Company held one annual general meeting.

Attendance of Directors to the general meeting of the Company is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Wang Yuxiang	Executive Director, Chairman of the Board	1/1
Chen Ping	Executive Director *(appointed on 28 June 2016)*	1/1
Yang Quan	Executive Director	1/1
Huang Yong	Non-executive Director	1/1
Wei Fusheng	Non-executive Director *(appointed on 28 June 2016)*	1/1
Deng Yong	Non-executive Director	1/1
He Xiaoyan	Non-executive Director *(appointed on 28 June 2016)*	1/1
Lo Wah Wai	Independent Non-executive Director	1/1
Ren Xiaochang	Independent Non-executive Director	1/1
Jin Jingyu	Independent Non-executive Director	1/1
Liu Wei	Independent Non-executive Director	1/1

ATTENDANCE OF DIRECTORS TO BOARD MEETING

From 1 January 2016 to 31 December 2016, the Company held eight board meetings.

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

Name of Director	Position	Number of meetings attended/total number of meetings held
Wang Yuxiang	Executive Director, Chairman of the Board	8/8
Chen Ping	Executive Director *(appointed on 28 June 2016)*	5/5
Xiang Hu	Executive Director *(resigned on 28 June 2016)*	3/3
Yang Quan	Executive Director	8/8
Yu Gang	Executive Director *(resigned on 4 March 2016)*	1/1
Huang Yong	Non-executive Director	8/8
Wei Fusheng	Non-executive Director *(appointed on 28 June 2016)*	5/5
Deng Yong	Non-executive Director	8/8
He Xiaoyan	Non-executive Director *(appointed on 28 June 2016)*	5/5
Wang Jiyu	Non-executive Director *(resigned on 28 June 2016)*	3/3
Yang Jingpu	Non-executive Director *(resigned on 28 June 2016)*	3/3
Lo Wah Wai	Independent Non-executive Director	8/8
Ren Xiaochang	Independent Non-executive Director	8/8
Jin Jingyu	Independent Non-executive Director	8/8
Liu Wei	Independent Non-executive Director	8/8

Biographical details of Directors are set out on pages 42 to 49 of this annual report.

OFFICE TERM OF INDEPENDENT NON-EXECUTIVE DIRECTORS

All the current Independent Non-executive Directors of the Company are appointed at the General Meeting with the office term of three years. Upon expiry of the office term, each Independent Non-executive Director may offer himself for re-election at Annual General Meetings.

REMUNERATION COMMITTEE

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

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

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

Name of Director	Position	Number of meetings attended/total number of meetings held
Ren Xiaochang *(Chairman)*	Independent Non-executive Director	2/2
Lo Wah Wai	Independent Non-executive Director	2/2
Jin Jingyu	Independent Non-executive Director	2/2
Huang Yong	Non-executive Director *(appointed on 28 June 2016)*	0/0
Wang Jiyu	Non-executive Director *(resigned on 28 June 2016)*	2/2

NOMINATION COMMITTEE

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

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

The Nomination Committee under the Board convened 1 meeting during the year and the attendance record is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Wang Yuxiang *(Chairman)*	Executive Director	1/1
Ren Xiaochang	Independent Non-executive Director	1/1
Jin Jingyu	Independent Non-executive Director	1/1
Liu Wei	Independent Non-executive Director	1/1
Huang Yong	Non-executive Director *(resigned on 28 June 2016)*	1/1

AUDIT AND RISK MANAGEMENT COMMITTEE

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

The Audit and Risk Management Committee convened 4 meetings during the year and the attendance record is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Lo Wah Wai *(Chairman)*	Independent Non-executive Director	4/4
Jin Jingyu	Independent Non-executive Director	4/4
Liu Wei	Independent Non-executive Director	4/4
Deng Yong	Non-executive Director	4/4

During the year, the Audit and Risk Management Committee approved the 2015 Consolidated Financial Report and the 2016 Condensed Consolidated Interim Financial Report of the Company audited by PricewaterhouseCoopers, considered and discussed the accounting policies as set out in the financial reports and the Company's financial position and internal control with external auditors, qualified accountants and the management of the Company.

STRATEGIC COMMITTEE

In response to the Company's needs of building its internal control system, the Board of the Company has established a Strategic Committee. The committee has written terms of reference which are available on the websites of the Stock Exchange and the Company. The Strategic Committee of the Company currently consists of 3 executive Directors, 3 independent non-executive Directors and 1 non-executive Director, and was chaired by the Chairman. The major responsibilities of the Strategic Committee are to carry out research and propose suggestions on the Company's long-term development strategies and material investment decisions for the Board's reference in decision-making. The Company did not convene any Strategic Committee's meeting during the Reporting period.

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises five supervisors, namely Mr. Xiang Hu, Ms. Wu Yi, Mr. Huang Hui, Mr. Zhang Mingzhi and Mr. Xia Hua. During the Period, Mr. Xiang Hu is appointed as the Chairman of the supervisors. To safeguard the interests of the shareholders, the Company's Supervisory Committee is responsible for the supervision of the Company's financial activities and duty fulfillment of the board of Directors, its members and senior management. In 2016, the Supervisory Committee has reviewed the legality of the Company's financial situation and business, and through convening the meetings of the Supervisory Committee and attending the Board meetings, general meetings and other important meetings, establishing archives, etc., conducted the due diligence on senior management personnel. The Supervisory Committee carefully and thoroughly performs their duties according to the principle of prudence.

The Supervisory Committee held 5 meetings in the year, the attendance to which is as follows:

Name of Director	Position	Number of meetings attended/total number of meetings held
Xiang Hu	Chairman of the Supervisory Committee *(appointed on 28 June 2016)*	3/3
Wu Yi	Independent Supervisor	5/5
Huang Hui	Independent Supervisor	5/5
Zhang Mingzhi	Employee Supervisor	5/5
Xia Hua	Employee Supervisor	5/5
Wang Pengcheng	Supervisor *(resigned on 28 June 2016)*	2/2

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

The Audit and Risk management Committee has reviewed the financial control, internal control and risk management systems of the Company for the year. The Board ensured that the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting function. It considered the internal control systems effective and adequate as they allowed the Board to monitor the Group's overall financial position and to provide reasonable assurance that assets are safeguarded against unauthorized use or material financial misstatement; transactions were executed in accordance with management's authorization; and the accounting records were reliable for preparing financial information used within the business or for publication and reflecting accountability for assets and liabilities. The Board was satisfied that the systems are effective and adequate for the purposes of effectiveness of internal control.

ACCOUNTABILITY AND AUDIT

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

The Company has appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP as the international and PRC auditors of the Company respectively. The fees for the services provided by the above auditors to the Group for the year ended 31 December 2016 amounted to approximately RMB3.5 million (2015: approximately RMB4.7 million).

GENERAL MEETINGS

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

RIGHTS OF SHAREHOLDERS

The Company treats all shareholders equally with an aim to ensure that their rights can be fully exercised and their legitimate interests can be safeguarded and that the shareholders' general meetings can be convened and held in strict compliance with the relevant laws and regulations. The Company's corporate governance structure is to ensure that all shareholders, especially the minority shareholders, can enjoy equal benefits and undertake corresponding responsibilities.

Calling an Extraordinary General Meeting

Pursuant to the Articles of Association, the Board may convene an extraordinary general meeting as it thinks fit. Shareholders requisitioning extraordinary general meetings or class meetings shall abide by the following procedures:

(1) Two or more shareholders jointly holding 10% or more of the voting shares relating to a proposed extraordinary general meeting or class meeting may request the Board to convene such meeting by signing and submitting one or more written requests with the same format and contents in which the matters for consideration at the meeting shall be set out clearly. The Board shall proceed to convene the extraordinary general meeting or the class meeting as soon as possible after receiving the aforesaid written request. For the purpose of the preceding requirement relating to the number of voting shares held, such number shall be calculated on the basis of the number of relevant voting shares held on the date of submission of such written request.

(2) If the Board fails to issue a notice of such meeting within 30 days from the date of the receipt of the request, the shareholders submitting such request may require the Supervisory Committee to convene an extraordinary general meeting or a class meeting pursuant to the requirement in the above subparagraph (1). If the Supervisory Committee fails to convene and preside over an extraordinary general meeting or a class meeting according to law within 5 days from the date of the receipt of the request, the shareholders submitting such request and more than 90 consecutive days individually or shareholders together holding over 10% of the Company's shares may convene such a meeting by themselves within 4 months from the date of receipt of the request by the Board, following the procedure for convening such meeting by the Board as much as possible.

Any reasonable expenses incurred by the shareholders in convening and holding such meeting due to the failure of the Board to convene such meeting in response to the aforesaid request shall be borne by the Company. Such expenses shall be deducted from the amounts owed by the Company to the Directors in default.

Procedures to Put Forward Enquiries

Shareholders shall have the right to receive information as provided in the Articles of Association, including:

1. copy of the Articles of Association upon payment of the costs thereof;

2. the right to inspect and copy, subject to payment of reasonable charge:

   (1) all parts of the register of shareholders;

   (2) personal particulars of the Directors, supervisors, general managers and other senior management member of the Company, including:

      a) present and former forename and surnames and any aliases;

      b) principal address (domicile);

      c) nationality;

      d) occupation and all other part-time occupation and positions;

      e) identification documents and their number.

   (3) status of the share capital of the Company;

   (4) reports showing the total nominal value and number of shares repurchased by the Company since the end of the last financial year, the highest and the lowest prices paid and the aggregate amount paid by the Company in respect of each class of its shares repurchased;

   (5) minutes of the general meetings as well as resolutions passed at the meetings of the Board and the Supervisory Committee;

   (6) counterfoil of debentures of the Company;

   (7) financial statements.

Where a shareholder requests to refer to the above-mentioned relevant information or demands information, the written documents stating the class and number of the held shares of the Company shall be submitted to the Company. Upon the verification of the identity of the shareholder, the Company will provide to the shareholder as required. A shareholder may submit and serve the enquiries directly through ob@chinacqme.com.

Procedures to Put Forward Motions at General Meeting

If the Company decides to hold a general meeting, shareholders individually or jointly holding 3% or more of the total shares carrying voting right shall be entitled to propose motions in writing to the convener 10 days before the convening of the general meeting. The convener shall dispatch a supplemental notice of the general meeting within 2 days from receipt of the proposal to notify other shareholders and include such proposed motions into the agenda for such general meeting if they are matters falling within the functions and powers of general meeting.

Motions raised at a general meeting shall satisfy the following requirements:

(1) Free of conflicts with the provisions of laws and administrative regulations, and fall into the business scope of the Company and the terms of reference of the general meeting;

(2) With definite topics to discuss and specific matters to resolve;

(3) Submitted in writing or served to the Board.

A shareholder may submit and serve the motions through ob@chinacqme.com.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

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

During the reporting period, the changes in the Articles of Association of the Company are set out as follows with the approval of Shareholders at the general meeting:

(1) Paragraph 1 of Article 101 of the Articles of Association of the Company "The Company shall establish a Board which consists of 12 directors, comprising 1 chairman."

is amended as "The Company shall establish a Board which consists of 11 directors, comprising 1 chairman."

(2) Paragraph 3 of Article 112 of the Articles of Association of the Company "In case of equivalency between the dissenting votes and affirmative votes, the chairman has the right to cast one more vote." is deleted.

(3) Paragraph 1 of Article 124 of the Articles of Association of the Company "The supervisory committee comprises 6 supervisors, one of which acts as the chairman of supervisory committee. The term of office of supervisors shall be three years, renewable upon re-election."

is amended as "The supervisory committee comprises 5 supervisors, one of which acts as the chairman of supervisory committee. The term of office of supervisors shall be three years, renewable upon re-election."

(4) Paragraph 1 of Article 125 of the Articles of Association of the Company "The supervisory committee shall comprise two shareholder representatives, two independent supervisors (refer to supervisors who are independent of the shareholders and do not hold any internal positions in the Company) and two staff representatives."

is amended as "The supervisory committee shall comprise one shareholder representative, two independent supervisors (refer to supervisors who are independent of the shareholders and do not hold any internal positions in the Company) and two staff representatives."

The Company has established a specific department responsible for handling investor relations. The Company also places strong emphasis on its communications with investors, and considers that maintaining an on-going and open communications with investors can promote investors' understanding of and confidence in the Company. During the year, the Company communicated with 37 institutional investors or investors in 28 meetings such as roadshows, investor presentations, on-site meetings, enterprise visits, and telephone conferences. The effective communication with investors strengthened the Group's relationship with investors and allowed them to have a better understanding and enhanced confidence in operations and developments of the Group.

In 2016, the Company strengthened the communications and promotions with a number of media including China Industry News, Hong Kong Wen Wei Po, Chongqing Daily, etc. To strengthen the relationship between the Company and investors, and improve the transparency of corporate operations, the Company promoted its development strategy and promising outlook by means of website, publicity pamphlet, image building videos, etc., to draw continuous attention from the public and investors on the growth of the Company.

TRAINING OF DIRECTOR

In accordance with the code provisions, the Company arranged trainings on relevant laws and regulations including the Listing Rules for Directors, supervisors and members of senior management of the Company. During the year, the Company has received the written training records of all Directors.

Training of Directors is recorded as follows:

Name of Director	Training content	Attendance
Wang Yuxiang	Function training for new directors	√
Chen Ping	Function training for new directors	√
Yang Quan	Function training for new directors	√
Huang Yong	Function training for new directors	√
Wei Fusheng	Function training for new directors	√
Deng Yong	Function training for new directors	√
He Xiaoyan	Function training for new directors	√
Lo Wah Wai	Function training for new directors	√
Ren Xiaochang	Function training for new directors	√
Jin Jingyu	Function training for new directors	√
Liu Wei	Function training for new directors	√

POLICIES AND GOALS

The Board acknowledges that it is responsible for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

Risk management policies have been formulated for the risk management of the Group, standardized and effective risk management system is established to enhance the risk prevention capacity, thus ensuring that the Group operates in a safe and stable environment, improving the operation management level and achieving the operation strategies and objectives of the Group. The existing practices will be reviewed and updated on a regular basis in accordance with the latest corporate governance practices.

The Board has delegated its responsibilities (with relevant authorities) of risk management and internal control to the Audit and Risk Management Committee. During the year ended 31 December 2016, the Audit and Risk Management Committee (on behalf of the Board) oversee management in the design, implementation and monitoring of the risk management and internal control systems.

MAIN FEATURES OF THE RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The Group's risk governance structure and the main responsibilities of each level of the structure are summarised below:

Board

- Maintains and reviews the effectiveness of internal control and risks management systems under the assistance of the Audit and Risk Management Committee, and measures the nature and extent of risks it is likely to take in achieving the strategic objectives;

- Ensures that the Group establishes and maintains appropriate and effective risk management and internal control systems; and

- Oversees management in the design, implementation and monitoring of the risk management and internal control systems.

Audit and Risk Management Committee

- Assists the Board to perform its responsibilities of risk management and internal control systems;
- Oversees the Group's risk management and internal control systems on an ongoing basis;
- Reviews the effectiveness of the Group's risk management and internal control systems at least annually, and such review should cover all material controls including financial, operational and compliance control;
- Evaluates the effectiveness of the internal control system of the Company, including the reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws and regulations, and adequacy of resources, staff qualifications and experience, training programmes and adequacy of budget of the Company's internal audit, risk management and financial reporting functions; and
- Considers major findings on risk management and internal control matters, and reports and makes recommendations to the Board.

Management

- Designs, implements and maintains appropriate and effective risk management and internal control systems;
- Identifies, evaluates and manages the risks that may potentially impact the major processes of the operations and such new risks arising from the business development from time to time;
- Monitors risks and takes measures to mitigate risks in day-to-day operations;
- Gives prompt responses to, and follow up the findings on risk management and internal control matters raised by the internal audit team or the external risk management and internal control review adviser; and
- Provides confirmation to the Board and Risk Management Committee on the effectiveness of the risk management and internal control systems.

Internal Audit Team and Risk Management Team

- Reviews the adequacy and effectiveness of the Group's risk management and internal control systems;

- Evaluates the efficiency of economic operation, continuously inspects business activities and management behaviours, identifies business risks and defects in internal control, formulates regular audit plans to determine the focus and frequency of audit;

- Reports to the Risk Management Committee the findings of the review and makes recommendations to the Board and management to improve the material systems deficiencies or control weaknesses identified;

- Investigates the risks of significant decision-making projects, continuously refines the policies and standards for the control environment based on the internal control framework and comprehensive risk management framework established in the Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the "COSO") to ensure the effective prevention and control of risks; and

- Assesses the Group's internal control system against the five elements of control environment, risk assessment, control activities, information and communication, and monitoring. The approach, findings, analysis and results of these annual reviews have been reported to the Audit and Risk Management Committee and the Board.

PROCESS USED TO IDENTIFY, EVALUATE AND MANAGE SIGNIFICANT RISKS

As a part of routines and certain risk management and internal control systems, executive Directors and senior management shall meet at least once a quarter to review the financial and operation results of each department. The senior management of our major subsidiaries shall also inform the executive Directors of strategies and policies formulated by the Board on a regular basis with respect to the material development and implementation of its business.

The processes used to identify, evaluate and manage significant risks by the Group are summarised as follows:

Risk Identification

- Identifies risks that may potentially affect the Group's business and operations.

Risk Assessment

- Assesses the risks identified by using the assessment criteria developed by the management; and

- Considers the impact on the business and the likelihood of their occurrence.

Risk Response

- Prioritises the risks by comparing the results of the risk assessment; and

- Determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk Monitoring and Reporting

- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control processes are in place;

- Revises the risk management strategies and internal control processes in case of any significant change of situation; and

- Reports the results of risk monitoring to the management and the Board regularly.

The Group has engaged independent professional adviser ("Internal Control Adviser") to conduct the annual review of the effectiveness of the risk management and internal control systems for the year ended 31 December 2016. With respect to major findings and areas for improvement in risk assessment, the management will closely follow up all recommendations from the Internal Control Adviser to ensure that they are implemented within a reasonable period of time. The Group therefore considers that risk management and internal control procedures of the Group are sufficient to satisfy the current demands on business environment of the Company, and there is no finding that causes the Board to believe risk management and internal control systems of the Group are insufficient.

RISK MANAGEMENT, INTERNAL CONTROL AND AUDIT FUNCTIONS

The risk management and internal audit departments of the Company review the business activities and management behaviours for the Group on a regular basis, to identify the business risks, internal control defects, and offer improvement opinions and suggestions. During the year under Review, the Company conducted a series of specific risk management, internal control and audit works, among other things, including:

RISK MANAGEMENT

Risks on major projects of the Group were assessed through adopting assessment via various hierarchies such as the business department, risk control and legal affairs department, external legal advisors and the management, so as to ensure effective prevention and control of risks. During the year, a total of 73 rules and regulations were assessed, 66 copies of contracts were reviewed and legal examination on 13 important decisions was conducted. A quarterly collection, analysis, reporting and tracking and handling mechanism in relation to material legal risks was set up. Hence, serving the function of a firewall, risk management has become an integral part in corporate operation and management.

For the supervision on overseas subsidiaries, the Chief Risk Officer (CRO) of the Company was appointed to the PTG UK, who is responsible for the establishment of risk management and internal control system and execution of assessment, establishment and supervision of the internal control process and system, monitoring operational activities deficiencies and business risks. The Chief Risk Officer will issue a annual Risk Management Report with respect to the risk management practices of PTG UK at the end of each year.

INTERNAL CONTROL

During the Period, in strict compliance with the requirements of the Listing Rules of the Hong Kong Stock Exchange and the five ministries or commissions of the PRC including the Ministry of Finance, the Group strengthened the risk control and management of its domestic and overseas subsidiaries. Based on the foundation laid which centred upon operation and rectification, the focus of internal control of the Group for the year has been shifted to a new phase featuring in-depth enhancement and continuous improvement. A norm of self-inspection, professional evaluation and continuous improvement has been established within the internal control system, In addition, a professional evaluation team organized evaluation to the effectiveness of internal control of subsidiaries of the Group, namely the Company, Chongqing Gas Compressor and Chongqing Pump. At the same time, an internal control inspection was conducted on four subsidiaries of the Group, namely, Chongqing Machine Tools, Chongqing Shengpu, Chongqing CAFF and Qijiang Gear Transmission. In general, the internal control system of the Group is effective.

INTERNAL AUDIT

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

During the Period, the internal audit department strived to "manage assets" through asset audit and financial audit, "manage compliance" through inspection and investigation, "manage personnel" through economic responsibility audit, "manage matters" through project audit, "manage risk" through effectiveness assessment and strengthened the special and daily supervision functions of the Supervisory Committee. The Company executed 117 supervision projects in aggregate. Internal review increased monitor on the Joint Venture, and the supervision method in combination of "Dynamic Timing Service" and "Professional Tracking Audit" in construction projects of CCEC high-powered engine made good achievements. During the year, the internal audit department implemented 19 construction projects and sporadic engineering project audits, 15 financial audits and 31 economic responsibility audits.

INFORMATION DISCLOSURE POLICY

An information disclosure policy is in place to ensure potential inside information being captured and confidentiality of such information being maintained until consistent and timely disclosure are made in accordance with the Listing Rules. The policy regulates the handling and dissemination of inside information, which includes:

- Designated reporting channels from different operations informing any potential inside information to designated departments;

- Designated persons and departments to determine further escalation and disclosure as required; and

- Designated persons authorised to act as spokespersons and respond to external enquiries.

Environmental, Social and Governance Report

GROUP PHILOSOPHY

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

ENVIRONMENT

In strict compliance with national environmental regulations, the Group proactively shoulders environmental responsibility by advancing technological innovations, enhancing resource utilization efficiency and promoting energy conservation and emission reduction in its production and development, to explore on an approach featuring low consumption, low emission and high output. During the year ended 31 December 2016, the Group's pass rate for major pollutant emission indicators and hazardous waste disposal rate both reached 100%. All newly constructed, upgrade and expansion projects were in strict compliance with the national environmental requirements on "simultaneous design, construction and commissioning" as scheduled.

Emissions

The Group is principally engaged in manufacturing machinery equipment and parts, without large quantity of direct emission of waste gas, greenhouse gas, wastewater and other hazardous wastes. The emission mainly comprises solid metal scraps from the machining process. The sewage treatment system of the Group is in place and under the on-line real-time monitoring by government, with all emissions up to the standard. The Group also takes initiatives for full recycling of waste materials to reduce the environmental impact. During the year ended 31 December 2016, the Group generated approximately 8,400 tones of metal scraps, which were sold for approximately RMB11.088 million through public auction. The hazardous wastes produced by the Group mainly composed of waste oil and waste oil wrappages, in a total of about 453.776 tons, which were collected by qualified professional recycling company for the innocuous treatment.

Greenhouse Gas Emissions

Summary of Greenhouse Gas Emissions

Category	Quality of greenhouse gas (Unit: t)	CO_2 equivalent of greenhouse gas (Unit: tCO_2e)
CO_2 emissions from the burning of fossil fuels	35,670.64	35,670.64
CO_2 emissions produced by the electric power under net purchase	165,225.60	165,225.60
Total greenhouse gas emissions of the enterprise (tCO_2e)	200,896.24	200,896.24

During the reporting period, the greenhouse gas emissions of the Group were 200,896.24 tCO_2e, and the annual emission intensity was 0.2201 tCO_2e for each RMB10,000 operating revenue. The Group took the measures of replacing other fuels with natural gas, adopting high efficiency or power saving equipment, introducing renewable energy (wind or solar energy etc.), assessing and improving waste recycling, resource material recycling, saving water, reducing wastewater to alleviate treatment pressure, lighting management, summer air conditioning management and building natural lighting, sunblock design, etc. to lower greenhouse gas emissions.

Resource Utilization

Responding to the government's call on environment protection and energy saving, the Group has accelerated the elimination and retirement of equipment with high energy consumption. Meanwhile, our new plants are constructed in full compliance with environmental standards, including the design with new energy-efficient equipment and the wide use of green offices based on paperless technology. The Group has carried out energy management contracting in its subsidiaries including Chongqing dove brand wire and cable co., LTD, Chongqing cafu automobile brake steering system co., LTD, a comprehensive energy-saving research by holding companies of affiliation, strengthening effective utilization of energy and realize energy saving and consumption reducing. Through the optimization, modification and recycling of its critical points with large energy consumption including waste heat, residual pressure and lighting, the rate of emission in terms of standard coal, CO_2, SO_2 and dust will be reduced. Implementing the conditions of contract energy management in the year of 2017 will be continued in the selected companies with conditions. For the year ended 31 December 2016, the Group's comprehensive energy consumption per RMB10,000 value addition decreased by 6% year-on-year approximately.

The Group attached great importance to the utilization and conservation of water resources, and adopted water-saving production technology and equipment to recycle water resources as far as possible. Water conservation slogans were set to enhance the water-saving consciousness. The concealed pipes were checked on a regular basis to avoid leakage, and the internal water supply systems were also inspected. In addition, the damaged tanks, faucets and other water supply facilities were repaired in a timely manner.

Resource consumption scale of the Group:

Resource categories	The measuring unit	The total consumption	Consumption amount per RMB10,000
Electric power	Thousand KWH	173,647.5	0.19
Natural gas	Cubic meters	10,474,600	11.47
Gasoline	Ton	229.28	0.0003
Diesel	Ton	1,326.1914	0.0015
Water	Ton	3,589,554.8	3.932
Packaging materials	Ton	8,716.7	0.0095

Environment and Natural Resources

The Group also actively develops environmental-friendly and energy-efficient products/ businesses to fulfill its responsibility in environmental protection. For instance, the Group manufactured wind power rotor blades of 2,027.65MW in 2016, representing annual power generation of approximately 3,643,687 thousand KWH, increasing by 3.54% compared with that in 2015. The Group has introduced a series of products in the field of nuclear power to participate in the construction of nuclear power, including G3 nuclear secondary charging pump and G3 nuclear power refrigeration units and actively participates in the construction of nuclear power. Treatment of municipal sewage has been under testing phase, with sewage treatment of 545,600 Cubic meters in 2016.

SOCIETY

EMPLOYMENT AND LABOUR ROUTINES

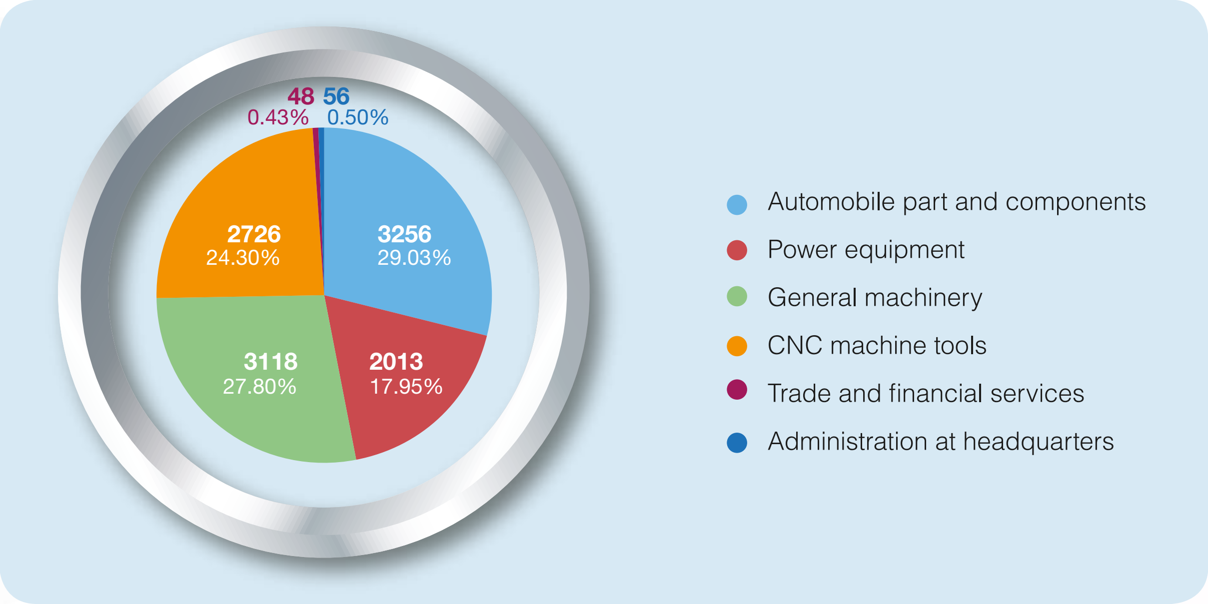
The Group embraces the talent concept of "paying respect to the dedicated, utilizing the competent, fostering the aspiring and incentivizing the innovative", seeking to provide a safe and sound working environment for employees and cultivating talents experienced in technology and management. By improving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

Employees

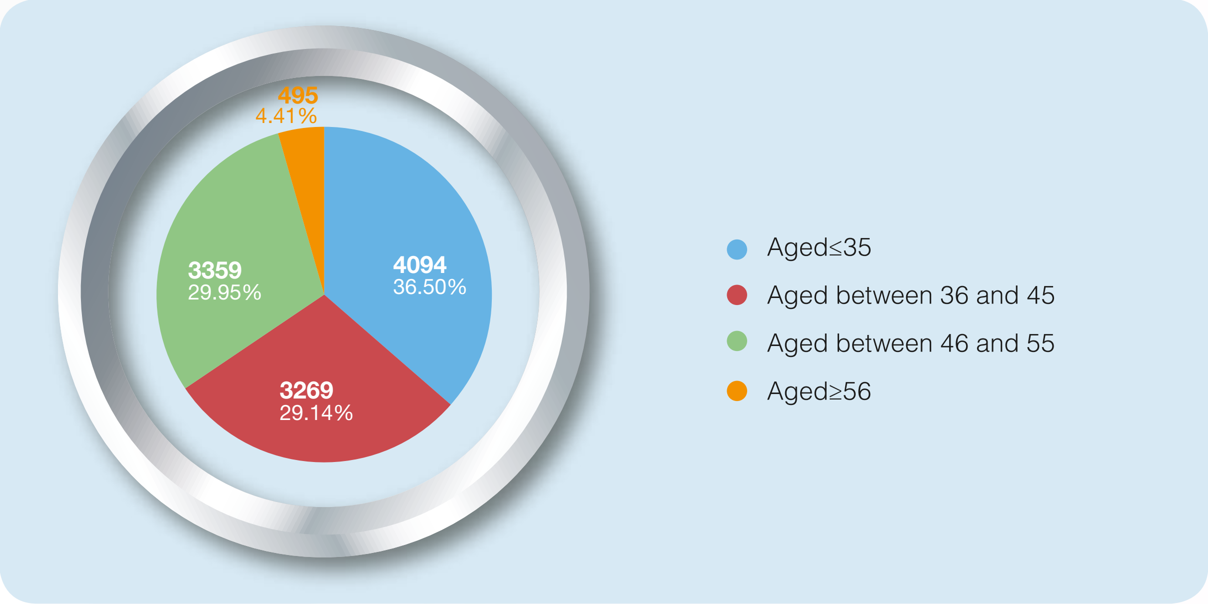
The Group places great emphasis on growth of employees in a harmonious internal atmosphere through structural adjustment, improvement of employee quality, and creation of good work environment. To effectively tap on human resources, fully motivate employees' enthusiasm and creativity and encourage them to perform fruitfully, the Group adheres to the approach of giving priority to efficiency with due consideration to fairness, focusing on both teamwork and individual performance and linking individual compensation to corporate profits. Employees are offered a competitive remuneration package, subject to annual adjustments based on individual performance, contribution and market conditions. Clinging to employment on an equal and standardized basis, the establishment of a harmonious labor relationship, and the enhancement of the sense of belonging to organization of employees, the Group publicizes details of candidates to be appointed and promoted to ensure transparent information, process and results. With work hours arranged in strict accordance with national labor laws, the Group pays full respect to employees' right to rest, providing paid leave and other leaves for marriage, maternity and bereavement in addition to statutory holidays.

As of 31 December 2016, the Group had 11,217 dedicated employees with a more rational age and specialty mix. The breakdown of the Group's employees by different criteria is set out as follows.

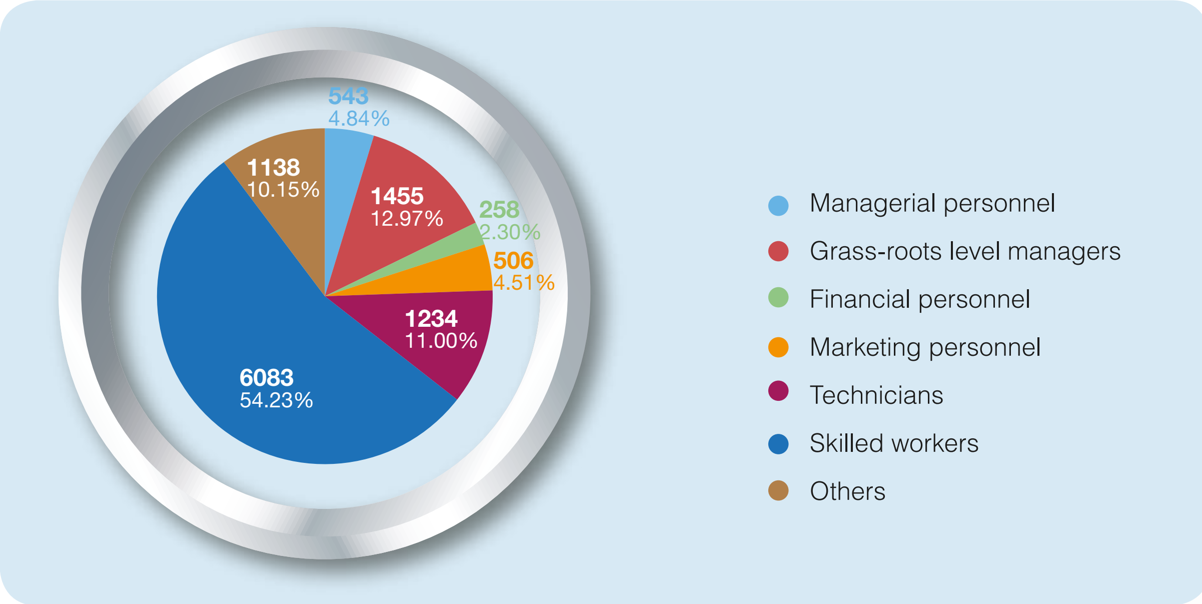
Employees by business segment



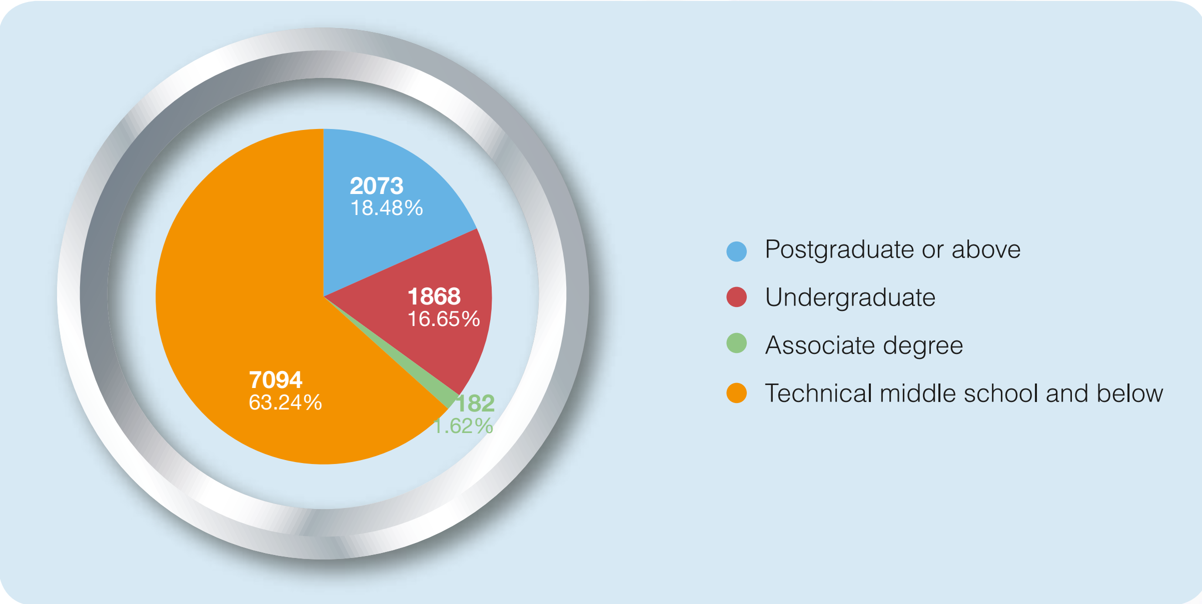
Employees by Age



Employees by specialty



Employees by education



Health and Safety

Occupational health and safety are a high priority within the Group. Sticking to the approach of "safety foremost, prevention-dominated and comprehensive treatment", we strictly implement the Basic Rules on Standardised Production Safety of Enterprises (AQ/T9006-2010). By bringing some key works including accident prevention and control, standardization, the infrastructure of occupational health and pollution control into the evaluation system of safety goal, we have established a sound occupational safety and health management system. The Company takes initiatives to drive its subsidiaries to participate in ISO14001 and ISO18001 standard authentications. Non-scheduled inspections on production safety are conducted to eliminate safety hazards and ensure production safety. Periodic review was conducted for the safety standardization of six enterprises including Chongqing Machine Tools (Group) Co., Ltd. In addition, the construction of demonstration enterprise for security technology management system was launched in six enterprises including Chongqing General Industry (Group) Co., Ltd., which perfected the safety technology management service system and standardized the operation formulas by "establishing organizations, specifying responsibilities, perfecting systems, standardizing formulas and making strict assessment".

Employees at each business segment are furnished with dust masks, safety glasses, helmets, protective clothing and other special labour supplies to effectively improve individual protection. Work-related injury insurance and regular health checks also cover each employee to relieve their concerns. For the year ended 31 December 2016, the Group had no work-related death or serious injury, and the work-related minor injury rate was 0.027%, generally below the control target of 2%. The rectification rate of identified safety hazards was 98.81%, and zero additional patient of occupational disease was recorded in the year.

Development and Training

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

During the Period, the Group held a total of 930 training sessions primarily covering business skills, expertise, lean manufacturing, corporate culture, employee safety and health, with 15,860 person-times of participation and average about 37 training hours per person.

Labour Standards

The Group strictly observes the Labour Law of the PRC, the Labour Contract Law of the PRC and the laws, regulations and policies against child labour or forced labour, to protect employees' rights and interests under the laws and creates an impartial and legitimate workplace with due respect to human rights. Labour protection measures are in place for female employees in menstruation, pregnancy, maternity and lactation periods, and it is prohibited to arrange females in any work of the fourth-level physical intensity as specified in national regulations or other prohibited work. With well-established procedures in key areas such as employment and recruitment, we ensure compliance throughout the employment process and eliminate use of child labour in practices. Forced labour is prevented and the implementation of labour protection system is supervised by the labour union. During the year ended 31 December 2016, the Group did not involve any violation of standards, rules and regulations on child labour and forced labour.

Effectiveness of Human Resources

During the year ended 31 December 2016, the Group continued to offer job opportunities to the public and recruited a total of more than 560 persons. To give better play to human resources and fulfill its social responsibility, the Group has established a human resources management system and operational mechanism catering to knowledge economy, market economy, social responsibility and the Group's development strategy. Through designing career paths for employees, the Group granted incentives of approximately RMB88,500 on dual-channel talent introduction and cultivation. Differentiated remuneration policies were elaborated to further motivate employees, and a team of management, technology and skilled talents with proven competency has been established to provide strong talent and intelligence supports to our strategic goal.

The Group has 17 employees forming a team to participate in the "Skills Competition of Welders, Lathe Workers, Fitting, Wiremen and CAD in Chongqing" (重慶市機械冶金行業焊工、車工、裝配、電工、CAD機械製圖技能大賽) sponsored by Chongqing Trade Union Council, and 6 of them won the first individual prizes, 5 won the second individual prizes and 6 won the third individual prizes.

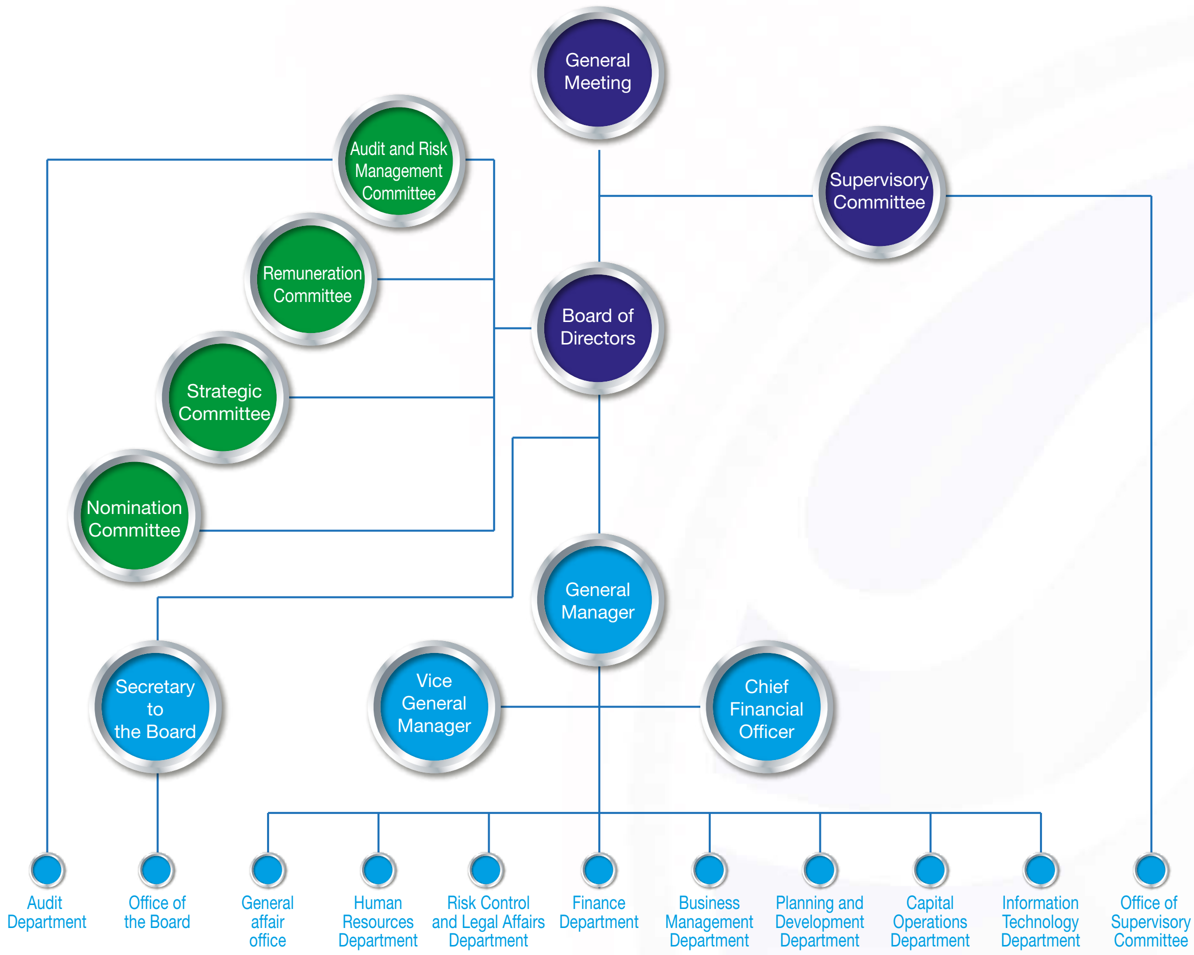
Operational Practices

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

Corporate Governance

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

Diagram of Corporate Governance Structure



Return to Shareholders

The Company holds analyst meetings, web conferences, road shows and other activities regularly or for major events, to enhance communication with investors and prospective investors; prepare statistics and analysis of the number, composition and change of investors and prospective investors and collect their opinions or suggestions; establish and maintain sound public relations with stock exchanges, industry associations, media, other listed companies and relevant institutions; and monitor online media to timely detect false reports on the Company and safeguard the Company's positive public image. A scientific dividend distribution model has been established with a view to the Company's sustainable development and return to shareholders. Since the Company's listing in June 2008 up to the end of 2016, the Company has distributed dividends totalling approximately RMB1.312 billion, providing an attractive return to its long-term shareholders through secondary market.

Supply chain management

The Group is always open to mutual benefit through collaboration with upstream and downstream players in the industry chain. The Group adheres to open, fair and transparent criteria in selecting suppliers, evaluate suppliers every year in terms of price, quality, cost, delivery and after-sales service, and insist the dual-sourcing management to establish a supply chain platform with core competitiveness and vitality. The Group continue to assist suppliers in upgrading management and technologies, seeking to consolidate and optimise the sustainable supply chain system for mutual growth with our suppliers. The Group has established a centralized bidding and procurement platform for bulk materials including steel products and bearings. The centralised procurements for the latest 3 years amounted to approximately RMB573 million, representing direct cost reduction of approximately RMB34.38 million.

Product liability

Adhering to the principle of “quality first, customer foremost”, the Group is committed to providing customers with superior products and services, and has witnessed continuous improvements in brand image and customer satisfaction. All products manufactured by the Group are qualified by the national standards on the industry. During the year ended 31 December 2016, no product of the Group was recalled due to safety and health reasons.

Intellectual Property

The Group attaches particular importance to maintenance and protection of intellectual property rights, and has entered into strategic partnership with the Intellectual Property Office of Chongqing Municipality to promote the enhancement of enterprise patent level. In 2016, the Group obtained 199 authorized patents, including 32 authorized invention patents, and expanded its patent pool to 1,873 patents, including 114 invention patents. The Intellectual Property Office of Chongqing Municipality in collaboration with the public security bureau, the quality and technical supervision and the commerce and industry authorities crack down on counterfeits infringing the Group’s products. These intellectual property protection initiatives greatly assist the Group in consolidating market share and maintaining a fair market competition environment.

Information Security

Subject to relevant existing national standards and international standards in combination with present situation of informationization development, the Company established the center machine room safeguarding the security operation information system, which satisfied the requirements in terms of structure, area, temperature, electrical engineering, fire protection and security. The resources in information system or information network were prevented from various threats, interference and damages through network isolation, data encryption, firewall and other means. Relevant management regulations were formulated to standardize the operational procedures of terminal server, network equipment, personal terminal and application system, and to prevent the data from destruction, modification or leakage. Furthermore, data backup and disaster recover systems were established to ensure the quick recovery of data in case of major disasters.

Anti-corruption and Internal Control

The Group attaches great importance to its responsibility in anti-corruption in order to maintain a fair and positive business environment. The Group has formulated the Code of Ethics of Employees under which employees are required to abstain from accepting or offering any money, gift and hospitality that might affect their business decision or independent judgment, or exploiting their positions against the Company's interests. The Anti-fraud Procedures and Control System are designed to prevent falsification, concealment of truth, fraudulence and other illegal behaviours by insider or outsider in the Group's activities which might infringe interests of the State, the Company or other parties. In addition to an internal audit system in place to monitor and review all employees as to their compliance with anti-corruption laws and regulations, the Group has established whistle-blowing system and procedures, including dedicated email address and hotline to accept whistle-blowing. Whistle-blowers of verified cases will be rewarded accordingly. During the year ended 31 December 2016, the Group did not identify any corruption or bribe-taking case.

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

Pursuant to the Basic Rules on Internal Control of Enterprises jointly promulgated by five ministries and commission including the Ministry of Finance and the Code on Corporate Governance Practices for listed companies on the Stock Exchange of Hong Kong, the Group has established a sound internal control system. Through the evaluation and inspection on the operation of internal control system of the Company and its subsidiaries, as well as the continuous tracking and monitoring of improvement on internal control system, the effectiveness of internal control system has been promoted. In 2016, evaluation or improvement has been conducted on the effectiveness of internal control system for the Company, Chongqing Pump Company Chongqing Gas Compressor Factory Co., Ltd, and the improvement on internal control system has been tracked and monitored for 4 enterprises including Chongqing CAFF, Qijiang Gear Transmission, Chongqing Shengpu and Chongqing Machine Tool.

The Group has established an effective legal risk prevention and treatment framework comprising the Contract Management System and the Management Measures on Legal Affairs. Legal review mechanism has been established for rules and regulations, economic contracts, and material decisions. In 2016, the Group reviewed 74 contracts; and quarterly reporting mechanism of significant legal risks has been established to resolve the legal risks in a timely manner.

Connecting with the Communities

As a responsible enterprise, the Group actively takes part in community activities to support public welfare in addition to its efforts in delivering business growth. The Group listens to community needs, proactively contribute to local economy, livelihood and a harmonious environment for mutual benefit.

On 19 January 2016, Chongqing Pigeon Electric Wire & Cable Co., Ltd., a subsidiary of the Company, conducted the love activity themed as "Happiness likes flowers (幸福得像花兒一樣)" in the Hope School in Dawan Town, Yubei District, Chongqing City. The positive energy of enterprise culture of Chongqing Pigeon was delivered to the deep mountainous region by raising donations for children in remote mountainous regions and offering them clothes, toys and school supplies like pens that donated by the Company and employees.

On 13 March 2016, the Company organized its employees and their families to voluntarily plant over 50 trees in Fengtoxi Community, Dazhulin Street, and took charge of the subsequent maintenance.

In 2016, the subsidiaries of the Company successively organized to participate in various blood donation activities, and a total of approximately 200 employees participated in such activities with a blood donation volume of over 80,000ml.

In 2016, the Group continuously conducted the youth love commonweal activity themed "Happy CQME under the Sunshine in Winter" (冬日陽光，幸福機電). In this activity, collection points of idle living and learning items were set in eye-catching locations such as staff canteen, staff entrance gate and workshop passages, and those items were classified and then donated to the love commonweal organization.

During the year ended 31 December 2016, the Group made charitable donations totaling approximately RMB0.01 million. The Group will continue to support and participate in a variety of public welfare activities.

Independent Auditor's Report

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

OPINION

What we have audited

The consolidated financial statements of Chongqing Machinery & Electric Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 129 to 308, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

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

Key audit matters identified in our audit are summarised as follows:

- Impairment of property, plant and equipment
- Valuation of inventory
- Valuation of trade receivables

Key Audit Matter	How our audit addressed the Key Audit Matter
Impairment of property, plant and equipment Refer to note 16 to the consolidated financial statements. As at 31 December 2016, the total balance of property, plant and equipment ("PP&E") is RMB3,877,917,000, including certain amount of PP&E relating to loss making subsidiaries of the Gear boxes and Machinery tools segments. PP&E is carried at the lower of historical cost less accumulated depreciation and value in use based on discounted future cash flows of cash generating units ("CGU"). Significant judgements are required for determination of key assumptions applied in the impairment assessment, including discount rates, revenue growth rates and gross margins. As a result of management assessment, no impairment provision was made for PP&E as at 31 December 2016. We focused on this area because of the significance of PP&E balances and management judgements involved.	We evaluated the appropriateness of the discounted cash flow model adopted by management. We challenged management's key assumptions by: • comparing the revenue growth rates with historical data, assessing future customer demand with reference to our knowledge of economic and industry trend; • comparing the gross margin with the historical data and considering the future product mix and production volume; • comparing the discount rate with the cost of capital for the CGUs. We tested the mathematical accuracy of the calculations of the discounted cash flows. We independently performed sensitivity analysis about the key drivers of growth, including revenue growth and expected changes in gross margins. We found that management's judgements in determining the value in use of PP&E are supported by the evidence we gathered.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of inventory Refer to note 22 to the consolidated financial statements. As at 31 December 2016, the Group had gross inventory balance of RMB1,558,554,000 against which a provision of RMB123,407,000 was made. Inventories are carried at the lower of cost and net realisable value ("NRV"). NRV is determined based on the estimated selling price less the estimated costs to completion, if relevant, other costs necessary to make the sale and related taxes. We focused on this area because of the significance of inventory balance and management judgements involved in identifying inventories subject to write-down and determining the NRV.	We evaluated and tested management's controls over identifying inventories subject to write-down and determination of the estimated selling price. We evaluated and challenged the methodology adopted by management for identifying inventories subject to write-down based on our independent assessment of write-down indicators. We compared the estimated selling prices with the selling prices of the recent orders from customers. We challenged management's future sales projections for the prices and quantities by checking historical sales information and considering market trend. We independently evaluated the future market trend factors management considered in determining the estimated selling prices, including possible changes of customer demands and technology development, by corroborating with research information, checking subsequent outcomes of these factors and making reference to our industry knowledge. We assessed the reasonableness of the estimated costs to completion by comparing with the historical costs to completion of the similar inventories. We found that management's judgements in determining the NRV of inventory are supported by the evidence we gathered.

Key Audit Matter	How our audit addressed the Key Audit Matter
Valuation of trade receivables Refer to note 19 to the consolidated financial statements. The balance of trade receivables as at 31 December 2016 is RMB2,159,739,000, against which a provision for impairment of RMB273,941,000 was made. For individual provision, judgement is required for identifying trade receivable balances impaired and determining the future cash flows. For collective provision, judgement is required for determining the provision needed for trade receivable balances with similar credit risk characteristics, taking into consideration the historical experience, ageing analysis and credit conditions. We focused on this area because of the significance of trade receivables balance and management judgements involved in determining the collectability and impairment.	We evaluated and tested the controls over the collection of the trade receivables, including monthly review of ageing analysis, repayment and impairment assessments of trade receivables performed by management. We sent confirmations to customers on a sample basis, focusing on material balances. For individual provision, we challenged management's process for identifying trade receivables impaired and checked the documents and information relating to the estimated future cash flows on a sample basis. For collective provision, we tested the accuracy of ageing analysis. We assessed the appropriateness of the method management adopted to determine the provision by comparing with the historical bad debts incurred. We found that management's judgements relating to the recoverability of trade receivable are supported by the evidence we gathered.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

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

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

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

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Lee Chung Bor.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 31 March 2017

Consolidated Statement of Comprehensive Income

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Revenue	5	**9,129,302**	9,010,422
Cost of sales	8	**(8,118,844)**	(8,022,954)
Gross profit		**1,010,458**	987,468
Distribution costs	8	**(242,519)**	(270,407)
Administrative expenses	8	**(784,468)**	(1,087,097)
Other gains, net	6	**226,676**	642,380
Other income	7	**73,477**	71,501
Operating profit		**283,624**	343,845
Finance income		**18,329**	24,395
Finance costs		**(118,881)**	(133,281)
Finance costs, net	10	**(100,552)**	(108,886)
Share of post-tax profits of joint venture	12	**251,019**	265,127
Share of post-tax profits of associates	12	**100,609**	23,810
Profit before income tax		**534,700**	523,896
Income tax expense	13	**(28,501)**	(57,311)
Profit for the year		**506,199**	466,585

Consolidated Statement of Comprehensive Income *(Continued)*

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
– Remeasurements of retirement and termination benefit obligations		**2,016**	9,935
– Income tax relating to remeasurements of retirement and termination benefit obligations		**(243)**	(349)
Items that may be reclassified to profit or loss			
– Fair value losses on available-for-sale financial assets		**(495)**	(266)
– Income tax relating to available-for-sale financial assets		**74**	40
– Net investment hedge		**(13,351)**	–
– Currency translation differences		**17,517**	1,856
– Share of other comprehensive income of investments accounted for using the equity method		**529**	–
Other comprehensive income for the year, net of tax		**6,047**	11,216
Total comprehensive income for the year		**512,246**	477,801
Profit attributable to:			
Owners of the Company		**443,502**	417,634
Non-controlling interests		**62,697**	48,951
		506,199	466,585

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Total comprehensive income attributable to:			
Owners of the Company		**449,549**	428,850
Non-controlling interests		**62,697**	48,951
		512,246	477,801
Earnings per share for profit attributable to the owners of the Company for the year (expressed in RMB per share)			
– Basic and diluted	14	**0.12**	0.11
Dividends proposed after the balance sheet date to all shareholders	33	**128,962**	92,116

The notes on pages 138 to 308 are an integral part of these consolidated financial statements.

Consolidated Balance Sheet

(All amounts in RMB unless otherwise stated)

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment	16	**3,877,917**	3,715,249
Investment properties	17	**12,087**	25,958
Lease prepayments	15	**519,562**	616,515
Intangible assets	18	**307,917**	297,956
Investments in associates	12	**709,102**	484,977
Investment in joint venture	12	**337,236**	326,990
Trade and other receivables	19	**85,329**	41,985
Deferred income tax assets	31	**88,521**	86,574
Available-for-sale financial assets	23	**7,267**	7,763
Other non-current assets		**53,766**	23,613
		5,998,704	5,627,580
Current assets			
Inventories	22	**1,435,147**	1,880,756
Trade and other receivables	19	**5,129,424**	4,301,327
Dividends receivable		**245,557**	428,645
Amount due from customers for contract work	20	**589,744**	527,389
Available-for-sale financial assets	23	**150,000**	–
Restricted cash	21	**407,613**	457,399
Cash and cash equivalents	24	**1,385,953**	1,543,975
		9,343,438	9,139,491
Total assets		**15,342,142**	14,767,071

Consolidated Balance Sheet *(Continued)*

(All amounts in RMB unless otherwise stated)

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	25	**3,684,640**	3,684,640
Reserves	26	**(654,383)**	(678,400)
Retained earnings			
– Proposed final dividend		**128,962**	92,116
– Others		**3,304,621**	3,008,051
		6,463,840	6,106,407
Non-controlling interests		**553,367**	448,395
Total equity		**7,017,207**	6,554,802
LIABILITIES			
Non-current liabilities			
Borrowings	29	**1,551,456**	668,779
Deferred income	30	**460,798**	411,518
Deferred income tax liabilities	31	**70,761**	75,940
Long-term employee benefit obligations	32	**145,987**	186,974
		2,229,002	1,343,211

Consolidated Balance Sheet *(Continued)*

(All amounts in RMB unless otherwise stated)

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
Current liabilities			
Trade and other payables	27	**4,637,313**	4,588,696
Dividend payable		**24,952**	24,190
Amount due to customers for contract work	20	**13,018**	4,535
Current income tax liabilities		**35,728**	56,559
Borrowings	29	**1,298,477**	2,101,047
Deferred income	30	**39,928**	38,605
Current portion of long-term employee benefit obligations	32	**30,533**	39,907
Provisions for warranty	28	**15,984**	15,519
		6,095,933	6,869,058
Total liabilities		**8,324,935**	8,212,269
Total equity and liabilities		**15,342,142**	14,767,071

The notes on pages 138 to 308 are an integral part of these consolidated financial statements.

The financial statements on pages 129 to 137 were approved by the Board of Directors on 31 March 2017 and were signed on its behalf

Director

Director

Consolidated Statement of Changes in Equity

(All amounts in RMB unless otherwise stated)

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

Consolidated Statement of Changes in Equity *(Continued)*

(All amounts in RMB unless otherwise stated)

	Attributable to owners of the Company					
	Share capital *RMB'000*	Other reserves *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2016	3,684,640	(678,400)	3,100,167	6,106,407	448,395	6,554,802
Comprehensive income						
Profit for the year	–	–	443,502	443,502	62,697	506,199
Changes in fair value of available-for-sale financial assets, net of tax	–	(421)	–	(421)	–	(421)
Share of other comprehensive income of investments accounted for using the equity method	–	529	–	529	–	529
Remeasurements of retirement and termination benefit obligations, net of tax	–	1,773	–	1,773	–	1,773
Net investment hedge	–	(13,351)	–	(13,351)	–	(13,351)
Currency translation differences	–	17,517	–	17,517	–	17,517
Total other comprehensive income	–	6,047	–	6,047	–	6,047
Total comprehensive income	–	6,047	443,502	449,549	62,697	512,246
Transaction with owners in their capacity as owners						
Dividends relating to 2015	–	–	(92,116)	(92,116)	–	(92,116)
Transfer to reserves	–	17,970	(17,970)	–	–	–
Dividends to non-controlling interests	–	–	–	–	(11,572)	(11,572)
Capital contribution from non-controlling interests	–	–	–	–	54,400	54,400
Disposal of subsidiary	–	–	–	–	(553)	(553)
Total transactions with owners in their capacity as owners	–	17,970	(110,086)	(92,116)	42,275	(49,841)
Balance at 31 December 2016	3,684,640	(654,383)	3,433,583	6,463,840	553,367	7,017,207

The notes on pages 138 to 308 are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2016 RMB'000	2015 RMB'000
Cash flows from operating activities			
Cash (used in)/generated from operations	34	(12,189)	398,737
Interest paid		(166,910)	(160,284)
Income tax paid		(70,020)	(57,629)
Net cash (used in)/generated from operating activities		(249,119)	180,824
Cash flows from investing activities			
Acquisition of subsidiary, net of cash acquired		(38,496)	–
Purchase of financial assets at fair value through profit or loss		–	(70,000)
Purchase of available-for-sale financial assets		(150,000)	–
Proceeds from disposal of financial assets at fair value through profit or loss		–	268,575
Government grants received relating to assets		46,364	39,841
Purchase of property, plant and equipment, and investment properties		(525,194)	(699,057)
Purchase of intangible assets		(7,635)	(20,086)
Investments in associates		(23,512)	–
Net loans granted to joint venture		(42,000)	–
Proceeds from disposal of property, plant and equipment and lease prepayment	34	228,757	216,722
Interest received		15,988	24,526
Dividends received		426,217	170,228
Increase in lease prepayments		(4,190)	(50,854)
Gain on disposal of investments		–	179,591
Net cash inflow on disposal of subsidiaries	39	59,740	–
Net loans proceeds from associates		50,068	–
Net cash generated from investing activities		36,107	59,486
Cash flows from financing activities			
Proceeds from borrowings		2,283,882	1,814,207
Repayments of borrowings		(2,147,792)	(1,535,148)
Finance lease paid		(28,937)	(587)
Contribution from minority shareholders		54,400	–
Dividends paid to Company's shareholders		(92,116)	(169,493)
Dividends paid to non-controlling interests		(10,810)	(8,513)
Net cash generated from financing activities		58,627	100,466
Net (decrease)/increase in cash and cash equivalents		(154,385)	340,776
Cash and cash equivalents at beginning of the year		1,543,975	1,203,508
Exchange losses on cash and cash equivalents		(3,637)	(309)
Cash and cash equivalents at end of the year	24	1,385,953	1,543,975

The notes on pages 138 to 308 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

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

The H shares of the Company began to list on the Main Board of The Stock Exchange of Hong Kong Limited on 13 June 2008.

These consolidated financial statements are presented in Chinese Renminbi ("RMB"), unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors of the Company on 31 March 2017.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

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

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

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures

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

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2016:

- Accounting for acquisitions of interests in joint operations – Amendments to HKFRS 11

- Clarification of acceptable methods of depreciation and amortisation – Amendments to HKAS 16 and HKAS 38

- Annual improvements to HKFRSs 2012-2014 cycle, and

- Disclosure initiative – amendments to HKAS 1.

The adoption of these amendments did not have any impact on the current period or any prior period and is not likely to affect future periods.

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

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation *(continued)*

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

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

HKFRS 9, 'Financial instruments'

The new standard 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.

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.

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

2.1 Basis of preparation *(continued)*

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

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

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.

The new hedge accounting rules will align the accounting for hedging instruments more closely with the Group's risk management practices. As a general rule, more hedge relationships might be eligible for hedge accounting, as the standard introduces a more principles-based approach. While the Group is yet to undertake a detailed assessment, it would appear that the Group's current hedge relationships would qualify as continuing hedges upon the adoption of HKFRS 9. Accordingly, the Group does not expect a significant impact on the accounting for its hedging relationships.

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 an earlier recognition of credit losses.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation *(continued)*

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

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

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.

HKFRS 9 must be applied for financial years commencing on or after 1 January 2018. Based on the transitional provisions in the completed HKFRS 9, early adoption in phases was only permitted for annual reporting periods beginning before 1 February 2015. After that date, the new rules must be adopted in their entirety. The Group does not intend to adopt HKFRS 9 before its mandatory date.

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 contracts for goods and 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.1 Basis of preparation *(continued)*

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

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

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:

- revenue from service – the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.
- accounting for certain 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 impact of the new rules on the Group's financial statements. The Group will make more detailed assessments of the impact over the next twelve months.

HKFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the Group does not intend to adopt the standard before its effective date.

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

2.1 Basis of preparation *(continued)*

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

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

HKFRS 16, 'Leases'

HKFRS 16 will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The accounting for lessors will not significantly change.

The standard will affect primarily the accounting for Group's operating leases. As at the 31 December 2016, the Group has non-cancellable operating lease commitments of approximately RMB110,067,000. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

Some of the commitments may be covered by the exception for short-term and low value leases and some commitments may relate to arrangements that will not qualify as leases under HKFRS 16.

The new standard is mandatory for financial years commencing on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

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

2.1 Basis of preparation *(continued)*

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

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

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

2.2 Subsidiaries

2.2.1 Consolidation

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

(a) Business combinations

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation (continued)

(a) Business combinations (continued)

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

Acquisition-related costs are expensed as incurred.

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

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

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

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation (continued)

(a) *Business combinations (continued)*

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

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

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

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

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

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation (continued)

(c) *Disposal of subsidiaries*

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

2.2.2 Separate financial statements

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

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

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

2.3 Associates

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

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

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

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

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

2.3 Associates *(continued)*

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

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

2.4 Joint arrangements

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

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

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

2.4 Joint arrangements *(continued)*

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

2.5 Segment reporting

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

2.6 Foreign currency translation

(a) Functional and presentation currency

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

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

2.6 Foreign currency translation *(continued)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

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

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

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

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

2.6 Foreign currency translation *(continued)*

(c) Group companies

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

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

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

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

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

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

2.6 Foreign currency translation *(continued)*

(d) Disposal of foreign operation and partial disposal

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

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

2.7 Property, plant and equipment

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

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

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

2.7 Property, plant and equipment *(continued)*

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

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

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

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

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

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

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

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

2.7 Property, plant and equipment *(continued)*

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

2.8 Investment properties

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

2.9 Lease prepayments

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

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

2.10 Intangible assets

(a) Goodwill

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

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

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

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

2.10 Intangible assets *(continued)*

(b) Technical know-how

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

(c) Brand and customer relationships

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

(d) Computer software

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

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

2.10 Intangible assets *(continued)*

(e) Concession assets

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Impairment of non-financial assets

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

2.12 Financial assets

2.12.1 Classification

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

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

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

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

2.12 Financial assets *(continued)*

2.12.1 Classification (continued)

(b) Loans and receivables

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

(c) Available-for-sale financial assets

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

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

2.12 Financial assets *(continued)*

2.12.2 Recognition and measurement

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

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

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

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

2.12 Financial assets *(continued)*

2.12.2 Recognition and measurement *(continued)*

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

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

2.13 Offsetting financial instruments

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

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

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

2.14 Impairment of financial assets *(continued)*

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

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

(b) Assets classified as available-for-sale

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either:

(a) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge);

(b) hedges of a particular risk associated with a recognised asset or liability or a highly probable forecast transaction (cash flow hedge); or

(c) hedges of a net investment in a foreign operation (net investment hedge).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objectives and strategy for undertaking various hedging transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values and movements on the hedging reserve in shareholders' equity are shown in Note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining hedged item is more than 12 months, and as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.15 Derivative financial instruments and hedging activities *(continued)*

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedges are recorded in the statement of profit or loss, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The Group only applies fair value hedge accounting for hedging fixed interest risk on borrowings. The gain or loss relating to the effective portion of interest rate swaps hedging fixed rate borrowings is recognised in the statement of profit or loss within 'finance costs, net'. The gain or loss relating to the ineffective portion is recognised in the statement of profit or loss within 'other gains, net'. Changes in the fair value of the hedge fixed rate borrowings attributable to interest rate risk are recognised in profit or loss within 'finance costs, net'.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortised to profit or loss over the period to maturity.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the statement of profit or loss within 'other gains, net'.

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

2.15 Derivative financial instruments and hedging activities *(continued)*

(b) Cash flow hedge *(continued)*

Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item affects profit or loss (for example, when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the statement of profit or loss within 'finance costs, net'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or plant and equipment), the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in cost of goods sold in the case of inventory or in depreciation in the case of fixed assets.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to profit or loss within 'other gains, net'.

(c) Net investment hedge

Hedges of net investments in foreign operations are accounted for similarly to cash flow hedges.

Any gain or loss on the hedging instrument relating to the effective portion of the hedge is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised in profit or loss.

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

2.15 Derivative financial instruments and hedging activities *(continued)*

(c) Net investment hedge *(continued)*

Gains and losses accumulated in equity are included in profit or loss when the foreign operation is partially disposed of or sold.

2.16 Inventories

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

2.17 Trade and other receivables

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

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. See Note 2.12.2 for further information about the Group's accounting for trade receivables and Note 2.14 for a description of the Group's impairment policies.

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

2.18 Cash and cash equivalents

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

2.19 Share capital

Share capital is classified as equity.

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

2.20 Trade payables

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

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

2.21 Borrowings

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

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

2.21 Borrowings *(continued)*

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

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

2.22 Borrowings costs

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

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

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

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

2.22 Borrowings costs *(continued)*

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

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

2.23 Current and deferred income tax

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

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

2.23 Current and deferred income tax *(continued)*

(a) Current income tax

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

(b) Deferred income tax

Inside basis differences

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.23 Current and deferred income tax *(continued)*

(b) Deferred income tax *(continued)*

Outside basis differences

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

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

(c) Offsetting

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

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

2.24 Employee benefits

The Group operates various post-employment schemes, including both defined benefit and defined contribution pension plans and post-employment medical plans.

(a) Pension obligations

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

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

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

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

2.24 Employee benefits *(continued)*

(a) Pension obligations *(continued)*

Past-service costs are recognised immediately in profit or loss. Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

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

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

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

(b) Other post-employment obligations

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

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

2.24 Employee benefits *(continued)*

(c) Early retirement benefits

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

(d) Housing fund and other benefits

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

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

2.24 Employee benefits *(continued)*

(e) Bonus entitlement

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

(f) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of HKAS 37 and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.25 Provisions

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

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

2.25 Provisions *(continued)*

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

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

2.26 Government grants

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

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

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

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

2.27 Construction contracts

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

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract by reference to the stage of completion. Contract costs are recognised as expenses by reference to the stage of completion of the contract activity at the end of the reporting period. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.27 Construction contracts *(continued)*

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

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

2.28 Revenue recognition

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

(a) Sales of goods

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

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

2.28 Revenue recognition *(continued)*

(b) Revenue from construction contracts

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

(c) Sales of services

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

(d) Rental income

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

(e) Interest income

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

2.29 Interest income

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

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

2.30 Dividend income

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

2.31 Leases

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.32 Research and development

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

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

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

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

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

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

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

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

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

2.33 Dividend distribution

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

2.34 Financial guarantee contracts

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

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

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

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

(a) Market risk

(i) Foreign exchange risk

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

As at 31 December 2016, if RMB had weakened/strengthened by 1% (2015: 1%) against USD with all other variables held constant, the Group's net profit for the year then ended would have been approximately RMB764,000 (2015: RMB694,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of USD-denominated bank deposits and trade receivables and foreign exchange losses/gains on translation of USD-denominated bank borrowings and trade and other payables.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from interest bearing bank deposits and borrowings. Bank deposits and borrowings at variable rates expose the Group to cash flow interest rate risk. Bank deposits and borrowings at fixed rates expose the Group to fair value interest rate risk. The Group determines the related proportions of its fixed and variable rate contracts depending on the prevailing market conditions. During 2016 and 2015, the Group's bank deposits and borrowings at variable rates were denominated in RMB/USD/Euros ("EUR")/Hongkong dollar ("HKD")/UK pound ("UKP"). The Group currently does not hedge its exposure to interest rate risk.

As at 31 December 2016, if the interest rate of the Group's cash at bank had been increased/decreased by 10% (2015: 10%) and all other variables were held constant, the Group's post-tax profit for the year then ended would have been increased/decreased by approximately RMB2,936,000 (2015: RMB2,546,000).

As at 31 December 2016, the Group's bank borrowings at variable rates and at fixed rates are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Borrowings at variable rates	**1,299,137**	943,470
Borrowings at fixed rates	**598,293**	677,547
	1,897,430	1,621,017

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(a) Market risk *(continued)*

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

As at 31 December 2016, the weighted average interest rates of bank borrowings at variable rates is 4.39% (2015: 5.02%). If the interest rate of the Group's bank borrowings at variable rates had been increased/decreased by 10% (2015: 10%) and all other variables were held constant, the Group's profit before income tax for the year then ended would have been decreased/increased by approximately RMB5,709,000 (2015: RMB4,739,000).

(b) Credit risk

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

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

As at 31 December 2016 and 2015, substantially all the Group's bank deposits are deposited in major banks which are state-owned entities incorporated in the PRC, which management believes are of high credit quality without significant credit risk. The Group's bank deposits as at 31 December 2016 and 2015 were as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Big four commercial banks *(i)*	**308,572**	556,994
Other listed banks	**1,072,035**	1,255,521
Other non-listed banks	**411,633**	186,683
	1,792,240	1,999,198

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

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

The Group has policies in place to ensure that sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group assesses the credit quality of each customer by taking into account its financial position, past experience and other factors. Credit limit and terms are reviewed on periodic basis, and the financial department is responsible for such monitoring procedures. In determining whether provision for impairment of receivables is required, the Group takes into consideration the future cash flows, ageing status and the likelihood of collection. In this regards, the directors of the Company are satisfied that the risks are minimal and adequate provision for impairment of receivables, if any, has been made in the financial statements after assessing the collectibility of individual debts. Further quantitative disclosures in respect of the impairment of trade and other receivables are set out in Note 19.

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

	Group maximum exposure	
	2016	2015
	RMB'000	*RMB'000*
Financial guarantees	**69,000**	86,250
At 31 December	**69,000**	86,250

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(b) Credit risk *(continued)*

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

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

(c) Liquidity risk

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

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(continued)*

(c) Liquidity risk *(continued)*

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

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2016				
Bank borrowings	**1,302,730**	**197,542**	**163,760**	**432,168**
Other borrowings	**18,944**	**14,688**	**21,683**	**–**
Corporate bonds	**34,240**	**34,240**	**834,240**	**–**
Finance lease liabilities	**37,833**	**35,958**	**33,630**	**8,134**
Trade and other payables	**3,874,022**	**–**	**–**	**–**
Financial guarantee contracts	**69,000**	**–**	**–**	**–**
At 31 December 2015				
Bank borrowings	1,127,678	53,365	282,270	359,929
Other borrowings	3,100	–	–	–
Corporate bonds	1,065,900	–	–	–
Finance lease liabilities	29,043	117,964	–	–
Trade and other payables	3,688,806	–	–	–
Financial guarantee contracts	–	–	86,250	–

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.2 Capital management

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

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

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

The gearing ratios at 31 December 2016 and 2015 were as follows:

	31 December 2016 *RMB'000*	31 December 2015 *RMB'000*
Total borrowings	**2,849,933**	2,769,826
Total equity	**7,017,207**	6,554,802
Total capital	**9,867,140**	9,324,628
Gearing ratio	**29%**	30%

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.3 Fair value estimation

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

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

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2016.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
– Equity investment with fixed return rate	–	–	150,000	150,000
– Equity securities	4,267	–	3,000	7,267
Total assets	4,267	–	153,000	157,267

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(continued)*

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

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

There were no transfers between levels during the year.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(continued)*

(a) Financial instruments in level 1

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

(b) Financial instruments in level 2

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

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

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(continued)*

(c) Financial instruments in level 3

The following table presents the changes in level 3 instruments for the year ended 31 December 2016.

	Available-for-sale financial assets – Equity securities *RMB'000*	Available-for-sale financial assets – Equity investment with fixed return rate *RMB'000*	Total *RMB'000*
Balance at 1 January 2016	3,000	–	3,000
Additions	–	150,000	150,000
Changes in fair value recognised in profit or loss	–	–	–
Disposals	–	–	–
Balance at 31 December 2016	3,000	150,000	153,000
Total gains for the period including in profit or loss for assets held at the end of the reporting period	–	–	–

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(continued)*

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

The following table presents the changes in level 3 instruments for the year ended 31 December 2015.

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

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Taxation

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

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

As at 31 December 2016, the Group has deferred tax assets of approximately RMB88,521,000. To the extent that it is probable that taxable profit will be available against which the deductible temporary differences will be utilised, deferred tax assets are recognised for temporary differences arising from provision for impairment of assets, deferred income, retirement and termination benefit obligations, and warranty and other accrued expenses.

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

(b) Impairment of non-financial assets

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

(c) Impairment of trade and other receivables

Trade and other receivables are reviewed periodically to assess whether impairment losses exist and if they exist, the amounts of the impairment losses are estimated based on historical loss experience for trade and other receivables with similar credit risk. The methodology and assumptions used in estimating future cash flows are reviewed regularly to reduce any difference between the loss estimates and actual amounts.

(d) Write down of inventories

The Group estimates the write down of inventories with reference to aged inventories analyses, projections of expected future saleability of goods and management experience and judgement. Based on this review, write down of inventories will be made when the carrying amounts of inventories decline below their estimated net realisable value. Due to changes in market conditions, actual saleability of goods may be different from estimation and profit or loss could be affected by differences in this estimation.

5. SEGMENT INFORMATION

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

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

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

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

5. SEGMENT INFORMATION *(CONTINUED)*

The segment information provided to the operating management committee for the reportable segments for the year ended 31 December 2016 is as follows:

	Engines RMB'000	Gear boxes RMB'000	Hydroelectric generation equipment RMB'000	Electrical wires and cables RMB'000	General machinery RMB'000	Financial services RMB'000	Machinery tools RMB'000	High-voltage transformers RMB'000	Materials sales RMB'000	Other segments RMB'000	Total RMB'000
Total segment revenue	–	386,242	405,852	1,227,146	1,798,492	98,930	693,403	–	4,261,878	863,974	9,735,917
Inter-segment revenue	–	–	(11)	(4,015)	–	(43,033)	(14,305)	–	(545,251)	–	(606,615)
Revenue from external customers	–	386,242	405,841	1,223,131	1,798,492	55,897	679,098	–	3,716,627	863,974	9,129,302
Operating (loss)/profit	–	(72,894)	3,000	211,137	78,029	21,593	(60,882)	(88)	179	103,550	283,624
Finance income	–	171	1,048	453	988	–	5,698	20	139	9,812	18,329
Finance costs	–	(365)	(631)	(14,589)	(8,787)	–	(42,926)	–	(1,395)	(50,188)	(118,881)
Share of post-tax profits of associates and joint venture	251,019	(1,457)	–	–	2,195	(7,399)	–	74,466	–	32,804	351,628
Profit before income tax											534,700
Income tax expense	–	8,981	(93)	(32,151)	(3,192)	(5,420)	10,145	–	–	(6,771)	(28,501)
Profit for the year											506,199
Other items											
Depreciation on property, plant and equipment and investment properties	–	20,924	8,607	9,414	70,981	197	66,763	7	50	33,256	210,199
Amortisation of lease prepayments and intangible assets	–	2,569	2,249	735	6,796	270	12,165	–	–	2,568	27,352
Write down/(write back) of inventories	–	10,329	–	3,664	(119)	–	19,393	–	–	1,663	34,930
Provision for/(reversal of) impairment of trade and other receivables	–	999	1,332	946	1,905	11,335	(6,925)	–	(2,182)	38,365	45,775
Provision for impairment on property, plant and equipment	–	–	–	3,927	6,071	–	–	–	–	–	9,998
Segment assets	337,236	1,284,691	1,758,634	672,757	2,551,649	2,575,566	3,153,304	318,514	104,174	2,585,617	15,342,142
Segment assets include:											
Investments in associates and joint venture	337,236	2,720	9,548	–	22,331	85,935	19,097	306,813	–	262,658	1,046,338
Additions to non-current assets (other than financial instruments and deferred income tax assets)	–	59,754	156,870	9,034	199,425	164	142,574	–	–	15,904	583,725

5. SEGMENT INFORMATION *(CONTINUED)*

The segment information for the year ended 31 December 2015 is as follows:

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

5. SEGMENT INFORMATION *(CONTINUED)*

Except Holroyd Precision Limited, Precision Components Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited, PTG Deutschland GmbH ("PTG six entities"), Precision Technologies Group (US) Ltd., Precision Technologies Group Inc., Holroyd Precision Rotors Inc., Precision Technologies Group Investment Development Company Limited ("PTGHK") and Precision Technologies Group (PTG) Limited, the other entities of the Group are domiciled in the PRC. The result of the Group's revenue from external customers in the PRC for the year ended 31 December 2016 is approximately RMB8,815,431,000 (2015: RMB8,592,066,000), and the total of its revenue from external customers from other countries is approximately RMB313,871,000 (2015: RMB418,356,000).

The total of non-current assets other than financial instruments and deferred income tax assets located in the PRC was approximately RMB5,635,344,000 (2015: RMB5,338,782,000), and the total of non-current assets located in other countries was approximately RMB267,572,000 (2015: RMB194,461,000).

6. OTHER GAINS, NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Gain on disposal of lease prepayments, investment properties and property, plant and equipment	**141,769**	482,961
Gain on disposal of financial assets at fair value through profit or loss	**–**	3,767
Compensation on termination of contract	**–**	10,953
Gain on disposal of associates	**–**	128,785
Gain on disposal of subsidiary *(Note 39)*	**59,831**	2,935
Changes in fair value of equity interest owned before business combination *(Note 38)*	**19,185**	–
Others	**5,891**	12,979
	226,676	642,380

7. OTHER INCOME

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Government grants in relation to		
– Tax refunds *(a)*	**18,031**	3,813
– Further development of manufacturing technology *(b)*	**23,506**	37,957
– Relocation for environmental protection *(b)*	**16,994**	16,033
– Others	**14,946**	13,698
	73,477	71,501

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

(b) During the years ended 31 December 2016 and 2015, the Group received certain grants from local government for the compensation of the Group's expenditures on further development of manufacturing technology and relocation for environmental protection.

8. EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Depreciation on property, plant and equipment *(Note 16)*	**208,031**	201,612
Depreciation on investment properties *(Note 17)*	**2,168**	3,870
Amortisation of lease prepayments *(Note 15)*	**13,004**	14,041
Amortisation of intangible assets *(Note 18)*	**14,348**	14,980
Amortisation of deferred income on sell and leaseback transaction *(Note 30)*	**(338)**	449
Employee benefit expense *(Note 9)*	**848,117**	1,222,069
Changes in inventories of finished goods and work in progress *(Note 22)*	**428,739**	(210,662)
Raw materials and consumables used *(Note 22)*	**6,812,988**	7,317,965
Transportation	**72,250**	93,209
Research and development costs	**161,055**	166,065
Utilities	**95,859**	95,663
Repairs and maintenance expenditure on property, plant and equipment	**27,955**	23,394
Operating lease rentals *(Note 16)*	**48,169**	35,507
Write-down of inventories *(Note 22)*	**34,930**	19,883
Provision for impairment of receivables *(Note 19)*	**45,775**	31,953
Provision for impairment of property, plant and equipment *(Note 16)*	**9,998**	–
Provision for warranty *(Note 28)*	**28,947**	38,981
Auditors' remuneration		
– Audit services	**3,500**	4,700
– Non-audit services	**–**	450
Other expenses	**290,336**	306,329
Total cost of sales, distribution costs and administrative expenses	**9,145,831**	9,380,458

9. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**617,569**	663,022
Contributions to pension plans *(a)*	**84,370**	94,840
Supplemental pension benefits to qualified employees through profit or loss *(b) (Note 32)*		
– Interest cost	**6,149**	2,039
– (Deduction)/addition of termination benefit obligations	**(16,529)**	221,297
Housing benefits *(c)*	**35,830**	43,562
Welfare, medical and other expenses	**120,728**	197,309
	848,117	1,222,069

(a) The employees of the Group's subsidiaries in the PRC participate in various retirement benefit plans organised by the relevant municipal and provincial government in the PRC under which the Group is required to make monthly contributions to these plans at rates ranging from 17% to 25%, depending on the applicable local regulations, of the employees' basic salary for the years ended 31 December 2016 and 2015.

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

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

9. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

(c) These represent contributions to the government-sponsored housing funds (at rates ranging from 7% to 12% of the employees' basic salary) in the PRC.

(d) Five highest paid individuals

For the year ended 31 December 2015, the five individuals whose emolument were the highest in the Group included one director and one supervisor whose emolument are reflected in the analysis presented in Note 43. The emoluments payable to the five (2015: three) highest paid individuals during 2016 are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
– Basic salaries, housing allowances, other allowances and benefits-in-kind	**3,386**	3,815
– Contributions to pension plans	**868**	280
– Discretionary bonuses	**3,210**	–
	7,464	4,095

9. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

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

The emoluments fell within the following bands:

	Number of individuals Year ended 31 December	
	2016	2015
HKD1,000,001 – HKD1,500,000 (equivalent to approximately RMB895,000 – RMB1,342,500)	**4**	2
HKD1,500,001 – HKD3,500,000 (equivalent to approximately RMB1,342,501 – RMB3,132,500)	**1**	1
	5	3

10. FINANCE COSTS, NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finance income		
– Interest income on bank deposits	**18,329**	24,395
Finance cost:		
– Bank borrowings	**(97,998)**	(96,171)
– Corporate bonds	**(51,836)**	(67,200)
– Finance lease liabilities	**(100)**	(89)
– Net exchange loss	**(7,514)**	(2,163)
Less: amounts capitalized on qualifying assets	**38,567**	32,342
	(118,881)	(133,281)
Net finance costs	**(100,552)**	(108,886)

11. SUBSIDIARIES

All the subsidiaries are unlisted.

As at the date of this report, the particulars of the Group's principal subsidiaries are set out in Note 40.

Material non-controlling interests

The total non-controlling interests for the period is approximately RMB62,697,000 (2015: RMB48,951,000), of which approximately RMB19,557,000 (2015: RMB30,121,000) is for Chongqing Machinery and Electronics Holding Group Finance Company Limited ("CMEFC") and approximately RMB39,713,000 (2015: RMB14,183,000) is attributed to Chongqing Pigeon Electric Wire & Cable Co., Ltd. ("Pigeon Wire"). The total non-controlling interests at the end of 31 December 2016 is approximately RMB553,367,000 (2015: RMB448,395,000) of which approximately RMB400,810,000 (2015: RMB381,253,000) is for CMEFC and approximately RMB69,370,000 (2015: RMB41,229,000) is for Pigeon Wire. The non-controlling interests in respect of other subsidiaries are not material.

Summarised financial information on subsidiaries with material non-controlling interests

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

11. SUBSIDIARIES (CONTINUED)

Summarised balance sheet

	CMEFC		Pigeon Wire	
	As at 31 December		As at 31 December	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Current				
Assets	**3,445,980**	2,541,556	**566,506**	616,905
Liabilities	**(2,676,485)**	(1,808,107)	**(501,641)**	(715,802)
Total current net assets/ (liabilities)	**769,495**	733,449	**64,865**	(98,897)
Non-current				
Assets	**48,486**	44,619	**218,373**	272,157
Liabilities	**–**	–	**(16,428)**	(14,686)
Total non-current net assets	**48,486**	44,619	**201,945**	257,471
Net assets	**817,981**	778,068	**266,810**	158,574

11. SUBSIDIARIES *(CONTINUED)*

Summarised statement of comprehensive income

	CMEFC		Pigeon Wire	
	Year ended 31 December		Year ended 31 December	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	**98,930**	105,657	**1,230,469**	2,163,272
Profit before income tax	**45,333**	71,168	**184,894**	66,258
Income tax expense	**(5,420)**	(9,696)	**(32,151)**	(11,708)
Profit for the year	**39,913**	61,472	**152,743**	54,550
Other comprehensive income	**–**	–	**–**	–
Total comprehensive income	**39,913**	61,472	**152,743**	54,550
Total comprehensive income allocated to non-controlling Interests	**19,557**	30,121	**39,713**	14,183
Dividends paid to non-controlling Interests	**–**	–	**(11,572)**	(8,513)

11. SUBSIDIARIES (CONTINUED)

Summarised cash flows

	CMEFC		Pigeon Wire	
	Year ended 31 December		Year ended 31 December	
	2016	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash flows from operating activities				
Cash generated from operations	**135,331**	45,715	**173,649**	154,845
Interest paid	**(23,936)**	(15,116)	**(15,313)**	(28,923)
Income tax paid	**(5,926)**	(13,325)	**(29,958)**	(10,797)
Net cash generated from operating activities	**105,469**	17,274	**128,378**	115,125
Net cash (used in)/generated from investing activities	**(164)**	(416)	**69,980**	(5,751)
Net cash used in financing activities	**–**	–	**(204,784)**	(47,324)
Net increase/(decrease) in cash and cash equivalents	**105,305**	16,858	**(6,426)**	62,050
Cash and cash equivalents at beginning of year	**1,535,116**	1,518,258	**100,441**	38,391
Cash and cash equivalents at end of year	**1,640,421**	1,535,116	**94,015**	100,441

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

12. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
– Associates	**709,102**	484,977
– Joint venture	**337,236**	326,990
	1,046,338	811,967

The amounts recognised in profit or loss are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
– Associates	**100,609**	23,810
– Joint venture	**251,019**	265,127
	351,628	288,937

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

Investment in associates

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**484,977**	540,112
Additions	**23,512**	–
Share of profit	**102,964**	23,810
Share of other comprehensive income of investment accounted for using equity method	**529**	–
Changed from a subsidiary to an associate *(a)*	**39,196**	–
Increase in equity interest of an associate *(b)*	**64,990**	–
Disposal of partial equity interest to a third party	**–**	(47,802)
Dividend declared	**(7,066)**	(31,143)
At end of the year	**709,102**	484,977

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

Investment in associates *(continued)*

(a) In February 2016, the Company sold 59% equity interest in Chongqing Jiangbei Machinery Co., Ltd. ("Chongqing Jiangbei Machinery") and after the disposal, the Group holds 41% equity interest in Chongqing Jiangbei Machinery, and is accounted as an associate (Note 39).

(b) In February 2016, the Company acquired 3.33% equity interest of Chongqing Power Transformer Co., Ltd. ("Power Transformer") at a consideration of RMB9,273,000, and its equity interest increased from 65.69% to 69.02%. In October 2016, the Company acquired the remaining 30.98% equity interest from the other shareholder with a purchase consideration of RMB100,171,000. After the transaction, Power Transformer became a wholly owned subsidiary of the Group (Note 38). As Power Transformer holds 37.8% equity interest of Chongqing ABB Power Transformer Co. Ltd. ("Chongqing ABB") the Group's equity interest in Chongqing ABB has also been increased.

(c) As at the date of this report, the particulars of the Group's principal associates are set out in Note 40. All the associates are unlisted companies and there are no quoted market price available, and equity method has been used to account all the associates. There are no contingent liabilities relating to the Group's interest in the associates.

(d) Chongqing ABB, Chongqing Jiangbei Machinery, Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd. ("CQMEM"), Chongqing Youyan Smelting New Material Co., Ltd. ("Chongqing Youyan"), Chongqing Hongyan Fangda Automobile Spring Co., Ltd. ("Hongyan") and Exedy Chongqing Co., Ltd. ("Exedy") are associates of the Group as at 31 December 2016, which, in the opinion of the directors, are material to the Group.

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

Investment in associates *(continued)*

Summarised financial information for associates

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

Summarised balance sheet

	Chongqing ABB		Chongqing Jiangbei Machinery		CQMEM		Chongqing Youyan		Hongyan		Exedy	
	As at 31 December		As at 31 December		As at 31 December		As at 31 December		As at 31 December		As at 31 December	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Current												
Cash and cash equivalents	**190,998**	106,402	**16,167**	27,383	**3,628**	457	**17,654**	12,689	**50,834**	33,419	**10,326**	12,519
Other current assets (excluding cash)	**1,436,693**	995,445	**86,625**	119,987	**232,700**	255,120	**54,715**	54,103	**264,057**	268,098	**341,141**	303,645
Total current assets	**1,627,691**	1,101,847	**102,792**	147,370	**236,328**	255,577	**72,369**	66,792	**314,891**	301,517	**351,467**	316,164
Financial liabilities (excluding trade payables)	**(61,520)**	(36,905)	**(91,203)**	(132,054)	**(46,000)**	(51,000)	**-**	-	**(142,111)**	(137,344)	**(105,679)**	(61,360)
Other current liabilities (including trade payables)	**(1,114,465)**	(796,723)	**(63,247)**	(78,417)	**(5,421)**	(268)	**(6,594)**	(5,970)	**(48,657)**	(47,283)	**(121,963)**	(103,844)
Total current liabilities	**(1,175,985)**	(833,628)	**(154,450)**	(210,471)	**(51,421)**	(51,268)	**(6,594)**	(5,970)	**(190,768)**	(184,627)	**(227,642)**	(165,204)
Non-current												
Assets	**366,024**	355,066	**237,171**	251,389	**6,060**	3,101	**23,847**	26,703	**143,234**	121,427	**189,782**	203,406
Financial liabilities	**(6,056)**	(7,191)	**(44,211)**	(92,690)	**-**	-	**-**	-	**(51,238)**	(52,197)	**(27,358)**	(90,380)
Other liabilities	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-	**(383)**	(274)
Total non-current liabilities	**(6,056)**	(7,191)	**(44,211)**	(92,690)	**-**	-	**-**	-	**(51,238)**	(52,197)	**(27,741)**	(90,654)
Net assets	**811,674**	616,094	**141,302**	95,598	**190,967**	207,410	**89,622**	87,525	**216,119**	186,120	**285,866**	263,712

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

Investment in associates *(continued)*

Summarised statement of comprehensive income

	Chongqing ABB Year ended 31 December		Chongqing Jiangbei Machinery Year ended 31 December		CQMEM Year ended 31 December		Chongqing Youyan Year ended 31 December		Hongyan Year ended 31 December		Exedy Year ended 31 December	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Revenue	**1,623,111**	822,831	**88,378**	100,263	**8,556**	27,586	**245,404**	235,070	**423,584**	394,108	**520,708**	476,046
Depreciation and amortisation	**(12,943)**	(22,774)	**(4,243)**	(2,985)	**(166)**	(180)	**(3,566)**	(3,509)	**101,090**	(16,549)	**(16,538)**	(20,713)
Interest income	**482**	1,215	**51**	171	**-**	–	**29**	24	**104**	685	**23**	29
Interest expense	**-**	–	**(2,588)**	(2,258)	**-**	–	**-**	–	**(6,790)**	(8,312)	**(11,043)**	(12,213)
Share of profit of associates	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**(499)**	169
Profit/(loss) before income tax	**326,328**	68,851	**10,974**	(55,573)	**(20,868)**	(8,486)	**8,352**	8,205	**44,402**	29,172	**35,702**	18,205
Income tax expense	**(81,888)**	(17,419)	**-**	889	**4,425**	1,107	**(1,255)**	(1,239)	**(10,051)**	(5,903)	**(5,605)**	(2,792)
Profit/(loss) for the year	**244,440**	51,432	**10,974**	(54,684)	**(16,443)**	(7,379)	**7,097**	6,966	**34,351**	23,269	**30,097**	15,413
Other comprehensive income	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–	**-**	–
Total comprehensive income	**244,440**	51,432	**10,974**	(54,684)	**(16,443)**	(7,379)	**7,097**	6,966	**34,351**	23,269	**30,097**	15,413
Dividends received from associate	**18,469**	27,761	**-**	2,551	**-**	5,400	**2,075**	830	**1,914**	2,601	**2,145**	2,156

The information above reflects the amounts presented in the financial statements of the associates (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

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

Investment in associates *(continued)*

Reconciliation of summarised financial information

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

Summarised financial information

	Chongqing ABB Year ended 31 December		Chongqing Jiangbei Machinery Year ended 31 December		CQMEM Year ended 31 December		Chongqing Youyan Year ended 31 December		Hongyan Year ended 31 December		Exedy Year ended 31 December	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Opening net assets 1 January	**616,094**	627,755	**95,598**	152,833	**207,410**	226,789	**87,525**	82,559	**186,120**	168,762	**263,712**	256,286
Capital injection	**–**	–	**34,730**	–	**–**	–	**–**	–	**–**	–	**–**	–
Profit/(loss) for the period	**244,440**	51,432	**10,974**	(54,684)	**(16,443)**	(7,379)	**7,097**	6,966	**34,351**	23,269	**30,097**	15,413
Other comprehensive income	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–	**–**	–
Dividend declared	**(48,860)**	(63,093)	**–**	(2,551)	**–**	(12,000)	**(5,000)**	(2,000)	**(4,352)**	(5,911)	**(7,943)**	(7,987)
Closing net assets	**811,674**	616,094	**141,302**	95,598	**190,967**	207,410	**89,622**	87,525	**216,119**	186,120	**285,866**	263,712
Interest in associates (37.8%/41%/45%/ 41.5%/44%/27%) *(Note 40)*	**306,813**	233,544	**57,934**	39,195	**85,935**	93,335	**37,193**	36,323	**95,093**	81,893	**77,184**	71,202
Carrying value	**306,813**	233,544	**57,934**	39,195	**85,935**	93,335	**37,193**	36,323	**95,093**	81,893	**77,184**	71,202

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

Investment in joint venture

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**326,990**	316,169
Share of profit	**251,019**	265,127
Dividend declared	**(240,773)**	(254,306)
At end of the year	**337,236**	326,990

As at the date of this report, the particulars of the Group's joint venture, Chongqing Cummins Engine Co., Ltd. ("CQ Cummins") is set out in Note 40. This joint venture is unlisted. There are no contingent liabilities relating to the Group's interest in the joint venture.

Summarised financial information for joint venture

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

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

Investment in joint venture *(continued)*

Summarised balance sheet

	CQ Cummins As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current		
Cash and cash equivalents	**118,573**	323,654
Other current assets (excluding cash)	**1,447,805**	1,224,949
Total current assets	**1,566,378**	1,548,603
Financial liabilities (excluding trade payables)	**–**	–
Other current liabilities (including trade payables)	**(1,330,370)**	(1,342,525)
Total current liabilities	**(1,330,370)**	(1,342,525)
Non-current		
Assets	**489,363**	447,902
Financial liabilities	**(42,358)**	–
Other liabilities	**(8,541)**	–
Total non-current liabilities	**(50,899)**	–
Net assets	**674,472**	653,980

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

Investment in joint venture *(continued)*

Summarised statement of comprehensive income

	CQ Cummins	
	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Revenue	**2,541,463**	2,443,726
Depreciation and amortisation	**(23,358)**	(29,346)
Interest income	**5,949**	6,301
Interest expense	**(3,656)**	(3,106)
Profit before income tax	**585,644**	619,187
Income tax expense	**(83,607)**	(88,934)
Profit for the year	**502,037**	530,253
Other comprehensive income	**–**	–
Total comprehensive income	**502,037**	530,253
Dividends received from joint venture	**240,773**	254,306

Information above reflects the amounts presented in the financial statements of the joint venture (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the joint venture.

Reconciliation of summarised financial information

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

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

Investment in joint venture *(continued)*

Summarised financial information

	CQ Cummins	
	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Opening net assets 1 January	**653,980**	632,339
Profit for the period	**502,037**	530,253
Other comprehensive income	**–**	–
Dividend declared	**(481,545)**	(508,612)
Closing net assets	**674,472**	653,980
Interest in joint venture @50%	**337,236**	326,990
Carrying value	**337,236**	326,990

13. TAXATION

(a) Income tax expense

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

13. TAXATION *(CONTINUED)*

(a) Income tax expense *(continued)*

(ii) Pursuant to the certificate issued by the Department of Science and Technology in Jilin province on 16 July 2015, Jilin Chong Tong Chengfei New Material Co., Ltd. ("Chongtong Chengfei") is qualified as a high technology company and can enjoy the 15% preferential income tax rate from 2015 to 2017.

(iii) Fu Baotian Cotton Picking Services Co., Ltd., is exempted from income tax due to its principal activity is providing agricultural machinery operation services.

(iv) Other than the abovementioned group entities, the following group entities which are incorporated in the PRC are not entitled to the benefit of abovementioned favourable corporate income tax policy and subject to Corporate Income Tax ("CIT") rate of 25% for the years ended 31 December 2015 and 2016:

- the Company;
- Chongqing General Group Bingyang Air Conditioner Equipment Installation Co., Ltd.;
- Chongqing Shengpu Materials Co., Ltd.;
- Chongqing Yinhe Forging & Founding Co., Ltd.;
- Tong Kang Water Affairs Co., Ltd.;
- Chongqing Holroyd Precision Rotors Manufacturing Co., Ltd.;
- CMEFC;
- Xilinhaote Chenfei Wind Power Equipment Co., Ltd.;
- Chongtong Chengfei Wind Power Equipment Jiangsu Co., Ltd.;
- Chongqing Chongtong Turbine Technology Co., Ltd.;
- Chongqing Chongtong Wide Wisdom Air Conditioning Equipment Co., Ltd.;
- Power Transformer;
- Chongqing Sino-Germany Samart Factory Solutions Co., Ltd.

13. TAXATION *(CONTINUED)*

(a) Income tax expense *(continued)*

(v) The income tax rate of Holroyd Precision Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited, Precision Technologies Group (PTG) Limited and Precision Components Limited is 20% (2015: 20.3%). The income tax rate of PTG Deutschland GmbH is 15.2% (2015: 15.2%). The income tax rate of Precision Technologies Group Investment Development Company Limited ("PTGHK") is 16.5% (2015: 16.5%). The income tax rate of Precision Technologies Group (US) Limited is 20%. The income tax rate of Precision Technologies Group Inc. is 34%. The income tax rate of Holroyd Precision Rotors Inc. is 39%.

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax	**49,189**	46,018
Deferred income tax *(Note 31)*	**(20,688)**	11,293
Income tax expense	**28,501**	57,311

13. TAXATION *(CONTINUED)*

(a) Income tax expense *(continued)*

The difference between the actual income tax charge in profit or loss and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Profit before income tax	**534,700**	523,896
Tax calculated at statutory tax rates applicable to each group entities	**90,089**	109,071
Income not subject to tax		
- Share of profit of associates and joint venture	**(87,474)**	(77,522)
Tax concessions	**(9,345)**	(8,415)
Expenses not deductible for tax purposes	**1,885**	1,358
Temporary differences for which no deferred income tax asset was recognised	**8,727**	–
Utilisation of previously unrecognised deferred tax assets	**(4,829)**	(3,509)
Tax losses for which no deferred income tax asset was recognised	**29,448**	36,328
Income tax expense	**28,501**	57,311

The weighted average applicable tax rate for the year ended 31 December 2016 is 17% (2015: 21%). The decrease is caused by the decline of profit before tax of the subsidiaries which are subject to income tax rate of 25%.

13. TAXATION *(CONTINUED)*

(a) Income tax expense *(continued)*

The tax credit/(charge) relating to components of other comprehensive income is as follows:

	2016 Before tax	2016 Tax credit/ (charge)	2016 After tax	2015 Before tax	2015 Tax credit/ (charge)	2015 After tax
Fair value losses on available-for-sale financial assets	(495)	74	(421)	(266)	40	(226)
Remeasurements of retirement and termination benefit obligations	2,016	(243)	1,773	9,935	(349)	9,586
Other comprehensive income	1,521	(169)	1,352	9,669	(309)	9,360
Current tax		–			–	
Deferred income tax *(Note 31)*		(169)			(309)	

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

All companies except Fu Baotian Cotton Picking Services Co,. Ltd. now comprising the Group in the PRC are subject to output VAT generally calculated at 17% of the product selling prices. An input credit is available whereby input VAT previously paid on purchases of goods and equipment can be used to offset the output VAT to determine the net VAT payable.

13. TAXATION (CONTINUED)

(c) Withholding tax ("WHT") for dividend paid to foreign investors

According to the new CIT law and the detailed implementation regulations, foreign shareholders are subject to a 10% WHT for the dividend repatriated by the Company starting from 1 January 2008. For certain treaty jurisdictions such as Hong Kong which has signed tax treaties with the PRC, the WHT rate is 5%.

WHT will be levied on the foreign shareholders for the dividends relating to 2016 (Note 33).

14. EARNINGS PER SHARE

	Year ended 31 December	
	2016	2015
Profit attributable to equity holders of the Company *(RMB'000)*	**443,502**	417,634
Weighted average number of ordinary shares in issue *(thousands)*	**3,684,640**	3,684,640
Basic and diluted earnings per share *(RMB per share)*	**0.12**	0.11

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

15. LEASE PREPAYMENTS

Most of the lease prepayments represent the Group's interests in land use rights which are held on leases of between 30 to 50 years in the PRC. The movement is as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year		
Cost	**718,103**	554,219
Accumulated amortisation	**(101,588)**	(87,547)
Net book amount	**616,515**	466,672
For the year		
Opening net book amount	**616,515**	466,672
Transfer from assets under constructions *(Note 16)*	**–**	145,980
Additions	**4,190**	50,854
Disposals	**(32,978)**	(32,950)
Disposals of subsidiaries *(Note 39)*	**(55,161)**	–
Amortisation charge	**(13,004)**	(14,041)
Closing net book amount	**519,562**	616,515
At end of the year		
Cost	**623,256**	718,103
Accumulated amortisation	**(103,694)**	(101,588)
Net book amount	**519,562**	616,515

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

(b) As at 31 December 2016, bank borrowings were secured by certain Group's lease prepayments with an aggregate carrying value of approximately RMB140,544,000 (2015: RMB170,295,000) (Note 29).

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings and plants RMB'000	Equipment and machinery and moulds RMB'000	Motor vehicles RMB'000	Assets under construction RMB'000	Total RMB'000
At 1 January 2015					
Cost	1,355,257	2,304,955	105,555	962,156	4,727,923
Accumulated depreciation and impairment	(283,425)	(1,258,366)	(74,550)	(6,214)	(1,622,555)
Net book amount	1,071,832	1,046,589	31,005	955,942	3,105,368
Year ended 31 December 2015					
Opening net book amount	1,071,832	1,046,589	31,005	955,942	3,105,368
Transfers	227,616	76,031	940	(304,587)	–
Transfer to lease prepayments *(Note 15)*	–	–	–	(145,980)	(145,980)
Additions	578	73,003	1,923	923,031	998,535
Transfers to intangible assets *(Note 18)*	–	–	–	(1,577)	(1,577)
Disposals *(Note 34)*	(11,499)	(26,537)	(1,049)	(400)	(39,485)
Depreciation charge	(39,360)	(155,000)	(7,252)	–	(201,612)
Closing net book amount	1,249,167	1,014,086	25,567	1,426,429	3,715,249
At 31 December 2015					
Cost	1,571,952	2,427,452	107,369	1,432,643	5,539,416
Accumulated depreciation and impairment	(322,785)	(1,413,366)	(81,802)	(6,214)	(1,824,167)
Net book amount	1,249,167	1,014,086	25,567	1,426,429	3,715,249
Year ended 31 December 2016					
Opening net book amount	**1,249,167**	**1,014,086**	**25,567**	**1,426,429**	**3,715,249**
Transfers	**105,453**	**144,834**	**1,169**	**(251,456)**	**–**
Additions	**1,099**	**98,268**	**4,060**	**451,799**	**555,226**
Acquisition of subsidiary *(Note 38)*	**648**	**–**	**139**	**–**	**787**
Transfers to investment properties *(Note 17)*	**(1,117)**	**–**	**–**	**–**	**(1,117)**
Disposals *(Note 34)*	**(2,188)**	**(19,105)**	**(699)**	**–**	**(21,992)**
Disposals of subsidiaries *(Note 39)*	**(3,593)**	**(24,601)**	**(799)**	**(123,214)**	**(152,207)**
Depreciation charge	**(35,086)**	**(166,717)**	**(6,228)**	**–**	**(208,031)**
Impairment charge	**–**	**(9,998)**	**–**	**–**	**(9,998)**
Closing net book amount	**1,314,383**	**1,036,767**	**23,209**	**1,503,558**	**3,877,917**
At 31 December 2016					
Cost	**1,646,051**	**2,518,525**	**104,674**	**1,509,772**	**5,779,022**
Accumulated depreciation and impairment	**(331,668)**	**(1,481,758)**	**(81,465)**	**(6,214)**	**(1,901,105)**
Net book amount	**1,314,383**	**1,036,767**	**23,209**	**1,503,558**	**3,877,917**

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

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cost of sales	**163,142**	161,740
Administrative expenses	**43,632**	39,035
Selling expenses	**1,257**	837
	208,031	201,612

All the impairment provisions have been charged to cost of sales in profit or loss.

(b) Bank borrowings were secured by certain Group's property, plant and equipment with an aggregate carrying value of approximately RMB564,927,000 as at 31 December 2016 (2015: RMB522,801,000) (Note 29).

(c) Lease rental expenses amounting to approximately RMB48,169,000 (2015: RMB35,507,000) relating to the lease of property were included in profit or loss (Note 8).

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

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cost – Construction in progress	**137,410**	70,071
Cost – Equipment and machinery	**563**	2,284
Accumulated depreciation	**(33)**	(570)
Net book amount	**137,940**	71,785

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

(e) For the year ended 31 December 2016, interest expense of approximately RMB38,567,000 (2015: RMB32,342,000) arising from borrowings has been capitalized in the cost of property, plant and equipment at the weighted average interest rate of 4.44% (2015: 6.07%) per annum.

17. INVESTMENT PROPERTIES

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of year		
Cost	**61,773**	61,773
Accumulated depreciation	**(35,815)**	(31,945)
Net book amount	**25,958**	29,828
For the year		
Opening net book amount	**25,958**	29,828
Transfer from owner-occupied property *(Note 16)*	**1,117**	–
Depreciation charge	**(2,168)**	(3,870)
Disposals	**(12,820)**	–
Closing net book amount	**12,087**	25,958
At end of year		
Cost	**43,178**	61,773
Accumulated depreciation	**(31,091)**	(35,815)
Net book amount	**12,087**	25,958
Fair value at end of the year	**183,345**	250,662

17. INVESTMENT PROPERTIES *(CONTINUED)*

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Rental income	**13,168**	13,670
Direct operating expenses from property that generated rental income	**(2,168)**	(3,870)

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cost of sales	**2,168**	3,870

As at 31 December 2015 and 2016, the Group had no unprovided contractual obligations for future repairs and maintenance.

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

As at 31 December 2015 and 2016, the fair value of investment properties is measured using significant unobservable inputs (level 3).

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

There were no transfers between levels 1, 2 and 3 during 2015 and 2016.

17. INVESTMENT PROPERTIES *(CONTINUED)*

(c) The Group's investment properties is analysed as follows: *(continued)*

Valuation techniques

The valuation of investment property was determined using the direct comparison approach. Sales prices of comparable properties in close proximity are adjusted for property's size and the ageing degree.

The significant unobservable inputs adopted include:

Recent market price	—	Based on the actual market selling price of the properties.
Property's size	—	Based on the size of the properties.
The ageing degree	—	Based on the years of the properties used.

Description – Office building	**Fair value** *RMB'000*	**Valuation technique**	**Unobservable inputs**
At 31 December 2015	250,662	Direct comparison approach	RMB4,500 -RMB75,000 per square meter
At 31 December 2016	183,345	Direct comparison approach	RMB4,500 -RMB75,000 per square meter

17. INVESTMENT PROPERTIES (CONTINUED)

(d) Leasing arrangements

Certain investment properties are leased to tenants under long-term operating leases with rental payable at regular intervals during the year based on the payment terms. Minimum lease receipts under non-cancellable operating leases of investment properties not recognised in the consolidated financial statements are receivable as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Not later than 1 year	**6,257**	11,237
Later than 1 year and not later than 5 years	**7,602**	15,378
	13,859	26,615

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

18. INTANGIBLE ASSETS

	Goodwill	Technical know-how	Computer software	Brand	Customer relationships	Concession assets	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015								
Cost	143,018	69,643	22,511	28,556	73,345	52,164	14,090	403,327
Accumulated amortisation	–	(49,956)	(17,156)	–	(31,188)	(2,252)	(13,306)	(113,858)
Net book amount	143,018	19,687	5,355	28,556	42,157	49,912	784	289,469
Year ended 31 December 2015								
Opening net book amount	143,018	19,687	5,355	28,556	42,157	49,912	784	289,469
Transfer from assets under construction *(Note 16)*	–	–	1,577	–	–	–	–	1,577
Additions	–	8,552	692	–	–	12,662	10	21,916
Other deductions	–	–	–	–	–	–	(26)	(26)
Amortisation charge	–	(2,217)	(3,161)	–	(6,377)	(2,457)	(768)	(14,980)
Closing net book amount	143,018	26,022	4,463	28,556	35,780	60,117	–	297,956
At 31 December 2015								
Cost	143,018	78,195	24,780	28,556	73,345	64,826	14,074	426,794
Accumulated amortisation	–	(52,173)	(20,317)	–	(37,565)	(4,709)	(14,074)	(128,838)
Net book amount	143,018	26,022	4,463	28,556	35,780	60,117	–	297,956
Year ended 31 December 2016								
Opening net book amount	**143,018**	**26,022**	**4,463**	**28,556**	**35,780**	**60,117**	**–**	**297,956**
Additions	**294**	**17,344**	**2,896**	**–**	**–**	**3,028**	**747**	**24,309**
Amortisation charge	**–**	**(3,090)**	**(1,901)**	**–**	**(6,377)**	**(2,739)**	**(241)**	**(14,348)**
Closing net book amount	**143,312**	**40,276**	**5,458**	**28,556**	**29,403**	**60,406**	**506**	**307,917**
At 31 December 2016								
Cost	**143,312**	**95,539**	**26,916**	**28,556**	**73,345**	**67,854**	**14,821**	**450,343**
Accumulated amortisation	**–**	**(55,263)**	**(21,458)**	**–**	**(43,942)**	**(7,448)**	**(14,315)**	**(142,426)**
Net book amount	**143,312**	**40,276**	**5,458**	**28,556**	**29,403**	**60,406**	**506**	**307,917**

18. INTANGIBLE ASSETS *(CONTINUED)*

(a) For the year ended 31 December 2016, amortisation of RMB1,017,000 (2015: Nil) was charged to cost of sales and RMB13,331,000 (2015: RMB14,980,000) was charged to administrative expenses.

(b) Development cost of approximately RMB16,380,000 were capitalized by the Group during the year ended 31 December 2016 (2015: RMB4,288,000).

(c) Brand is treated as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely.

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

As set out in HKAS 36 "Impairment of Assets", a cash-generating unit is the smallest identifiable group of assets that generate cash inflows from continuing use that are largely independent of cash flows from other assets or groups of assets. For the purpose of impairment testing of goodwill, goodwill is allocated to the Group's cash-generating unit (CGU), Chongqing CAFF Automotive Braking & Steering System Co. Ltd. ("CAFF"), PTG six entities and Power Transformer identified according to the business acquired. The amounts allocated to CGU are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
CAFF	**15,368**	15,368
PTG six entities	**127,650**	127,650
Power Transformer	**294**	–
	143,312	143,018

18. INTANGIBLE ASSETS *(CONTINUED)*

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

Brand is allocated to the Group's cash-generating unit (CGU), Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear"), and PTG six entities identified according to the business acquired. The amounts allocated to CGU are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Qijiang Gear	**16,300**	16,300
PTG six entities	**12,256**	12,256
	28,556	28,556

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the manufacturing of automobile relating products and machinery tools in which the CGU operates.

18. INTANGIBLE ASSETS *(CONTINUED)*

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

The key assumptions used for value-in-use calculations in 2016 are as follows:

	CAFF	Qijiang Gear	PTG six entities
Sales volume (% annual growth rate)	4%	36%	16%
Sales price (% annual growth rate)	0%	0%	0%
Gross margin (% of revenue)	17%-19%	20%	42%-45%
Long term growth rate	1%	3%	0%
Pre-tax discount rate	15%	17%	21%
Recoverable amount of the CGUs	N/A	N/A	N/A

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

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

18. INTANGIBLE ASSETS *(CONTINUED)*

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

These assumptions have been used for the analysis of the CGU within the business.

Sales volume is the average annual growth rate over the five-year forecast period. It is based on past performance and management's expectations of market development.

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

Gross margin is the average margin as a percentage of revenue over the five-year forecast period. It is based on the current sales margin levels.

The long term growth rates used are consistent with the forecasts included in industry reports.

The discount rates used are pre-tax and reflect specific risks relating to the relevant operating segments.

According to the test results, there is no impairment for goodwill and brand.

19. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade and bills receivables *(a)*	**3,451,637**	3,163,828
Less: provision for impairment of trade receivables	**(273,941)**	(283,672)
Trade and bills receivables, net	**3,177,696**	2,880,156
Deposits paid	**92,385**	77,325
Less: provision for impairment of deposits paid	**(11,725)**	(12,349)
Deposits paid, net	**80,660**	64,976
Loans	**1,262,499**	646,781
Less: provision for impairment of loans	**(18,712)**	(7,376)
Loans, net	**1,243,787**	639,405
Prepayments	**234,504**	309,330
Staff advances	**32,120**	26,572
Others	**487,270**	439,842
Less: provision for impairment of receivables other than trade receivables, loans and deposits paid	**(41,284)**	(16,969)
Others, net	**445,986**	422,873
	5,214,753	4,343,312
Less: Long-term loans	**(85,989)**	(42,409)
provision for impairment of long-term loans	**660**	424
Less: long-term loans, net	**(85,329)**	(41,985)
Current portion	**5,129,424**	4,301,327

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

As at 31 December 2016, all loans were provided to related parties (Note 37). The effective interest rates of these loans ranged from 1.20% to 6.02% for the year ended 31 December 2016 (2015: 4.13% to 6.44%).

The Group transferred certain trade receivables to a third party with a total amount of RMB350,000,000 in December 2016.

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Less than 30 days	**1,040,045**	363,548
31 days to 90 days	**573,233**	669,243
91 days to 1 year	**1,165,986**	1,338,943
1 year to 2 years	**298,928**	411,163
2 years to 3 years	**124,551**	142,268
Over 3 years	**248,894**	238,663
	3,451,637	3,163,828

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

As at 31 December 2016, trade and bills receivables of approximately RMB1,506,711,000 (2015: RMB1,758,124,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The analysis of ageing, which were counted from the day of recognition of trade receivables, is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
91 days to 1 year	**1,148,555**	1,324,201
1 year to 2 years	**268,851**	349,508
2 years to 3 years	**89,305**	84,415
	1,506,711	1,758,124

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

As at 31 December 2016, trade receivables of approximately RMB331,648,000 (2015: RMB416,192,000) were impaired. The amount of provision was approximately RMB273,941,000 as at 31 December 2016 (2015: RMB283,672,000). The individually impaired receivables mainly relate to certain customers, which are in difficult financial situations. It was assessed that a portion of the receivables is expected to be recovered based on the past collection history under similar circumstances. The ageing of these receivables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
91 days to 1 year	**17,431**	14,742
1 year to 2 years	**30,077**	61,655
2 years to 3 years	**35,246**	101,132
Over 3 years	**248,894**	238,663
	331,648	416,192

(b) There is no concentration of credit risk with respect to the Group's trade receivables, as the Group has a large number of customers which are internationally dispersed.

(c) The carrying amounts of the current portion of trade and other receivables approximate their fair value.

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(d) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
RMB	**5,132,949**	4,191,055
UKP	**35,300**	101,278
USD	**6,014**	132
EUR	**29,366**	170
HKD	**11,124**	50,677
	5,214,753	4,343,312

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

Trade receivables

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**283,672**	263,281
Provision for impairment of receivables	**10,124**	29,148
Disposal of subsidiaries	**(12,943)**	–
Receivables written off during the year as uncollectible	**(6,912)**	(8,757)
At end of the year	**273,941**	283,672

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

Deposits paid

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**12,349**	11,296
Provision for impairment of receivables	**–**	1,053
Disposal of subsidiaries	**(624)**	–
At end of the year	**11,725**	12,349

Short-term loans

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**6,952**	4,425
Provision for impairment of receivables	**11,100**	2,527
At end of the year	**18,052**	6,952

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

Long-term loans

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**424**	–
Provision for impairment of long-term loans	**236**	424
At end of the year	**660**	424

Others

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**16,969**	22,843
Provision for/(reversal of) impairment of receivables	**24,315**	(1,199)
Receivables written off during the year as uncollectible	**–**	(4,675)
At end of the year	**41,284**	16,969

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

19. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

(f) The general credit period granted to customers is up to 90 days.

(g) Refer to Note 37 for Group's trade and other receivables due from related parties.

(h) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. Loans to related parties of approximately RMB52,750,000 were secured by certain property, plant and equipment with an aggregate fair value of approximately RMB75,364,000 as at 31 December 2016.

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

20. CONTRACT WORK-IN-PROGRESS

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Contract cost incurred plus recognised profit less recognised losses	**1,888,113**	1,800,995
Less: progress billings	**(1,311,387)**	(1,278,141)
Contract work-in-progress	**576,726**	522,854
Representing:		
Amount due from customers for contract work	**589,744**	527,389
Amount due to customers for contract work	**(13,018)**	(4,535)
	576,726	522,854

20. CONTRACT WORK-IN-PROGRESS (CONTINUED)

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Contract revenue recognised as revenue in the year	**348,542**	314,417

21. RESTRICTED CASH

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Restricted cash denominated in RMB	**407,613**	457,399

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

22. INVENTORIES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Raw materials	**358,248**	352,865
Work in progress	**448,657**	716,760
Finished goods	**598,842**	784,635
Consumables	**29,400**	26,496
	1,435,147	1,880,756

For the year ended 31 December 2016, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB7,241,727,000 (2015: RMB7,107,303,000).

For the year ended 31 December 2016, write-down of inventories recognised in cost of sales in profit or loss amounted to approximately RMB34,930,000 (2015: RMB19,883,000).

As at 31 December 2016, the provision for inventory write-down was approximately RMB123,407,000 (2015: RMB91,545,000). For the year ended 31 December 2016, the Group reversed the provision amounted to approximately RMB3,068,000 (2015: RMB19,200,000) as the Group sold those goods which were written down.

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**7,763**	8,029
Additions	**150,000**	–
Disposals	**–**	–
Changes in fair value	**(496)**	(266)
At end of the year	**157,267**	7,763
Less: non-current portion	**(7,267)**	(7,763)
Current portion	**150,000**	–

Available-for-sale financial assets include the following:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Listed:		
– Entity securities	**4,267**	4,763
Unlisted:		
– Entity securities	**3,000**	3,000
– Equity investment with fixed return rate	**150,000**	–
	157,267	7,763

23. AVAILABLE-FOR-SALE FINANCIAL ASSETS *(CONTINUED)*

For the year ended 31 December 2016, the Group entered into an investment agreement (the "Investment Agreement") in relation to the investment of equity with fixed return rate managed by Southwest Securities Company Ltd.

All available-for-sale financial assets are denominated in RMB.

The fair value of unlisted securities and equity investments are based on cash flows discounted using a rate based on the market interest rate and the risk premium specific to the unlisted securities. The fair values are within level 3 of the fair value hierarchy (see Note 3.3).

None of these financial assets is impaired.

24. CASH AND CASH EQUIVALENTS

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Cash on hand	**1,326**	2,176
Cash at bank	**400,567**	125,449
Short-term bank deposits *(a)*	**984,060**	1,416,350
Cash and cash equivalents	**1,385,953**	1,543,975

(a) Short-term bank deposits can be withdrawn at the discretion of the Group without any restriction or significant compensation to the bank.

25. SHARE CAPITAL

	Number of Shares	Domestic shares	H shares	Total shares
	In thousand	*In thousand*	*In thousand*	*In thousand*
Registered, issued and fully paid				
At 1 January 2015 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640
At 31 December 2015 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640
At 31 December 2016 (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.

26. RESERVES

	Other reserves								
	Capital reserve	Investment revaluation reserve	Net investment hedge	Remeasurements of retirement and termination benefit reserve	Statutory reserve fund	Currency translation	Total	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	(999,909)	3,795	–	(5,454)	279,937	(2,356)	(723,987)	2,883,825	2,159,838
Profit for the year	–	–	–	–	–	–	–	417,634	417,634
Dividends	–	–	–	–	–	–	–	(169,493)	(169,493)
Changes in fair value of available-for-sales financial assets, net of tax	–	(226)	–	–	–	–	(226)	–	(226)
Remeasurements of retirement and termination benefit obligations, net of tax	–	–	–	9,586	–	–	9,586	–	9,586
Currency translation differences	–	–	–	–	–	1,856	1,856	–	1,856
Dividends transfer to reserve	2,572	–	–	–	–	–	2,572	–	2,572
Transfer to reserves	–	–	–	–	31,799	–	31,799	(31,799)	–
At 31 December 2015	(997,337)	3,569	–	4,132	311,736	(500)	(678,400)	3,100,167	2,421,767
At 1 January 2016	**(997,337)**	**3,569**	**–**	**4,132**	**311,736**	**(500)**	**(678,400)**	**3,100,167**	**2,421,767**
Profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**443,502**	**443,502**
Dividends	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(92,116)**	**(92,116)**
Changes in fair value of available-for-sales financial assets, net of tax	**–**	**(421)**	**–**	**–**	**–**	**–**	**(421)**	**–**	**(421)**
Share of other comprehensive income of investments accounted for using equity method	**–**	**529**	**–**	**–**	**–**	**–**	**529**	**–**	**529**
Remeasurements of retirement and termination benefit obligations, net of tax	**–**	**–**	**–**	**1,773**	**–**	**–**	**1,773**	**–**	**1,773**
Currency translation differences	**–**	**–**	**–**	**–**	**–**	**17,517**	**17,517**	**–**	**17,517**
Net investment hedge *(b)*	**–**	**–**	**(13,351)**	**–**	**–**	**–**	**(13,351)**	**–**	**(13,351)**
Transfer to reserves *(a)*	**–**	**–**	**–**	**–**	**17,970**	**–**	**17,970**	**(17,970)**	**–**
At 31 December 2016	**(997,337)**	**3,677**	**(13,351)**	**5,905**	**329,706**	**17,017**	**(654,383)**	**3,433,583**	**2,779,200**

(a) In accordance with the relevant laws and regulations in the PRC and the Articles of Association of the Company, it is required to appropriate 10% of its annual net profit, after offsetting any prior years' losses as determined under the PRC Accounting Standards for Business Enterprises, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the Company's share capital, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholders or by increasing the par value of the shares currently held by them. The fund is non-distributable except for liquidation situation.

26. RESERVES (CONTINUED)

(a) *(continued)*

Pursuant to the Articles of Association of the Company, approximately RMB17,970,000 was appropriated to the statutory surplus reserve fund from the net profit for the year ended 31 December 2016 (2015: RMB31,799,000).

(b) A proportion of the Group's US dollar-denominated borrowings amounting to USD11,500,000 is designated as a hedge of the net investment in the Group's US subsidiary. The fair value of the borrowings at 31 December 2016 was approximately RMB79,404,000. The foreign exchange loss of approximately RMB13,351,000 on translation of the borrowings to corresponding functional currency at the end of the year is recognised in other comprehensive income.

27. TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Deposit taking	**1,150,015**	852,908
Trade and bills payables *(a)*	**2,335,672**	2,436,050
Other taxes payables	**103,407**	95,646
Other payables	**376,368**	369,015
Interest payable	**10,759**	28,875
Accrued payroll and welfare	**72,950**	104,213
Advances from customers	**588,142**	701,989
	4,637,313	4,588,696

As at 31 December 2016, all deposit taking were due to related parties. The effective interest rate of current deposit taking ranged from 0.37% to 3.02% for the year ended 31 December 2016 (2015: 0.35% to 3.30%).

27. TRADE AND OTHER PAYABLES *(CONTINUED)*

(a) As at 31 December 2016 and 2015, the ageing analysis of the trade and bills payables of the Group was as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Less than 30 days	**598,942**	387,204
31 days than 90 days	**620,918**	642,619
91 days to 1 year	**864,007**	1,187,388
1 year to 2 years	**149,474**	105,414
2 years to 3 years	**55,695**	36,035
Over 3 years	**46,636**	77,390
	2,335,672	2,436,050

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

28. PROVISIONS FOR WARRANTY

Provisions for warranty represents the warranty costs for after–sale services of certain vehicle parts and components, which are estimated based on present after-sale service policies and prior years' experiences on the incurrence of such costs. Such provision for warranty was charged to 'cost of sales' in profit or loss.

	Provision for warranty
	RMB'000
At 1 January 2015	16,395
Charged to cost of sales *(Note 8)*	38,981
Utilised during the year	(39,857)
At 31 December 2015	15,519
Charged to cost of sales *(Note 8)*	28,947
Utilised during the year	(28,482)
At 31 December 2016	15,984

29. BORROWINGS

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Non-current		
Borrowings *(1)*	**1,478,935**	550,960
Finance lease liabilities *(2)*	**72,521**	117,819
	1,551,456	668,779
Current		
Borrowings (1)	**1,265,857**	2,072,110
Finance lease liabilities *(2)*	**32,620**	28,937
	1,298,477	2,101,047
Total borrowings	**2,849,933**	2,769,826

29. BORROWINGS *(CONTINUED)*

(1) Borrowings

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Non-current		
Long-term bank borrowings – secured *(a)*	**295,000**	539,000
Long-term bank borrowings – unsecured *(b)*	**353,539**	11,960
	648,539	550,960
Corporate bonds *(d)*	**796,264**	–
Other secured borrowings *(a)*	**34,132**	–
Total non-current borrowings	**1,478,935**	550,960
Current		
Bank borrowings		
– secured *(a)*	**–**	128,000
– unsecured *(b)*	**1,248,891**	942,057
	1,248,891	1,070,057
Corporate bonds *(d)*	**–**	998,953
Other secured borrowings *(a)*	**13,866**	–
Other unsecured borrowings *(c)*	**3,100**	3,100
Total current borrowings	**1,265,857**	2,072,110
	2,744,792	2,623,070

29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(a) As at 31 December 2016, all these borrowings were secured by certain Group's lease prepayments and property, plant and equipment with net book value of RMB140,544,000 and RMB564,927,000, respectively (Notes 15 and 16).

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

(b) As at 31 December 2016, bank borrowings of approximately RMB182,000,000 were guaranteed by CQMEHG (2015: Nil).

(c) As at 31 December 2016 and 2015, borrowings due to independent third parties of RMB3,100,000 were to support the Group's construction of certain production facilities.

(d) In August 2016, the Company repaid the principal and relevant interest for the RMB1,000,000,000 corporate bonds issued in 2011.

In September 2016, the Company issued RMB800,000,000 corporate bonds, which is guaranteed by CQHEHG at annual interest rate of 4.28% and with maturity of 5 years (including the option for the Company to raise the coupon rate and the option for the bond holders to redeem the bond at the end of the third year). As at 31 December 2016, the bond is measured at approximately RMB796,264,000 at the amortized cost.

29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Total borrowings		
– Within 1 year	**1,265,857**	2,072,110
– Between 1 and 2 years	**169,733**	20,000
– Between 2 and 5 years	**924,357**	199,000
– Above 5 years	**384,845**	331,960
	2,744,792	2,623,070

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

	Group	
	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
RMB	**2,469,813**	2,341,014
UKP	**144,660**	163,470
EUR	**5,825**	115,284
USD	**124,494**	3,302
	2,744,792	2,623,070

29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(g) The weighted average effective interest rates at respective balance sheet dates are set out as follows:

	Group As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Bank borrowings	**4.40%**	4.94%
Corporate bonds	**4.28%**	6.59%

(h) The carrying amounts of current portion of non-current and current borrowings are approximate to their fair values.

The carrying value and fair value of non-current borrowings are set out as follows:

	Group As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Carrying amount		
Bank borrowings	**648,539**	550,960
Other borrowings	**34,132**	–
Corporate bonds	**796,264**	–
	1,478,935	550,960
Fair value		
Bank borrowings	**664,631**	572,476
Other borrowings	**34,475**	–
Corporate bonds	**806,943**	–
	1,506,049	572,476

29. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(h) *(continued)*

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at respective balance sheet dates, ranging from 1.20% to 5.00% (2015: 1.20% to 6.55%) and are within level 2 of the fair value hierarchy.

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
– Expiring within 1 year (bank loans and bill facilities)	**3,207,952**	749,294
– Expiring beyond 1 year (bank loans)	**205,000**	1,194,000
	3,412,952	1,943,294

29. BORROWINGS *(CONTINUED)*

(2) Finance lease liabilities

Finance lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Gross finance lease liabilities – minimum lease payments		
No later than 1 year	**37,833**	29,043
Later than 1 year and no later than 5 years	**77,721**	117,964
	115,554	147,007
Unrecognised future finance charges on finance leases	**(10,413)**	(251)
Present value of finance lease liabilities	**105,141**	146,756

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
– Within 1 year	**32,620**	28,937
– Later than 1 year and no later than 5 years	**72,521**	117,819
	105,141	146,756

30. DEFERRED INCOME

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Non-current		
– Government grants *(a)*	**458,660**	409,042
– Deferred income on sell and leaseback transaction *(b)*	**2,138**	2,476
	460,798	411,518
Current		
– Government grants *(a)*	**39,590**	38,267
– Deferred income on sell and leaseback transaction *(b)*	**338**	338
	39,928	38,605
Total deferred income	**500,726**	450,123

(a) Government grants

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**447,309**	440,458
Additions		
– government grants relating to assets	**112,605**	47,381
Deductions		
– created to profit or loss	**(49,624)**	(40,530)
– decrease from disposal of subsidiaries *(Note 39)*	**(12,040)**	–
At end of the year	**498,250**	447,309

30. DEFERRED INCOME *(CONTINUED)*

(a) Government grants *(continued)*

The Group received grants from the local government relating to assets and were recorded as deferred income. The grants are amortized on a straight-line basis throughout the period of the useful lives of the underlying assets ranging from 2 to 40 years.

(b) Deferred income on sale and leaseback transaction

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**2,814**	2,365
Amortisation *(Note 8)*	**(338)**	449
At end of the year	**2,476**	2,814

31. DEFERRED INCOME TAX

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Deferred tax assets		
– Deferred tax assets to be recovered after more than 12 months	**80,752**	79,526
– Deferred tax assets to be recovered within 12 months	**7,769**	7,048
	88,521	86,574
Deferred tax liabilities		
– Deferred tax liabilities to be recovered more than 12 months	**(68,175)**	(74,055)
– Deferred tax liabilities to be recovered within 12 months	**(2,586)**	(1,885)
	(70,761)	(75,940)
Deferred tax assets (net)	**17,760**	10,634

31. DEFERRED INCOME TAX *(CONTINUED)*

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

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**10,634**	22,236
Recognised in profit or loss *(Note 13)*	**20,688**	(11,293)
Recognised in other comprehensive income *(Note 13)*	**(169)**	(309)
Decrease in deferred tax assets relating to the disposal of subsidiaries *(Note 39)*	**(5,026)**	–
Increae in deferred tax liabilities arising from the acquisition of subsidiary *(Note 38)*	**(8,367)**	–
At end of the year	**17,760**	10,634

31. DEFERRED INCOME TAX *(CONTINUED)*

(b) The movement in the deferred tax assets and liabilities during the year is as follows:

Deferred tax assets

	Provision for impairment of assets	Deferred income	Retirement and termination benefit obligations	Warranty and other accrued expenses	Tax losses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	44,495	9,974	2,321	4,896	10,829	72,515
Recognised in other comprehensive income	–	–	(349)	–	–	(349)
Recognised in profit or loss	(11,969)	(5,132)	19,023	1,010	11,476	14,408
At 31 December 2015	32,526	4,842	20,995	5,906	22,305	86,574
Disposal of subsidiaries *(note 39)*	**(2,035)**	**(1,806)**	**(123)**	**–**	**(1,062)**	**(5,026)**
Recognised in other comprehensive income	**–**	**–**	**(243)**	**–**	**–**	**(243)**
Recognised in profit or loss	**667**	**6,815**	**(4,588)**	**(1,812)**	**6,134**	**7,216**
At 31 December 2016	**31,158**	**9,851**	**16,041**	**4,094**	**27,377**	**88,521**

31. DEFERRED INCOME TAX *(CONTINUED)*

(b) The movement in the deferred tax assets and liabilities during the year is as follows: *(continued)*

Deferred tax liabilities

	Recognition of fair value change relating to acquisition of subsidiary	Changes in fair value of available-for-sales financial assets	Gain on disposals of lease prepayments and property, plant and equipment	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	(19,094)	(797)	(30,388)	(50,279)
Recognised in other comprehensive income	–	40	–	40
Recognised in profit or loss	2,676	–	(28,377)	(25,701)
At 31 December 2015	(16,418)	(757)	(58,765)	(75,940)
Acquisition of subsidiary	**(8,367)**	**–**	**–**	**(8,367)**
Recognised in other comprehensive income	**–**	**74**	**–**	**74**
Recognised in profit or loss	**2,586**	**–**	**10,886**	**13,472**
At 31 December 2016	**(22,199)**	**(683)**	**(47,879)**	**(70,761)**

31. DEFERRED INCOME TAX *(CONTINUED)*

(c) In accordance with the PRC tax law or other tax regulations applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. As at 31 December 2016, the Group did not recognise deferred tax assets of approximately RMB125,617,000 (2015: RMB96,169,000) in respect of losses amounting to approximately RMB598,526,000 (2015: RMB501,706,000), as management believes it is more than likely that such tax losses would not be utilised before they expire. As at 31 December 2016 and 2015, the tax losses carried forward are as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Year of expiry		
– 2016	**–**	18,514
– 2017	**67,965**	67,965
– 2018	**57,548**	57,548
– 2019	**132,513**	154,858
– 2020	**181,883**	191,616
– 2021	**133,770**	–
	573,679	490,501
No expiry date	**24,847**	11,205
	598,526	501,706

32. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Non-current		
Retirement benefit obligations	**142,839**	180,558
Termination benefit obligations	**3,148**	6,416
	145,987	186,974
Current		
Retirement benefit obligations	**27,218**	34,859
Termination benefit obligations	**3,315**	5,048
	30,533	39,907
	176,520	226,881

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Present value of defined benefits obligations	**176,520**	226,881
Less: current portion	**(30,533)**	(39,907)
	145,987	186,974

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

The movements of retirement and termination benefit obligations for the years ended 31 December 2016 and 2015 are as follows:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**226,881**	62,056
Change for the year		
– Interest cost	**6,149**	2,039
– Remeasurement effects recognised in other comprehensive income	**(2,016)**	(9,935)
– Disposal of subsidiaries	**(823)**	–
– (Deductions)/additions on termination benefit obligations	**(16,529)**	221,297
– Payments	**(37,142)**	(48,576)
At end of the year	**176,520**	226,881

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

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

(a) The material actuarial assumptions used in valuing these obligations are as follows:

– Discount rates adopted (per annum):

	As at 31 December	
	2016	2015
Discount rates	**3.00%**	3.00%

The effect of above changes in discount rate was reflected as actuarial gains and losses and charged to OCI or profit or loss in the period of change.

– Trend rate: 5% – 9.5% (2015: 5% – 9%);

– Mortality: Average life expectancy of residents in the PRC;

– Medical costs paid to early retirees are assumed to continue until the death of the retirees.

– Expected maturity analysis of pension benefits:

At 31 December 2016	**Less than a year**	**Between 1-2 years**	**Between 2-5 years**	**Over 5 years**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Long-term employee benefit obligations	30,533	26,067	51,965	67,955	176,520

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

(a) The material actuarial assumptions used in valuing these obligations are as follows: *(continued)*

Based on the assessment and HKAS 19, the Group estimated that, at 31 December 2016, a provision of approximately RMB176,520,000 is sufficient to cover all future retirement-related obligations.

Obligation in respect of retirement and termination benefits of approximately RMB176,520,000 is the present value of the obligations, of which the current portion amounting to approximately RMB30,533,000 (2015: RMB39,907,000) has been included under current liabilities.

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

	Change in assumption	Impact on overall liability
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 3.3%/3.6%
Average salary increase rate	Increase/decrease by 0.5%	Increase/decrease by 2.8%/2.5%
Rate of mortality	Increase/decrease by 1 year	Decrease/increase by 1.3%/1.3%

In 2016, retirement and termination benefit obligations of approximately RMB10,380,000 were credited in administrative expenses (2015: RMB223,336,000 were charged), and a gain of approximately RMB2,016,000 was credited in other comprehensive income (2015: RMB9,935,000).

33. DIVIDENDS

The dividends paid in 2016 and 2015 were approximately RMB92,116,000 (RMB0.025 per share) and RMB169,493,000 (RMB0.046 per share) respectively. A dividend in respect of the year ended 31 December 2016 of RMB0.035 per share, amounting to a total dividend of approximately RMB128,962,000 is to be proposed at the annual general meeting on 16 June 2017. These financial statements do not reflect this dividend payable.

	2016	2015
	RMB'000	*RMB'000*
Interim dividend	**–**	–
Proposed final dividend of RMB0.035 (2015: RMB0.025) per share	**128,962**	92,116
	128,962	92,116

34. CASH GENERATED FROM OPERATIONS

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

	Year ended 31 December	
	2016	2015
	RMB'000	RMB'000
Profit before income tax	**534,700**	523,896
Adjustments for:		
– Depreciation of property, plant and equipment and investment properties	**210,199**	205,482
– Amortisation of intangible assets and lease prepayments	**27,352**	29,021
– Amortisation of deferred income	**(49,962)**	(40,081)
– Amortisation of other non-current assets	**17,847**	9,646
– Write-down of inventories	**34,930**	19,883
– Provision for impairment of property, plant and equipment	**9,998**	–
– Gain on disposal of investments	**–**	(131,720)
– Gain on disposal of subsidiaries	**(59,831)**	-
– Interest income	**(18,329)**	(24,395)
– Interest expense	**118,881**	133,281
– Share of profit from associates and joint venture	**(351,628)**	(288,937)
– Gain on disposals of property, plant and equipment, investment properties and lease prepayments	**(141,769)**	(482,961)
– Provision for impairment of receivables	**45,775**	31,953
– Gain on financial assets at fair value through profit or loss	**–**	(3,767)
– Gain in changes in fair value of equity interest owned before business combination *(Note 38)*	**(19,185)**	–
	358,978	(18,699)
Changes in working capital:		
– Inventories	**364,078**	(180,559)
– Trade and other receivables	**(1,186,008)**	(93,775)
– Contract work-in-progress	**(53,872)**	(40,068)
– Restricted cash	**130,349**	226,640
– Retirement and termination benefit obligations	**(48,345)**	174,411
– Trade and other payables	**422,631**	330,787
	(371,167)	417,436
Cash (used in) / generated from operations	**(12,189)**	398,737

34. CASH GENERATED FROM OPERATIONS *(CONTINUED)*

(b) Proceeds from disposal of property, plant and equipment and lease prepayment

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Net book amount of property, plant and equipment, investment properties and lease prepayments	**67,790**	72,435
Gain on disposals of property, plant and equipment, investment properties and lease prepayments	**141,769**	482,961
Advance or settled amount from disposal of property, plant and equipment, investment properties and lease prepayments	**19,198**	168,227
Prepayment on disposal of property, plant and equipment, investment properties and lease prepayments	**–**	(506,901)
Proceeds from disposal of property, plant and equipment, investment properties and lease prepayments	**228,757**	216,722

(c) Non-cash transaction

In 2016, the principal non-cash transaction was the endorsement of bills receivable of approximately RMB101,705,000 (2015: RMB181,798,000) for the acquisition of property, plant and equipment.

35. CONTINGENCIES

The Group has certain legal claims arising in the ordinary course of business as at 31 December 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.

36. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the report period but not yet incurred for Group is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Property, plant and equipment	**456,745**	438,096
Intangible assets	**14,769**	14,769
	471,514	452,865

Capital expenditure of property, plant and equipment which contracted for as at 31 December 2016 but not yet incurred for CQ Cummins amounted to approximately RMB110,699,000 (2015: RMB68,346,000).

36. COMMITMENTS *(CONTINUED)*

(b) Operating lease commitments

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
No later than 1 year	**35,648**	28,050
Later than 1 year and no later than 5 years	**46,055**	23,198
Over 5 years	**28,364**	–
	110,067	51,248

37. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence on making financial and operating decisions. Parties are also considered to be related if they are subject to common control. According to HKAS 24 (revised), government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group.

The Company's parent company is CQMEHG, a state-owned enterprise established in the PRC and is controlled by the PRC government that owns a significant portion of the productive assets in the PRC. Accordingly, as stipulated by HKAS 24 (revised), related parties include CQMEHG and its subsidiaries (other than the Group), other government-related entities and their subsidiaries, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and CQMEHG as well as their close family members.

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

Other than those disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the years ended 31 December 2016 and 2015 and balances arising from related party transactions as at 31 December 2016 and 2015.

(a) Significant related party transactions

For the years ended 31 December 2016 and 2015, the Group had the following significant transactions with related parties.

Continuing related party transactions

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Transactions with the parent company, fellow subsidiaries and associates		
Revenue		
– Revenue from sales of goods	**73,035**	69,704
– Revenue from loans service	**35,191**	34,441
– Revenue from provision of services	**2,507**	3,754
Expenses		
– Purchase of materials	**69,318**	83,875
– Services	**1,282**	5,481
– Expenses for deposit taking service	**11,886**	5,916
– Other expenses	**33,298**	32,446

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Transactions with associates		
Revenue		
– Revenue from sales of goods	**3,988**	10,931
– Revenue from loans service	**6,192**	–
– Revenue from provision of services	**1,038**	3,896
Expenses		
– Purchase of materials	**14,986**	24,339
– Expenses for deposit taking service	**177**	460
– Other expenses	**9,137**	1,360
Loan repayments received	**50,068**	–
Transactions with joint venture		
– Revenue from loans service	**370**	–
– Other expenses	**2,689**	1,095
Loan advanced during year	**42,000**	–

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

Discontinuing related party transactions

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Transactions with the parent company, fellow subsidiaries and associates		
Compensation on termination of contract	–	10,953

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade and other receivables		
Trade receivables due from		
– Fellow subsidiaries and associates	**41,779**	43,879
– Associates	**2,544**	2,520
Other receivables due from		
– CQMEHG	**1,267**	438
– Fellow subsidiaries and associates	**3,920**	2,146
– Joint venture	**2,521**	–
– Associates	**40,068**	187
Loans to		
– CQMEHG	**230,000**	–
– Fellow subsidiaries and associates	**920,499**	646,781
– Joint venture	**42,000**	–
– Associates	**70,000**	–
Prepayments due from		
– Fellow subsidiaries and associates	**523**	4,453
– Associates	**677**	848
	1,355,798	701,252
Less: long-term other receivables	**(85,989)**	(42,409)
Current portion	**1,269,809**	658,843

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade and other payables		
Trade payables due to		
– Fellow subsidiaries and associates	**23,881**	22,658
– Associates	**–**	2,693
Deposit taking from		
– CQMEHG	**104,055**	814
– Fellow subsidiaries and associates	**1,034,657**	836,680
– Associates	**11,303**	15,414
Other payables due to		
– CQMEHG	**3,696**	3,653
– Fellow subsidiaries and associates	**65,881**	44,685
– Associates	**161**	289
	1,243,634	926,886

(c) Financial guarantee contracts

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
As guarantee		
– Fellow subsidiaries	**69,000**	86,250
Guaranteed by		
– CQMEHG	**982,000**	1,000,000

37. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(d) Key management compensation

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	**2,901**	3,040
Contributions to pension plans	**500**	587
Discretionary bonuses	**4,525**	6,508
	7,926	10,135

(e) Transactions with government-related entities in PRC

Apart from transactions mentioned above, transactions with other government-related entities include but are not limited to sales and purchases of goods and other assets; use of public utilities; and bank deposits and bank borrowings.

These transactions are conducted in the ordinary course of the Group's business on terms similar to those that would have been entered into with non-government-related entities. The Group has also established its pricing strategy and approval processes for material transactions. Such pricing strategy and approval processes do not depend on whether the counterparties are government-related entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

38. BUSINESS COMBINATIONS

On 31 October 2016, the Group acquired 30.98% of the share capital of Power Transformer with a purchase consideration of RMB100,771,000 and obtained the control of Power Transformer. Power Transformer is one of the key investors of Chongqing ABB.

The following table summarises the consideration paid for Power Transformer, the fair value of assets acquired and liabilities assumed at the acquisition date.

	RMB'000
Purchase consideration:	
– cash paid/payable	100,771

Recognised amounts of identifiable assets acquired and liabilities assumed

	RMB'000
Cash and cash equivalents	62,275
Property, plant and equipment *(Note 16)*	787
Investment in associates *(Note 12)*	269,657
Trade and other payables	(24)
Deferred tax liabilities *(Note 31)*	(8,367)
Total identifiable net assets	324,328
30.98% net assets acquired	100,477
Goodwill *(Note 18)*	294
Cash paid	100,771

38. BUSINESS COMBINATIONS *(CONTINUED)*

Acquisition-related costs of approximately RMB242,000 have been charged to administrative expenses in the consolidated statement of comprehensive income for the year ended 31 December 2016.

The Group recognised a gain of approximately RMB19,185,000 as a result of measuring at fair value its 69.02% equity interest in Power Transformer held before the business combination. The gain is included in other gains, net in the Group's profit or loss for the year ended 31 December 2016.

There is no revenue contributed by Power Transformer since 31 October 2016. Power Transformer contributed profit of approximately RMB37,777,000 over the same period.

Power Transformer had been consolidated from 1 January 2016, consolidated profit for the year ended 31 December 2016 would have been approximately RMB92,231,000.

39. DISPOSAL OF SUBSIDIARIES

The Group sold 59% equity interest in Chongqing Jiangbei Machinery and all of its equity interest in Chongqing Yuzhu Tai-Xing Plating Co., Ltd. ("Chongqing Yuzhu") during 2016. The disposal in respect of Chongqing Yuzhu is insignificant to both the operations and financial statements of the Group.

In February 2016, the Company sold 59% equity interest in Chongqing Jiangbei Machinery, a wholly owned subsidiary of the Group, at the consideration of approximately RMB74,390,000. After the disposal, the Group holds 41% equity interest in Chongqing Jiangbei Machinery and still has significant influence over Chongqing Jiangbei Machinery and accounted for as an associate. A gain on disposal of the equity interest of approximately RMB42,675,000 and a gain on retained interest of approximately RMB17,156,000 were recognised in profit or loss.

39. DISPOSAL OF SUBSIDIARIES *(CONTINUED)*

Details of net assets disposed of and gain on disposal of Chongqing Jiangbei Machinery are as follows:

	As at 29 February 2016 *RMB'000*
Disposal proceeds:	
Cash received	74,390
Less: Net assets disposed	(31,715)
Gain on retained interest	17,156
Net gain on disposal of subsidiary *(Note 6)*	59,831

The assets and liabilities derecognised as a result of the disposal of Chongqing Jiangbei Machinery are as follows:

	As at 29 February 2016 *RMB'000*
Property, plant and equipment	152,207
Lease prepayments	55,161
Deferred income tax assets	5,026
Trade and other receivables	92,261
Cash and cash equivalents	14,595
Other assets	33,947
Trade and other payables	(227,530)
Borrowings	(59,050)
Deferred income	(12,040)
Employee benefit obligation	(823)
Net assets	53,754
Less: 41% of equity interest hold	(22,039)
Net assets disposed	31,715
Cash received	74,390
Less: Cash and cash equivalents of subsidiary disposed	(14,595)
Net cash inflow on disposal of equity interest in Chongqing Jiangbei Machinery	59,795

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINT VENTURE AND ASSOCIATES

(a) Subsidiaries

As at the date of this report, the Company has direct and indirect interests in the following principal subsidiaries:

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital (RMB'000)	Attributable equity interest Directly held	Indirectly held	Principal activities
Chongqing Rui Shida Power Technology Co., Ltd. (重慶瑞時達動力技術有限公司)	PRC/20 December 2016	Limited liability company	20,000	51%	–	Technical development and consultation for new energy vehicles and components
CAFF (重慶卡福汽車制動轉向系統有限公司)	PRC/27 June 2003	Limited liability company	198,682	100%	–	Manufacturing of vehicle parts and components
Qijiang Gear (綦江齒輪傳動有限公司)	PRC/28 December 2002	Limited liability company	200,000	100%	–	Manufacturing of transmission systems for vehicles
Chongqing Qi-Chi Automotive Part Co., Ltd. (重慶市綦齒汽車零部件有限責任公司)	PRC/26 June 2000	Limited liability company	64,565	–	100%	Manufacturing of vehicle parts and components
Chongqing Qi-Chi Xinxin Welfare Co., Ltd. (綦齒鑫欣福利有限責任公司)	PRC/8 February 2007	Limited liability company	18,367	–	100%	Manufacturing of vehicle parts and components
Qijiang Qi-Chi Forging Co.,Ltd. (綦江綦齒鍛造有限公司)	PRC/7 November 2003	Limited liability company	21,000	–	100%	Manufacturing of forge products
Chongqing General (重慶通用工業(集團)有限責任公司)	PRC/6 April 1997	Limited liability company	515,090	100%	–	Manufacturing of general machinery
Chongqing Pump Industry Co., Ltd. (重慶水泵廠有限責任公司)	PRC/12 September 2002	Limited liability company	196,411	100%	–	Manufacturing of pumps
Chongqing Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司)	PRC/12 September 2002	Limited liability company	187,214	100%	–	Manufacturing of gas compression machine
Chongqing Shunchang General Electrical Equipment Co., Ltd. (重慶順昌通用電器有限責任公司)	PRC/20 January 2007	Limited liability company	1,000	–	100%	Manufacturing of general electric apparatus for general machine
Chongqing Chongtong Wide Wisdom Air Conditioning Equipment Co., Ltd. (重慶重通智遠空調設備有限公司) *(i)*	PRC/11 August 2016	Limited liability company	29,640	–	42%	Designation and manufacturing water cooling unit

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

(a) Subsidiaries *(continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Chongqing Chongtong Turbine Technology Co., Ltd. (重慶重通透平技術股份有限公司) *(i)*	PRC/07 January 2016	Limited liability company	25,000	–	40%	Detection and maintenance of turbine machinery products
Chongqing General Group Bingyang Air Conditioner Equipment Installation Co., Ltd. (重慶通用集團冰洋製冷空調設備安裝有限公司)	PRC/11 May 1994	Limited liability company	8,223	–	100%	Provision of air-conditioner installation services
Jilin Chongtong Chengfei New Material Co., Ltd. (吉林重通成飛新材料股份有限公司)	PRC/17 September 2009	Limited liability company	160,000	–	92%	Manufacturing of wind-power equipment
Xilinhaote Chenfei Wind-Power Equipment Co., Ltd. (錫林浩特晨飛風電設備有限公司)	PRC/16 November 2011	Limited liability company	50,000	–	92%	Manufacturing of wind-power equipment
Chongqing Chongtong Chengfei New Material Co., Ltd. (重慶重通新材料有限公司)	PRC/1 April 2015	Limited liability company	50,000	–	100%	Manufacturing of wind-power equipment
Tong Kang Water Affairs Co., Ltd. (潼康水務有限公司)	PRC/16 July 2012	Limited liability company	10,000	–	100%	Sewerage treatment and Environmental engineering construction
CMEFC (重慶機電控股集團財務有限公司)	PRC/16 January 2014	Limited liability company	600,000	51%	–	Provide financial service
Chongqing Machine Tools (Group) Co., Ltd. (重慶機床(集團)有限責任公司)	PRC/31 December 2005	Limited liability company	594,241	100%	–	Manufacturing of gear-cutting machines
Chongqing No. 2 Machine Tools Factory Co., Ltd. (重慶第二機床廠有限責任公司)	PRC/12 June 2007	Limited liability company	80,000	–	100%	Manufacturing of machinery tools
Chongqing Shenjian Automotive Drive Part Co., Ltd. (重慶神箭汽車傳動件有限責任公司)	PRC/19 July 1999	Limited liability company	83,011	–	100%	Manufacturing of transmission systems for vehicles
Chongqing Tool Factory Co., Ltd. (重慶工具廠有限責任公司)	PRC/13 February 2007	Limited liability company	60,000	–	100%	Manufacturing of cutting tools for gear-cutting machines
Chongqing Yinhe Forging & Founding Co., Ltd. (重慶銀河鑄鍛有限責任公司)	PRC/6 October 1997	Limited liability company	18,704	–	100%	Manufacturing of foundry goods
Chongqing Shengpu Materials Co., Ltd. (重慶盛普物資有限公司)	PRC/1 February 2007	Limited liability company	21,405	100%	–	Sales of machinery materials
Chongqing Shengong Machinery Manufacture Co., Ltd. (重慶神工機械製造有限責任公司)	PRC/28 April 2000	Limited liability company	1,103	–	100%	Manufacturing of machinery tools
Chongqing Yuzhu (重慶渝築鈦星鍍膜有限公司) (Disposed on November 2016)	PRC/25 September 2003	Limited liability company	1,892	–	70%	Provision of processing services

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

(a) Subsidiaries *(continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Fu Baotian Cotton picking services Co.,Ltd. (新疆福保田採棉服務有限公司)	PRC/10 June 2015	Limited liability company	1,500	–	51%	Service of cotton picking
Chongqing Sino-Germany Smart Factory Solutions Co.,Ltd. (重慶世瑪德智能製造有限公司) *(i)*	PRC/26 April 2016	Limited liability company	40,000		40%	Consultation, designation, manufacturing and selling of automatic and intelligent equipment
Chongqing Water Turbine Works Co., Ltd. (重慶水輪機廠有限責任公司)	PRC/26 March 1998	Limited liability company	147,097	100%	–	Manufacturing of power generators
Chongqing Huahao Smelting Co., Ltd. (重慶華浩冶煉有限公司)	PRC/16 April 2002	Limited liability company	61,335	100%	–	Metallurgical production
Pigeon Wire (重慶鴿牌電線電纜有限公司)	PRC/20 January 2001	Limited liability company	100,100	74%	–	Manufacture electric wires and cables
Chongqing Pigeon Electric Materials Co., Ltd. (重慶鴿牌電工材料有限公司) *(ii)*	PRC/19 October 2006	Limited liability company	6,800	–	37%	Manufacture electrical material
Power Transformer (重慶變壓器有限責任公司)	PRC/5 March 1996	Limited liability company	161,410	100%	–	Investor of Chongqing ABB
Chongqing Pigeon Electrical Porcelain Co., Ltd. (重慶鴿牌電瓷有限公司)	PRC/19 October 2006	Limited liability company	53,000	–	74%	Manufacture electrical porcelain
Precision Technologies Group (PTG) Limited (精密技術集團有限公司)	United Kingdom/1 August 2011	Limited liability company	UKP20,000	100%	–	Production and technical service of machineries
Holroyd Precision Limited (霍洛伊德精密有限公司)	United Kingdom/12 June 2006	Limited liability company	1	–	100%	Production and technical service of screw grinding machines and screw milling machines
Precision Components Limited (精密零部件加工有限公司)	United Kingdom/2 June 2007	Limited liability company	–	–	100%	Production of screw
PTG Heavy Industries Limited (PTG重工有限公司)	United Kingdom/16 May 2008	Limited liability company	–	–	100%	Design and manufacture of machine tools
Milnrow Investments Limited (米羅威投資有限公司)	United Kingdom/29 November 2006	Limited liability company	1	–	100%	Leasing of properties
PTG Advanced Developments Limited (PTG高級發展有限公司)	United Kingdom/4 April 2008	Limited liability company	–	–	100%	Researching and developing of machinery tools

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

(a) Subsidiaries *(continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
PTG Deutschland GmbH (PTG德國公司)	Germany/15 May 2010	Limited liability company	EUR25	–	100%	Selling of machinery tools
Chongqing Holroyd Precision Rotors Manufacturing Co., Ltd. (重慶霍洛伊德精密螺杆制造有限責任公司)	PRC/15 December 2011	Limited liability company	40,000	–	100%	Design, manufacture and selling screw
Precision Technologies Group Investment Development Company Limited (精密技術集團投資發展有限公司)	Hong Kong/27 April 2012	Limited liability company	HKD600	–	100%	Import and export materials and equipment
Precision Technologies Group (US) Ltd. (精密技術集團(美國)有限公司)	United Kingdom/4 April 2015	Limited liability company	–	–	100%	Holding Company
Pricision Technologies Group Inc. (精密技術集團公司)	United Kingdom/20 April 2015	Incorporated Company	USD1	–	100%	Holding Company
Holroyd Precision Rotors Inc. (霍洛伊德精密轉子公司)	United States/20 April 2015	Incorporated Company	USD11,500	–	100%	Rotor Component Manufacturer

(i) The Group has less than 50% interests in these companies, they are considered as subsidiaries of the Group because the Group has majority voting rights on their Board of Directors and their strategic, operating, investing and financing activities are controlled by the Group.

(ii) The Group has 74% interests in Pigeon Wire, which owns 50% interests in Chongqing Pigeon Electric Materials Co., Ltd. Chongqing Pigeon Electric Materials Co., Ltd. is considered as a subsidiary of the Group because the Group has majority voting rights on the Board of Directors and its strategic, operating, investing and financing activities are controlled by the Group.

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

(b) Joint venture

As at the date of this report, the Company has the following principal joint venture (unlisted):

				Attributable equity interest		
Name	**Country/Place and date of incorporation**	**Type of legal entity**	**Issued/paid in capital** *(RMB'000)*	**Directly held**	**Indirectly held**	**Principal activities**
CQ Cummins (重慶康明斯發動機有限公司)	PRC/15 June 1995	Limited liability company	417,600	50%	–	Manufacturing of engines

(i) CQ Cummins manufactures engines for automobile, electricity and other industries. CQ Cummins is a strategic partnership for the Group, providing new technologies for diesel engine business.

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

(c) Associates

As at the date of this report, the Company has direct and indirect interest in the following principal associates (all are unlisted):

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Qijiang Qi-Chi High-New Founding Co., Ltd. (重慶市綦齒高新鑄造有限責任公司)	PRC/13 July 2000	Limited liability company	1,200	–	41%	Manufacturing of foundry products
Chongqing QG Reintel Transmission Co., Ltd. (重慶綦齒睿安特變速器有限公司)	PRC/29 March 2016	Limited liability company	200,000	10%	35%	Manufacturing and sales of transmission system of vehicles and engineering machinery
Hongyan (重慶紅岩汽車方大汽車懸架有限公司) *(ii)*	PRC/27 June 2003	Limited liability company	119,081	44%	–	Manufacturing of automobile springs for vehicles
Exedy (愛思帝(重慶)驅動系統有限公司) *(ii)*	PRC/3 December 2003	Limited liability company	101,040	27%	–	Manufacturing of clutches
Midea Tongyong (重慶美的通用製冷設備有限公司) *(i)*	PRC/4 August 2004	Limited liability company	USD12,500	–	10%	Manufacturing of refrigeration equipment
Chongqing Yongtong Gas Co., Ltd. (重慶永通燃氣股份有限公司)	PRC/6 December 2006	Limited liability company	20,000	–	20%	Provision of gas engineering services
CQMEM (重慶北部新區機電小額貸款有限公司) *(ii)*	PRC/17 April 2014	Limited liability company	200,000	10%	35%	Micro lending service
Knorr-Bremse Systems for Commercial Vehicles (Chongqing) Ltd. (克諾爾商用車系統(重慶)有限公司)	PRC/23 February 2011	Limited liability company	135,594	34%	–	Manufacturing of vehicle parts and components
Chongqing Youyan (重慶有研重冶新材料有限公司)	PRC/15 July 2014	Limited liability company	80,000	42%	–	Manufacturing of metallic products
Chongqing ABB (重慶ABB變壓器有限公司)	PRC/22 January 1998	Limited liability company	USD48,647	–	38%	Manufacturing and maintenance of power transformer
Chongqing Jiangbei Machinery (重慶江北機械有限責任公司)	PRC/10 September 2002	Limited liability company	150,000	41%	–	Manufacturing of separation machinery

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

(c) Associates (continued)

(i) Although the Company owns 10% of equity interests of Midea Tongyong, one representative of the Company has been assigned to Midea Tongyong as a director of the board, the Company can exercise significant influence over Midea Tongyong and therefore accounted it as an associate.

(ii) Chongqing Jiangbei Machinery mainly produces manufacturing, selling and exporting of separation machinery and is a strategic part for the Group on general electric apparatus for general machine.

CQMEM focus on solving financing problem for third parties. It aims at providing loans and discounting notes for small companies to create profits for the Group.

Chongqing ABB provides high-voltage transmitter products to the electric power industry, and is a strategic partner of the Group because it brings high reliability and safety to the power and emission industry.

Hongyan engaged in automatic elastic suspension components manufacturing, and striving to maintain a leading edge in the industry. The Group has built long-term cooperation relationship with Hongyan because of its exceptional quality products.

Exedy dedicated to the development of wide-diesel engine muffler damping clutch, and the products are highly appreciated by the auto production companies of the Group.

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

41. ULTIMATE HOLDING COMPANY

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

42. BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

Balance sheet of the Company

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		6,198	7,927
Intangible assets		1,685	–
Investments in associates		228,213	244,828
Investments in subsidiaries		3,059,394	3,072,596
Investments in jointly controlled entities		200,929	200,929
Available-for-sale financial assets		20,000	20,000
Trade and other receivables		321,000	–
		3,837,419	3,546,280
Current assets			
Trade and other receivables		920,702	696,787
Dividend receivable		277,660	429,679
Available-for-sale financial assets		150,000	–
Restricted cash		110,563	561
Cash and cash equivalents		779,905	795,955
		2,238,830	1,922,982
Total assets		6,076,249	5,469,262

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

Balance sheet of the Company ***(continued)***

	Note	As at 31 December 2016 RMB'000	2015 RMB'000
EQUITY AND LIABILITIES			
Equity attributable to owners of the Company			
Share capital		3,684,640	3,684,640
Other reserves	(Note (a))	(651,506)	(669,476)
Retained earnings			
– Proposed final dividend	(Note (a))	128,962	92,116
– others	(Note (a))	1,251,928	1,283,940
Total equity		4,414,024	4,391,220
LIABILITIES			
Non-current liabilities			
Borrowings		916,335	–
Deferred income		55,595	–
		971,930	–
Current liabilities			
Borrowings		620,172	998,953
Deferred income		6,333	–
Trade and other payables		63,790	79,089
		690,295	1,078,042
Total liabilities		1,662,225	1,078,042
Total equity and liabilities		6,076,249	5,469,262

The balance sheet of the Company was approved by the Board of Directors on 31 March 2017 and was signed on its behalf

Director

Director

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

Note (a) Reserve movement of the Company

	Other reserves				
	Capital reserve	Statutory reserve fund	Total	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2015	(981,212)	279,937	(701,275)	1,271,495	570,220
Profit for the year	–	–	–	305,853	305,853
Dividends *(Note 33)*	–	–	–	(169,493)	(169,493)
Transfer to reserves	–	31,799	31,799	(31,799)	–
At 31 December 2015	(981,212)	311,736	(669,476)	1,376,056	706,580
At 1 January 2016	**(981,212)**	**311,736**	**(669,476)**	**1,376,056**	**706,580**
Profit for the year	**–**	**–**	**–**	**114,920**	**114,920**
Dividends *(Note 33)*	**–**	**–**	**–**	**(92,116)**	**(92,116)**
Transfer to reserves	**–**	**17,970**	**17,970**	**(17,970)**	**–**
At 31 December 2016	**(981,212)**	**329,706**	**(651,506)**	**1,380,890**	**729,384**

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

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

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

For the year ended 31 December 2016:

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
Directors				
Mr. Wang Yuxiang *(Chairman)*	221	–	520	741
Ms. Chen Ping *(Appointed from June 2016, Acting as general manager)*	120	29	90	239
Mr. Yang Quan	221	60	292	573
Mr. Huang Yong	54	–	–	54
Mr. Lu Huawei	125	–	–	125
Mr. Ren Xiaochang	74	–	–	74
Mr. Jin Jingyu	74	–	–	74
Mr. Deng Yong	54	–	–	54
Mr. Liu Wei	74	–	–	74
Mr. Wei Fusheng *(Appointed from June 2016)*	30	–	–	30
Ms. He Xiaoyan *(Appointed from June 2016)*	30	–	–	30
Mr. Yu Gang *(Resigned from March 2016)*	57	16	385	458
Mr. Wang Jiyu *(Resigned from June 2016)*	24	–	–	24
Mr. Yang Jingpu *(Resigned from June 2016)*	24	–	–	24
	1,182	105	1,287	2,574

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

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

For the year ended 31 December 2016: *(continued)*

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
Supervisors				
Mr. Xiang Hu *(Appointed from June 2016)*	232	60	437	729
Mr. Huang Hui	48	–	–	48
Ms. Wu Yi	48	–	–	48
Mr. Xia Hua	315	56	637	1,008
Mr. Zhang Mingzhi	223	56	252	531
Mr. Yang Mingquan *(Resigned from June 2016)*	24	–	–	24
Mr. Wang Pengcheng *(Resigned from June 2016)*	12	–	–	12
	902	172	1,326	2,400
Senior management				
Duan Caijun	220	60	419	699
Deng Rui *(Appointed from June 2016)*	110	29	72	211
Zhang Shu *(Appointed from June 2016)*	110	29	72	211
Sun Wenguang *(Appointed from June 2016)*	110	29	72	211
Chen Yu *(Resigned from June 2016)*	111	30	396	537
Liu Yonggang *(Resigned from March 2016)*	52	16	719	787
Zhao Zicheng *(Resigned from June 2016)*	104	30	162	296
	817	223	1,912	2,952
	2,901	500	4,525	7,926

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

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

For the year ended 31 December 2015:

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
Directors				
Mr. Wang Yuxiang *(Chairman)*	204	–	525	729
Mr. Yu Gang *(Resigned from March 2016)*	230	57	615	902
Mr. Yang Quan	209	57	502	768
Mr. Ren Yong	139	38	482	659
Mr. Xiang Hu	209	57	462	728
Mr. Huang Yong	48	–	–	48
Mr. Wang Jiyu	48	–	–	48
Mr. Yang Jingpu	48	–	–	48
Mr. Lo Wah Wai	116	–	–	116
Mr. Ren Xiaochang	68	–	–	68
Mr. Jin Jingyu	68	–	–	68
Mr. Liu Wei	68	–	–	68
Mr. Deng Yong	48	–	–	48
	1,503	209	2,586	4,298

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

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

For the year ended 31 December 2015: *(continued)*

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Total *RMB'000*
Supervisors				
Mr. Wang Pengcheng	24	–	–	24
Mr. Huang Hui	36	–	–	36
Ms. Wu Yi	36	–	–	36
Mr. Yang Mingquan	48	–	–	48
Mr. Xia Hua *(Appointed from September 2015)*	217	54	608	879
Mr. Zhang Mingzhi *(Appointed from September 2015)*	193	54	389	636
Mr. Zhao Zicheng *	137	38	735	910
Mr. Chen Qing *(Resigned from September 2015)*	149	42	637	828
	840	188	2,369	3,397
Senior management				
Mr. Duan Caijun	209	57	450	716
Mr. Chen Yu	209	57	497	763
Mr. Liu Yonggang	209	57	606	872
Mr.Zhao Zicheng *(Appointed from August 2015)*	70	19	–	89
	697	190	1,553	2,440
	3,040	587	6,508	10,135

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

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

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

For the years ended 31 December 2016 and 2015, no directors, supervisors or senior management of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors, supervisors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

(b) Directors' retirement benefits and termination benefits

For the years ended 31 December 2016 and 2015, no special retirement and termination benefits' plans to the directors for the year except for the plans to all the Group's employees mentioned in Note 9. No other retirement and termination benefits were paid to or receivable by those directors in respect of their other services in connection with the management of the affairs of the Company or its subsidiary undertaking.

(c) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2016, the Company did not provide any consideration to any third party for making available director's services (2015: Nil).

(d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

During the year ended 31 December 2016, no loans, quasi-loans or other dealings in favour of directors of the Company, controlled bodies corporate by and connected entities with such directors (2015: Nil).

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

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

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

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