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

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

Stock Code: 02722

INTERIM REPORT 2017

* For identification purposes only

CONTENTS

Corporate Information

DIRECTORS

Executive Directors

Mr. Wang Yuxiang *(Chairman)*
Ms. Chen Ping
Mr. Yang Quan

Non-executive Directors

Mr. Huang Yong
Mr. Wei Fusheng
Mr. Deng Yong
Ms. He Xiaoyan

Independent Non-executive Directors

Mr. Lo Wah Wai
Mr. Ren Xiaochang
Mr. Jin Jingyu
Mr. Liu Wei

SUPERVISORS

Mr. Xiang Hu *(Chairman)*
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

Miss Chiu Hoi Shan *(Practicing Solicitor)*

QUALIFIED ACCOUNTANT

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

AUTHORIZED REPRESENTATIVES AND CONTACT INFORMATION

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ALTERNATE AUTHORIZED REPRESENTATIVE AND CONTACT INFORMATION

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Tel.: 852-2802 2191

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Wanchai
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INTERNATIONAL AUDITOR

PricewaterhouseCoopers
22nd Floor, Prince's Building, Central, Hong Kong

LEGAL ADVISOR TO THE COMPANY

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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WEBSITE OF THE COMPANY

www.chinacqme.com

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Chongqing City, the PRC

SHARE INFORMATION

Listing Place

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

Stock Code:

02722

FINANCIAL YEAR END

31 December

Results Highlights

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

- Revenue of the Group for the six months ended 30 June 2017 amounted to approximately RMB3,510.0 million, representing a decrease of approximately 26.8% from the corresponding period of last year.

- Gross profit of the Group for the six months ended 30 June 2017 amounted to approximately RMB433.6 million, representing a decrease of approximately 13.2% from the corresponding period of last year.

- Profit attributable to the shareholders of the Company for the six months ended 30 June 2017 amounted to approximately RMB201.6 million, representing an increase of approximately 16.7% from the corresponding period of last year.

- Basic earnings per share for the six months ended 30 June 2017 amounted to approximately RMB0.05.

Chairman's Statement

Dear Shareholders,

The board of directors (the "Board") of the Company is pleased to announce the interim results of the Group for the six months ended 30 June 2017 (the "Period"). The Group's interim results have not been audited but have been reviewed by the audit and risk management committees and the Company's auditor, PricewaterhouseCoopers.

RESULTS REVIEW

Total revenue of the Group for the six months ended 30 June 2017 amounted to approximately RMB3,510.0 million, representing a decrease of around 26.8% from approximately RMB4,793.5 million for the corresponding period of last year.

Profit attributable to the shareholders of the Company for the six months ended 30 June 2017 amounted to approximately RMB201.6 million, representing an increase of around 16.7% from approximately RMB172.8 million for the corresponding period of last year.

For the six months ended 30 June 2017, earnings per share amounted to approximately RMB0.05 (for the first half of 2016: RMB0.05). Total assets of the Group as at 30 June 2017 amounted to approximately RMB16,005.7 million (as at 31 December 2016: approximately RMB15,342.1 million), while total liabilities amounted to approximately RMB9,119.5 million (as at 31 December 2016: approximately RMB8,324.9 million); total equity was approximately RMB6,886.2 million (as at 31 December 2016: approximately RMB7,017.2 million); net asset value per share was approximately RMB1.87 (as at 31 December 2016: approximately RMB1.90).

In the first half of 2017, global manufacturing activities stably increased. However, the overall economic outlook was still subject to comparatively many uncertainties as developed economies slowed down their investment, the European economy, though recovered steadily, was still lack of impetus for investment, and the U.S. policy of prospering the local economy relying on the recovery of industrial manufacturing remained to be seen. On the contrary, domestically, there were strong economic stimuli and more trade demands and the Chinese supply-side structural reform generated remarkable achievements, and the economic operation maintained overall stable in the first half of the year with the GDP growth rate of 6.9%. In order to implement the new "321" development strategy, the Group adopted the "one policy for one enterprise" as the major measure to keep a close eye on corporate operation and supervise corporate work efficiency so as to study, judge and adjust measures in a prompt way. Despite of the effects of downturn of individual industries on the business operation of the Group, the Group stably and steadily proceeded with its operation and vigorously developed the domestic and overseas markets. With the focus placed on the continuous innovation of principal businesses, the Group unswervingly promoted reform and strengthened and optimised internal control measures. Therefore, the overall business performance met the expected goal for the first half of the year.

BUSINESS REVIEW AND OUTLOOK

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

China V emission standard was completely implemented nationwide since 1 January 2017 and all the manufactured, imported, sold and registered light and heavy-duty gasoline vehicles and heavy-duty diesel vehicles must comply with the requirements of China V emission standard. In the first half of 2017, according to the data published by the China Association of Automobile Manufacturers, the production and sales volume of automobiles reached 13.526 million and 13.354 million units, representing an increase of 4.6% and 3.8% respectively over last year, continuously maintaining an overall stable growth. The performance of heavy trucks and large and medium passenger vehicles, which are closely related to the Group, was uneven in the first half of the year. Driven by the rapid growth of heavy truck market, the steering systems business saw satisfactory growth, while the performance of the transmission systems business failed to meet expectations due to the decrease in subsidy for new energy vehicles and industry fluctuations. The chassis suspension system was successfully deployed in the large scale domestic automobile supporting systems of Chang'an Automobile, Jiangling Motors, etc.

In 2017, benefiting from the great demand of heavy trucks, continued effects of adjustments to the market and product mix and the restorative growth of new energy power system market, the automobile parts and components business of the Group is expected to have stable performance.

In addition, the diesel engine business operated by Chongqing Cummins Engine Company Limited ("Chongqing Cummins"), a joint venture enterprise of the Group proactively accelerated marketing in the power equipment, engineering machinery, petroleum machinery and shipbuilding markets and adjusted the business policy in due course, resulting in stable increase in operating results. K38 high-horsepower engine was successfully entered the petroleum drilling machine market. The first SD52-5 bulldozer sold to Europe is equipped with a QSK19 high-horsepower engine. Chongqing Cummins successfully entered into a large scale single contract on electricity generating set with two domestic famous breeding groups. The projects on global high-horsepower engine technology R&D center and new plants were continuously advanced as scheduled. The relevant results in the first half of the year are set out in the section headed "SHARE OF POST-TAX PROFIT OF A JOINT VENTURE" on page 60 of this Interim Report. The business is expected to perform well in 2017.

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

In the first half of 2017, benefiting from the promotion of clean energy by the government of China, smart grid projects and "One Belt, One Road" strategy, the Group increased development efforts for hydropower equipment business in Southeast Asia, South Asia, Africa and Middle East markets, and successfully won 2 orders of equipment for EPC hydropower stations and fulfilled 120% of the new order goal for the year. In respect of wire and cable and materials business, the Group independently developed new energy-saving and environment-friendly wires, insulators, and other new products to rapidly expand the domestic and Southeast Asian markets. New orders achieved a rapid growth over the same period of last year. The operating results maintained stable as a whole.

With the acceleration of domestic and foreign market and the expansion of business patterns, the Group expects the segment to maintain stable performance in 2017.

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

In the first half of 2017, the mean PMI index of the manufacturing industry of China maintained at 51.5%. The investment strength related to the general machinery industry gradually increased, driving the stable recovery of the overall general machinery segment. The industrial pump business passed the assessment and examination by the expert group of national "integration of information technology and industrialization" management system. The Group took the initiative in research and development of mid-to-high end intelligent products and nuclear power products and proactively sought for breakthrough in market and product marketing. The Group has successfully expanded the Southeast Asian market and realized increase to orders. The HSD150-80 charging pump independently developed by the Group was successfully applied in the 1000MW pressurized water reactor power plant with two stages of units. The 5D reciprocating pump and reactor cavity cooling injection pump were widely used in oilfield exploitation, etc. The over-ground air supply system of gas compressor independently developed by the Group successfully guaranteed the launch of "Long March 5" and "Long March 7". New breakthroughs were made with ventilators, single-stage centrifugal blowers and refrigeration compressors in the energy-efficient field, chiller field and electric power environmental protection field, driving the segment's revenue to further maintain comparatively rapid growth.

In 2017, with the gradual recovery of market demand of this segment, the adjustment to product mix gradually accelerated and the development of new market gradually generated effects. The Group expects that this segment will maintain comparatively rapid growth.

CNC machine tools (gear-producing machines, precision screw machines, complex precision metal-cutting tools and intelligent agricultural machinery, etc.)

In the first half of 2017, the Group entered into a strategic cooperation agreement with EATON, the leader in the electric industry of the United States. With the focus placed on "intelligent manufacturing", both parties gave play to the advantages of big data platform. Meanwhile, riding on their respective advantages, both parties promoted the extension and development of products and services to enhance the market competitiveness of brand. With the accelerated development of national intelligent manufacturing, the intelligent development of equipment manufacturing industry pushed the bottoming out of machine tool industry. The CNC machine tool business of the Group achieved rapid increase in orders, giving rise to remarking increase in turnover. High-end precision screws were exported to the United States in batches and the intelligent agricultural machinery independently developed by the Group entered the Xinjiang market in small batches.

Driven by the product upgrade of CNC machine tool and intelligent equipment and the industrial transformation of intelligent agricultural machinery, the Group expects the segment will improve in stabilization in 2017.

Financial Services

In the first half of 2017, revenue of the financial services of the Group amounted to approximately RMB27.9 million, representing a year-on-year increase of approximately 26.2%.

Trade Business

In the first half of 2017, the bulk commodity central procurement platform of the Group directly reduced procurement cost of the Group by approximately RMB3.59 million, and sales dramatically decreased by approximately 62.8% year-on-year, mainly due to the reduction of the low margin trade business by the Group.

DEVLOPMENT STRATEGIES

With the new "321" strategy as the outline, the Group, laying stress on four major themes of "stabilizing growth, promoting innovation, strengthening management and promoting reform", will continue to promote the Group's quality and efficiency enhancement and continuously improve operating efficiency and quality and quantity, with a view to fully implement the work priorities in the second half of 2017.

Work priorities in the second half of 2017

(I) Stablise growth and vigorously develop the market

Leveraging on the Group's technological advantages in four segments, we will proactively develop the market. The focus for the domestic market is to achieve new breakthroughs in terms of tube-in-sheet evaporative cooling air conditioner, offshore wind power, nuclear power pump, intelligent manufacturing, intelligent agricultural machinery and new energy power system assembly; the focus for overseas market is to make breakthroughs in respect of electric power, new energy equipment and EPC contract in the iron and steel, power and water conservancy industries in Southeast Asia. Meanwhile, we will develop the European market through PTG UK and Italian WGP Company. The Group's operating quality and quantity and efficiency will be driven and improved by the breakthrough in quality and quantity of new products and new market.

(II) Promote innovation and speed up industrial upgrade

We will increase investment in technological research and development, expedite the research and development of potential products and fully implement the optimization and adjustment of industrial structure to achieve the upgrade of intelligent manufacturing industry. The emphasis will be given to turbine mechanical testing service platform, remote online monitoring and intelligent diagnosis service system for industrial pump and hydropower equipment, experimental verification system for intelligent manufacturing of CNC machine tool, etc. We will accelerate the implementation of key construction projects, in particular gas compressor business relocation, global high-horsepower engine technology R&D center, intelligent wind power blade plant, automatic processing and production line of ball pin for steering system, etc. Relying on the European innovation center established by PTG UK, we will intensify the construction of information-based platform and promote real-time quantitative analysis and judgment management of database; moreover, we will boost the intellectualization of production and comprehensively enhance corporate intelligent research and development, production, management and service to improve the Group's core competitiveness.

(III) Strengthen management and implement "one policy for one enterprise"

We will exert great efforts for "management of five aspects", i.e. marketing, operation, finance, quality and quantity and human resources. The focus of marketing management will be on marketing mix strategy, business policy, incentive and customer management, etc. The focus of operation management will be benchmarking management, dynamic monitoring, process monitoring, information technology level, improvement, feedback, etc. The focus of financial management will be on funds allocation, financial management and control, receivables, inventories, cash flow, operating profit, etc. The focus of quality management will be on quality target management, process control, defects and rectification, QC improvement, quality recourse, etc. The focus of human resources management will be on the continuous promotion 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), introduction and cultivation of high-end talents, remuneration incentive, etc. We will implement the measure of "one policy for one enterprise" to support advantageous and strong enterprises and assist enterprises in difficulties. The guidance on "one policy for one enterprise" will be strengthened for overseas subsidiaries and the remuneration of enterprise operators will be linked with their performance in assessment. Meanwhile, continuous efforts will be made on internal control appraisal, supervision and inspection as well as improvement of risk control system to fully promote the enhancement of the Group's overall management and operation level.

(IV) Promote reform and optimise assets structure

Various ways will be adopted to accelerate the reform of the Group's subsidiaries. A batch of ineffective assets will be disposed of through liquidation and shutdown, consolidation by merger, etc. Investment attraction for reorganization, equity transfer, equity incentive and other ways will be applied to promote a batch of enterprises to implement reform of mixed ownership and shareholding by management to stimulate enterprise's operation vitality; the Group will acquire a number of enterprises with core competitiveness, broad market prospects and synergistic effects with the existing businesses through equity merger and acquisition and reorganization.

SUMMARY

It is expected that the global international trade will further strengthen economic effects and the activities in the equipment manufacturing industry will increase stably in the second half of 2017. The Europe and emerging countries are possible to see an optimistic turnaround and the industry return policy of the United States will stimulate investment in the market in the adjustment stage. However, the recovery of world economy will be encumbered by the potential raise of interest rate by the Federal Reserve of the United States in the second half of the year. The Group will benefit from the gradual implementation of national strategies including "One Belt, One Road" and "the Yangtze River Economic Belt" by the Chinese government, which aim to guarantee the stable economic situation and boost the sustainable growth for enterprises. Centering on four major themes of stabilizing growth, promoting innovation, strengthening management and promoting reform, the Group will put effort to remove ineffective assets, make up shortcomings, find out blind spots, grasp the key points and tackle difficulties. By externally developing market and internally strengthening management, the Group will speed up intelligent manufacturing, transformation and upgrade and promote the growth of new industries and new projects. Furthermore, it will accelerate the supply-side reform to further promote its improvement, with a view to creating value for the society, bringing about returns to shareholders and generating welfare for staff.

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

Wang Yuxiang
Executive Director and Chairman

Chongqing, the PRC,
30 August 2017

Management's Discussion and Analysis

RESULTS OVERVIEW

SALES

For the six months ended 30 June 2017, the Group's total revenue amounted to approximately RMB3,510.0 million, a decrease of approximately 26.8% as compared with approximately RMB4,793.5 million for the same period of last year.

Overall, revenue of the vehicle parts and components segment was approximately RMB321.5 million (accounting for approximately 9.2% of the total revenue), a decrease of approximately 10.3%; revenue of the power equipment segment was approximately RMB884.3 million (accounting for approximately 25.2% of the total revenue), an increase of approximately 6.8%; revenue of the general machinery segment was approximately RMB1,099.6 million (accounting for approximately 31.3% of the total revenue), a decrease of approximately 6.2%; and revenue of the CNC machine tools segment was approximately RMB391.7 million (accounting for approximately 11.2% of the total revenue), an increase of approximately 28.3%; revenue of financial services was approximately RMB27.9 million (accounting for approximately 0.7% of the total revenue), an increase of approximately 26.2%; and revenue of the trade business was approximately RMB785.0 million (accounting for approximately 22.4% of the total revenue), a decrease of approximately 62.8%.

Market demand was stabilized and sales revenue increased in the power equipment segment and CNC machine tools segment during the Period. However, vehicle parts and components segment was affected by the decline in market demand and the general machinery segment was affected by the exclusion of the centrifuge business in the scope of consolidation and wind power blade business slowed down, resulting in reduced sales. The decline in the trade business segment was due to the Group's intention to reduce its trade business with low gross profit margin. It is expected that the sales revenue of the Group will maintain a stable growth in the second half of 2017.

There has been no significant change in the possible future development of the Group's business and the Group's outlook for the financial year of 2017 since the publication of the Group's annual report for the year ended 31 December 2016.

GROSS PROFIT

The gross profit for the six months ended 30 June 2017 was approximately RMB433.6 million, a decrease of approximately RMB65.8 million or approximately 13.2% as compared with approximately RMB499.4 million for the same period of last year mainly due to the increase of the price of the raw material of power equipment segment, including hydropower equipment and wire and cable business, which resulted in the decrease in gross profit margin of approximately 15.4% and 5.4% respectively as compared with the same period of last year, and the overall gross profit margin was approximately 12.4%, increasing approximately 2 percentage points as compared with 10.4% for the same period last year. Eliminating trade business and financial services, the gross profit margin was approximately 15.2%, a decrease of approximately 2.8 percentage points as compared with approximately 18.0% for the same period of last year. The Group's gross profit margin is expected to remain stable in the second half of 2017.

OTHER INCOME AND GAINS

Other income and gains for the six months ended 30 June 2017 were approximately RMB209.2 million, an increase of approximately RMB45.2 million or approximately 27.6% as compared with approximately RMB164.0 million for the same period of last year, which was mainly due to the increase of income from land disposal by Chongqing Water Turbine Factory Company Limited during the Period.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for the six months ended 30 June 2017 were approximately RMB542.8 million, an increase of approximately RMB31.9 million or approximately 6.2% as compared with approximately RMB510.9 million for the same period of last year. The percentage of selling and administrative expenses accounted for the total sales increased to approximately 15.5% from approximately 10.7% of the same period of last year, mainly attributable to a year-on-year increase of approximately RMB34.4 million in administrative expenses, which was due to the increase in both research and development expenses and labor cost for the same period of last year.

OPERATING PROFIT

The operating profit for the six months ended 30 June 2017 was approximately RMB99.9 million, a decrease of approximately RMB52.6 million or approximately 34.5% as compared with approximately RMB152.5 million for the same period of last year.

NET FINANCE EXPENSES

The net finance expenses for the six months ended 30 June 2017 was approximately RMB40.7 million, a decrease of approximately RMB7.6 million or approximately 15.7% as compared to approximately RMB48.3 million for the same period of last year, which was mainly due to the decrease of loan interest rate through concentrating credit.

SHARE OF PROFITS OF ASSOCIATES

The Group's share of profits of associates for the six months ended 30 June 2017 was approximately RMB66.7 million, a significant increase of approximately RMB47.8 million or approximately 2.5 times as compared with approximately RMB18.9 million for the same period of last year. This was due to an increase of approximately RMB53.7 million in results of Chongqing ABB Power Transformer Co., Ltd., In contrast, Chongqing Jiangbei Machinery Co., Ltd. recorded a loss of approximately RMB0.7 million during the Period, and results of Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd. increased a loss by approximately RMB2.2 million.

SHARE OF PROFIT OF JOINT VENTURE

The Group's share of profit of joint venture for the six months ended 30 June 2017 was approximately RMB132.0 million, an increase of approximately RMB11.9 million or approximately 9.9% as compared with approximately RMB120.1 million for the same period of last year. Such increase was due to the stability increase on sales of the high horsepower engine products market of Chongqing Cummins Engine Co., Ltd.

INCOME TAX EXPENSES

The corporate income tax expenses for the six months ended 30 June 2017 were approximately RMB30.4 million, an increase of approximately RMB1.5 million or approximately 5.2% as compared with approximately RMB28.9 million for the same period of last year, mainly due to the change in deferred income tax.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders of the Company for the Period was approximately RMB201.6 million, an increase of approximately RMB28.8 million or approximately 16.7% as compared with approximately RMB172.8 million for the same period of last year. Earnings per share maintained at approximately RMB0.05 in the same period of last year.

BUSINESS PERFORMANCE

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

	Revenue		Gross Profit		Segment Results	
	Period ended 30 June		Period ended 30 June		Period ended 30 June	
	2017	2016	**2017**	2016	**2017**	2016
	(RMB in million, except for percentage)					
Vehicle parts and components						
Domestic						
Transmission systems	**136.4**	190.5	**(12.0)**	15.0	**(66.5)**	(38.2)
Steering systems	**185.1**	168.0	**35.2**	24.5	**5.8**	1.9
Total	**321.5**	358.5	**23.2**	39.5	**(60.7)**	(36.3)
% of total	**9.2%**	7.5%	**5.4%**	7.9%	**(60.8%)**	(23.8%)
Power equipment						
Domestic						
Hydropower equipment	**150.4**	201.5	**6.8**	40.2	**111.1**	1.3
Electrical wires and cables	**732.3**	625.8	**101.0**	119.9	**55.0**	152.3
Other products	**1.6**	0.6	**0.6**	0.6	**–**	0.9
Total	**884.3**	827.9	**108.4**	160.7	**166.1**	154.5
% of total	**25.2%**	17.3%	**25.0%**	32.2%	**166.3%**	101.3%
General machinery						
Domestic	**1,099.6**	1,172.2	**197.9**	214.1	**39.1**	48.4
Total	**1,099.6**	1,172.2	**197.9**	214.1	**39.1**	48.4
% of total	**31.3%**	24.4%	**45.6%**	42.9%	**39.2%**	31.7%

	Revenue		Gross Profit		Segment Results	
	Period ended 30 June		Period ended 30 June		Period ended 30 June	
	2017	2016	**2017**	2016	**2017**	2016
	(RMB in million, except for percentage)					
CNC machine tools						
Domestic	**348.9**	246.0	**66.2**	47.3	**(32.2)**	(20.5)
Overseas	**42.8**	59.4	**13.2**	19.0	**(19.0)**	(20.4)
Total	**391.7**	305.4	**79.4**	66.3	**(51.2)**	(40.9)
% of total	**11.2%**	6.4%	**18.3%**	13.3%	**(51.3%)**	(26.8%)
Financial services						
Domestic	**27.9**	22.1	**22.9**	16.5	**22.8**	10.7
Total	**27.9**	22.1	**22.9**	16.5	**22.8**	10.7
% of total	**0.7%**	0.4%	**5.3%**	3.3%	**22.8%**	7.0%
Trade business						
Domestic	**785.0**	2,107.4	**1.8**	2.3	**(1.0)**	(1.1)
Total	**785.0**	2,107.4	**1.8**	2.3	**(1.0)**	(1.1)
% of total	**22.4%**	44.0%	**0.4%**	0.4%	**(1.0%)**	(0.7%)
Headquarters						
Total	**–**	–	**–**	–	**(15.2)**	17.2
% of total	**– %**	– %	**– %**	– %	**(15.2%)**	11.3%
Total	**3,510.0**	4,793.5	**433.6**	499.4	**99.9**	152.5

VEHICLE PARTS AND COMPONENTS

Revenue from the vehicle parts and components segment for the six months ended 30 June 2017 was approximately RMB321.5 million, a decrease of approximately RMB37.0 million or approximately 10.3% as compared with approximately RMB358.5 million for the six months ended 30 June 2016. As compared with the figures for the same period of last year, revenue from the business of transmission systems decreased by approximately RMB54.1 million or approximately 28.4%, which was primarily due to transmission systems business failed to realize the synchronized growth due to the influence of lagged product and market development as compared to the same period of last year.

During the Period, the gross profit for the vehicle parts and components segment was approximately RMB23.2 million, a decrease of approximately RMB16.3 million or approximately 41.3% as compared with approximately RMB39.5 million for the six months ended 30 June 2016, which was primarily due to the decline in sales of the transmission systems business, gross profit recorded a loss of approximately RMB12.0 million.

The results for the vehicle parts and components segment for the six months ended 30 June 2017 recorded a loss of approximately RMB60.7 million, a significant increase a loss of approximately RMB24.4 million or about 67.2% as compared with a loss of approximately RMB36.3 million for the six months ended 30 June 2016, primarily due to the increase in long-term employee benefit obligations of transmission systems business over last year.

POWER EQUIPMENT

Revenue from the power equipment segment for the six months ended 30 June 2017 was approximately RMB884.3 million, an increase of approximately RMB56.4 million or approximately 6.8% as compared with approximately RMB827.9 million for the six months ended 30 June 2016, which was mainly due to a significant increase of approximately RMB106.5 million or approximately 17.0% in sales income of wire and cable business by reason of new product development, the initiative reform of market development and the termination of business with low gross margin.

During the Period, gross profit for the power equipment segment was approximately RMB108.4 million, a decrease of approximately RMB52.3 million or 32.5% as compared with approximately RMB160.7 million for the six months ended 30 June 2016, which was primarily due to the decrease of the products sales of hydropower equipment business, its gross profit margin decreased from approximately 20% as the same period last year to approximately 4.5%. The overall gross profit margin decreased to approximately 12.3% for the six months ended 30 June 2017 from approximately 19.4% for the six months ended 30 June 2016.

For the six months ended 30 June 2017, the results for the power equipment segment amounted to approximately RMB166.1 million, an increase of approximately RMB11.6 million or approximately 7.5% as compared with approximately RMB154.5 million for the six months ended 30 June 2016, primarily due to approximately RMB185.8 million in gain of land and factory transfer in hydropower equipment business.

GENERAL MACHINERY

Revenue from the general machinery segment for the six months ended 30 June 2017 was approximately RMB1,099.6 million, a decrease of approximately RMB72.6 million or approximately 6.2% as compared with approximately RMB1,172.2 million for the six months ended 30 June 2016, mainly due to the decrease in wind power blades business.

During the Period, gross profit for the general machinery segment was approximately RMB197.9 million, a decrease of approximately RMB16.2 million or approximately 7.6% as compared with approximately RMB214.1 million for the six months ended 30 June 2016. Gross profit margin decreased to approximately 18.0% for the six months ended 30 June 2017 from approximately 18.3% for the six months ended 30 June 2016, mainly due to the fact that the centrifuge business was not included in the scope of consolidation and the fall of selling price in wind power blades.

For the six months ended 30 June 2017, the results for the general machinery segment amounted to approximately RMB39.1 million, a decrease of approximately RMB9.3 million or approximately 19.2% as compared with approximately RMB48.4 million for the six months ended 30 June 2016.

CNC MACHINE TOOLS

Revenue from the CNC machine tools segment for the six months ended 30 June 2017 was approximately RMB391.7 million, an increase of approximately RMB86.3 million or approximately 28.3% as compared with approximately RMB305.4 million for the six months ended 30 June 2016, mainly due to the stabilization of domestic market demand for CNC machine tools and the increase in sales income. Revenue from PTG for the Period was approximately RMB42.8 million, a decrease of approximately RMB16.6 million or approximately 27.9% as compared with approximately RMB59.4 million for the six months ended 30 June 2016.

During the Period, gross profit for the CNC machine tools segment was approximately RMB79.4 million, an increase of approximately RMB13.1 million or approximately 19.8% as compared with approximately RMB66.3 million for the six months ended 30 June 2016, mainly due to the increase in domestic sales income.

For the six months ended 30 June 2017, the resulted loss of the CNC machine tools segment amounted to approximately RMB51.2 million, an increase of approximately RMB10.3 million as compared with the loss of approximately RMB40.9 million for the six months ended 30 June 2016, mainly attributable to the increase of domestic distribution and administrative expenses in the respect of the CNC machine tools business of approximately RMB30.9 million in the first half of 2017 as compared to the same period of last year, and the significant decrease in PTG's sales income.

FINANCIAL BUSINESS

Revenue from the financial business segment for the six months ended 30 June 2017 was approximately RMB27.9 million, an increase of approximately RMB5.8 million or approximately 26.2% as compared with approximately RMB22.1 million for the six months ended 30 June 2016.

During the Period, the gross profit of financial business was approximately RMB22.9 million, an increase of approximately RMB6.4 million or approximately 38.8% as compared with approximately RMB16.5 million for the six months ended 30 June 2016.

For the six months ended 30 June 2017, the results of the financial services segment amounted to approximately RMB22.8 million, an increase of approximately RMB12.1 million or approximately 113.1% as compared with approximately RMB10.7 million for the six months ended 30 June 2016.

TRADE BUSINESS

Revenue from the trade business segment for the six months ended 30 June 2017 was approximately RMB785.0 million, a significant decrease of approximately RMB1,322.4 million or approximately 62.8% as compared with approximately RMB2,107.4 million for the six months ended 30 June 2016, which was mainly due to the Group's initiative to reduce the trade business with low gross margin.

During the Period, gross profit for the trade business segment was approximately RMB1.8 million, a decrease of approximately RMB0.5 million or approximately 21.7% as compared with approximately RMB2.3 million for the six months ended 30 June 2016.

For the six months ended 30 June 2017, the resulted loss of the trade business segment amounted to approximately RMB1.0 million, a decrease of approximately RMB0.1 million as compared with a loss of approximately RMB1.1 million for the six months ended 30 June 2016.

CASH FLOW

As at 30 June 2017, the cash and bank deposits (including restricted cash) of the Group amounted to approximately RMB1,325.6 million (31 December 2016: approximately RMB1,793.6 million), representing a decrease of approximately RMB468.0 million or approximately 26.1%, mainly due to the increase of plant and equipment investment and the slowing down of receivables recovery.

During the Period, the Group had a net cash outflow from operating activities of approximately RMB674.5 million (for the six months ended 30 June 2016: net cash outflow of approximately RMB480.6 million), a net cash generated from investing activities of approximately RMB123.5 million (for the six months ended 30 June 2016: a net cash generate of approximately RMB247.9 million), and a net cash generated from financing activities of approximately RMB29.0 million (for the six months ended 30 June 2016: a net cash generate of approximately RMB94.4 million).

TRADE AND OTHER RECEIVABLES

As at 30 June 2017, the total trade receivables and other receivables of the Group amounted to approximately RMB6,007.4 million, an increase of approximately RMB792.6 million as compared with approximately RMB5,214.8 million as at 31 December 2016, primarily due to an increase in wind power blades business of approximately RMB611.5 million and other general machinery business of approximately RMB116.0 million. Please refer to note 13 to the condensed consolidated interim financial information for detailed ageing analysis of the trade and bills receivables.

TRADE AND OTHER PAYABLES

As at 30 June 2017, the total trade payables and other payables of the Group amounted to approximately RMB5,036.4 million, an increase of approximately RMB399.1 million as compared with approximately RMB4,637.3 million as at 31 December 2016, primarily due to the increase in accounts payable for wind power blade business of approximately RMB202.1 million. Please refer to note 10 to the condensed consolidated interim financial information for detailed ageing analysis of the trade and bills payables.

ASSETS AND LIABILITIES

As at 30 June 2017, the total assets of the Group amounted to approximately RMB16,005.7 million, an increase of approximately RMB663.6 million as compared with approximately RMB15,342.1 million as at 31 December 2016. The total current assets amounted to approximately RMB9,673.2 million, an increase of approximately RMB329.8 million as compared with approximately RMB9,343.4 million as at 31 December 2016, accounting for approximately 60.4% of the total assets (31 December 2016: approximately 60.9%). However, the total non-current assets amounted to approximately RMB6,332.5 million, an increase of approximately RMB333.8 million as compared with approximately RMB5,998.7 million as at 31 December 2016, and accounting for approximately 39.6% of the total assets (31 December 2016: approximately 39.1%).

As at 30 June 2017, the total liabilities of the Group amounted to approximately RMB9,119.5 million, an increase of approximately RMB794.6 million as compared with approximately RMB8,324.9 million as at 31 December 2016. The total current liabilities amounted to approximately RMB6,912.7 million, an increase of approximately RMB816.8 million as compared with approximately RMB6,095.9 million as at 31 December 2016, accounting for approximately 75.8% of the total liabilities (31 December 2016: approximately 73.2%). However, the total non-current liabilities amounted to approximately RMB2,206.8 million, a decrease of approximately RMB22.2 million as compared with approximately RMB2,229.0 million as at 31 December 2016, and accounting for approximately 24.2% of the total liabilities (31 December 2016: approximately 26.8%).

As at 30 June 2017, the net current assets of the Group amounted to approximately RMB2,760.5 million, a decrease of approximately RMB487.0 million as compared with approximately RMB3,247.5 million as at 31 December 2016.

CURRENT RATIO

As at 30 June 2017, the current ratio (the ratio of current assets over current liabilities) of the Group was 1.4:1 (31 December 2016: 1.53:1).

GEARING RATIO

As at 30 June 2017, by dividing borrowings by total capital, the gearing ratio of the Group was 31.2% (31 December 2016: 28.9%).

INDEBTEDNESS

As at 30 June 2017, the Group had an aggregate bank and other borrowings of approximately RMB3,124.0 million, an increase of approximately RMB274.1 million as compared with approximately RMB2,849.9 million as at 31 December 2016.

Borrowings repayable by the Group within one year amounted to approximately RMB1,591.3 million, an increase of approximately RMB292.8 million as compared with approximately RMB1,298.5 million as at 31 December 2016. Borrowings repayable after one year amounted to approximately RMB1,532.7 million, a decrease of approximately RMB18.7 million as compared with approximately RMB1,551.4 million as at 31 December 2016.

SIGNIFICANT EVENTS

EVENTS FOR THE PERIOD

As at 27 April 2017, the Company and International Trust Limited reached an agreement to acquire an additional 19% equity interest in Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd. (the "Finance Company"), at the consideration of RMB142,067,000, and the transaction was completed on 30 June 2017. After the completion of the transaction, the Company held 70% equity interest in the Finance 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 27 April 2017.

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

EVENTS AFTER THE PERIOD

On 6 April 2017, a wholly-owned subsidiary of the Company, Chongqing Machine Tools (Group) Co., Ltd. ("Chongqing Machine Tools") entered into an equity transfer contract with Zhejiang Shuanghuan Driveline Co., Ltd. ("Shuanghuan Driveline") (浙江雙環傳動機械股份有限公司), pursuant to which, the 65% equity interests in Chongqing Shenjian Automotive Drive Part Co.,Ltd. ("Chongqing Shenjian") was transferred to Shuanghuan Transmission by Chongqing Machine Tools, with the consideration of RMB103,183,000. After the completion of the transaction, the Group will still hold 35% of equity interests of Chongqing Shenjian, and account it as an associate. Details are set out in the announcement of the Board of the Company on the website of the Hong Kong Stock Exchange and the Company's website. In July 2017, the transfer of equity interests has been completed.

Save as disclosed above, there is no other material event that has impact on the Group after 30 June 2017.

CONTINGENT LIABILITIES

As at 30 June 2017, the Group had no significant contingent liabilities.

CAPITAL EXPENDITURE

During the Period, the total capital expenditure of the Group was approximately RMB385.6 million, which was principally used for plant expansion, production technology improvement, equipment upgrade and production capacity improvement (for the six months ended 30 June 2016: approximately RMB239.3 million).

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.

EMPLOYEES

As at 30 June 2017, the Group had 10,448 employees (30 June 2016: a total of 12,435 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, improve training supervision on safety so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

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

As at 30 June 2017 so far as the Directors are aware, the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

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

Name of 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 Electronic Holding (Group) Co., Ltd.	1,924,225,189	Domestic shares	Beneficial owner	(1)	74.46*(L)*	–	52.22
	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 Corporation Limited	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
Chongqing State-owned Assets Supervision and Administration Commission	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) *Long Position*

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

Name of shareholder	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)*
JPMorgan Chase & Co.	124,258,300*(L)*	Investment manager		11.29*(L)*	3.37*(L)*
	0*(S)*			0.00*(S)*	0.00*(S)*
	124,258,300*(P)*			11.29*(P)*	3.37*(P)*
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000*(L)* 0*(P)*	Custodian		7.93*(L)* 0*(P)*	2.37*(L)* 0*(P)*
The Bank of New York Mellon Corporation	87,276,000*(L)* 87,276,000*(P)*	Interest of corporation controlled by substantial shareholders	*(4)*	7.93*(L)* 7.93*(P)*	2.37*(L)* 2.37*(P)*
GE Asset Management Incorporated	75,973,334*(L)*	Investment manager		6.91*(L)*	2.06*(L)*

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

Notes:

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

(2) Chongqing Construction Engineering Group Corporation Limited is held as to 76.53% by State-owned Assets Supervision and Administration Commission of Chongqing Municipal Government through its wholly-owned Chongqing Construction Investment Holding Co., Ltd. Therefore, Chongqing State-owned Assets Supervision and Administration Commission and the Ministry of Finance of the People's Republic of China are deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Engineering Group Corporation Limited.

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

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

Save as disclosed above, the Directors of the Company are not aware of any persons holding any interests or short positions in the shares or underlying shares which were required to be recorded in the register pursuant to Section 336 of the SFO as at 30 June 2017.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has complied with and adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code for securities transactions by directors of the Company. The Company has obtained the respective confirmations by all of its directors that they have strictly complied with the provisions set out in the Model Code for the six months ended 30 June 2017.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the six months ended 30 June 2017, neither the Group nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividends.

AUDIT AND RISK MANAGEMENT COMMITTEE

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

THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE

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

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

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

The interim results announcement has been published on the websites of the Company (http://www.chinacqme.com) and the Stock Exchange. The interim report will also be available on the websites of the Company and the Stock Exchange on or around 6 September 2017 and will be dispatched to the shareholders of the Company thereafter by the means of receipt of corporate communications they selected.

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

Chongqing, the PRC
30 August 2017

Report on Review of Interim Financial Information

羅兵咸永道

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

INTRODUCTION

We have reviewed the interim financial information set out on pages 32 to 76, which comprises the interim condensed consolidated balance sheet of Chongqing Machinery & Electric Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2017 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

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CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 August 2017

Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2017

		Unaudited	
		Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Revenue	6	**3,510,048**	4,793,500
Cost of sales		**(3,076,480)**	(4,294,119)
Gross profit		**433,568**	499,381
Distribution costs		**(117,424)**	(119,801)
Administrative expenses		**(425,423)**	(391,068)
Other gains, net		**190,811**	140,558
Other income		**18,341**	23,435
Operating profit	7	**99,873**	152,505
Finance income		**7,431**	8,025
Finance expenses		**(48,089)**	(56,345)
Share of post-tax profits of associates	11	**66,719**	18,950
Share of post-tax profit of a joint venture	12	**131,984**	120,086
Profit before income tax		**257,918**	243,221
Income tax expense	8	**(30,422)**	(28,858)
Profit for the period		**227,496**	214,363

		Unaudited	
		Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
– Remeasurements of retirement and termination benefit obligations	19	**5,074**	(20)
– Income tax relating to remeasurements of retirement and termination benefit obligations		**(74)**	10
		5,000	(10)
Items that may be reclassified subsequently to profit or loss			
– Fair value changes on available-for-sale financial assets		**288**	(599)
– Income tax relating to available-for-sale financial assets		**(43)**	90
– Currency translation differences		**(3,865)**	6,602
– Net investment hedge		**3,966**	–
– Share of other comprehensive income of investments accounted for using the equity method		**353**	157
		699	6,250
Other comprehensive income for the period, net of tax		**5,699**	6,240
Total comprehensive income for the period		**233,195**	220,603

For the six months ended 30 June 2017

		Unaudited	
		Six months ended 30 June	
		2017	2016
	Note	***RMB'000***	*RMB'000*
Profit attributable to:			
– Owners of the Company		**201,594**	172,839
– Non-controlling interests		**25,902**	41,524
		227,496	214,363
Total comprehensive income attributable to:			
– Owners of the Company		**207,293**	179,079
– Non-controlling interests		**25,902**	41,524
		233,195	220,603
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
– Basic and diluted	9	**0.05**	0.05

The notes on pages 41 to 76 form an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Balance Sheet

As at 30 June 2017

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	**4,102,595**	3,877,917
Investment properties	10	**10,872**	12,087
Lease prepayments	10	**500,789**	519,562
Intangible assets	10	**314,690**	307,917
Investments in associates	11	**684,522**	709,102
Investment in a joint venture	12	**469,220**	337,236
Trade and other receivables	13	**87,760**	85,329
Deferred income tax assets		**104,089**	88,521
Available-for-sale financial assets		**7,555**	7,267
Other non-current assets		**50,350**	53,766
Total non-current assets		**6,332,442**	5,998,704
Current assets			
Inventories		**1,492,854**	1,435,147
Amounts due from customers for contract work		**691,463**	589,744
Trade and other receivables	13	**5,919,661**	5,129,424
Dividends receivable		**243,643**	245,557
Available-for-sale financial assets		**–**	150,000
Cash and cash equivalents		**870,148**	1,385,953
Restricted cash		**455,452**	407,613
Total current assets		**9,673,221**	9,343,438
Total assets		**16,005,663**	15,342,142

Interim Condensed Consolidated Balance Sheet *(Continued)*

As at 30 June 2017

	Note	**Unaudited 30 June 2017 RMB'000**	Audited 31 December 2016 *RMB'000*
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	**3,684,640**	3,684,640
Other reserves		**(659,644)**	(654,383)
Retained earnings		**3,506,214**	3,433,583
		6,531,210	6,463,840
Non-controlling interests		**354,982**	553,367
Total equity		**6,886,192**	7,017,207
LIABILITIES			
Non-current liabilities			
Borrowings	17	**1,532,669**	1,551,456
Deferred income		**460,720**	460,798
Deferred income tax liabilities	18	**85,913**	70,761
Long-term employee benefit obligations	19	**127,455**	145,987
Total non-current liabilities		**2,206,757**	2,229,002

Interim Condensed Consolidated Balance Sheet *(Continued)*

As at 30 June 2017

	Note	Unaudited 30 June 2017 RMB'000	Audited 31 December 2016 RMB'000
Current liabilities			
Trade and other payables	15	**5,036,445**	4,637,313
Dividends payable		**148,736**	24,952
Amounts due to customers for contract work		**20,518**	13,018
Current income tax liabilities		**39,193**	35,728
Borrowings	17	**1,591,321**	1,298,477
Deferred income		**30,943**	39,928
Current portion of long-term employee benefit obligations	19	**30,533**	30,533
Provision for warranty	16	**15,025**	15,984
Total current liabilities		**6,912,714**	6,095,933
Total liabilities		**9,119,471**	8,324,935
Total equity and liabilities		**16,005,663**	15,342,142

The notes on pages 41 to 76 form an integral part of this condensed consolidated interim financial information.

The condensed consolidated interim financial information on pages 32 to 76 was approved by the Board of Directors on 30 August 2017 and was signed on its behalf by:

Wang Yuxiang	**Chen Ping**
Director	*Director*

Interim Condensed Consolidated Statement of Changes in Equity

For the six months ended 30 June 2017

		Unaudited					
		Attributable to owners of the Company					
	Note	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 2017		3,684,640	(654,383)	3,433,583	6,463,840	553,367	7,017,207
Comprehensive income							
Profit for the period		–	–	201,594	201,594	25,902	227,496
Other comprehensive income:							
Remeasurements of retirement and termination benefit obligations, net of tax		–	5,000	–	5,000	–	5,000
Changes in fair value of available-for-sales financial assets, net of tax		–	245	–	245	–	245
Share of other comprehensive income of investments accounted for using the equity method		–	353	–	353	–	353
Net investment hedge		–	3,966	–	3,966	–	3,966
Currency translation differences		–	(3,865)	–	(3,865)	–	(3,865)
Total other comprehensive income, net of tax		–	5,699	–	5,699	–	5,699
Total comprehensive income for the six months ended 30 June 2017		–	5,699	201,594	207,293	25,902	233,195
Transactions with owners, recognised directly in equity							
Dividends relating to 2016	21	–	–	(128,963)	(128,963)	–	(128,963)
Dividends to non-controlling interests		–	–	–	–	(98,540)	(98,540)
Capital contribution from non-controlling interests		–	–	–	–	5,360	5,360
Acquisition of additional interests of subsidiaries	20	–	(10,960)	–	(10,960)	(131,107)	(142,067)
Total transactions with owners, recognised directly in equity		–	(10,960)	(128,963)	(139,923)	(224,287)	(364,210)
Balance at 30 June 2017		3,684,640	(659,644)	3,506,214	6,531,210	354,982	6,886,192

		Unaudited					
		Attributable to owners of the Company					
	Note	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 period		–	–	172,839	172,839	41,524	214,363
Other comprehensive income:							
Remeasurements of retirement and termination benefit obligations, net of tax		–	(10)	–	(10)	–	(10)
Changes in fair value of available-for-sales financial assets, net of tax		–	(509)	–	(509)	–	(509)
Share of other comprehensive income of investments accounted for using the equity method		–	157	–	157	–	157
Currency translation differences		–	6,602	–	6,602	–	6,602
Total other comprehensive income, net of tax		–	6,240	–	6,240	–	6,240
Total comprehensive income for the six months ended 30 June 2016		–	6,240	172,839	179,079	41,524	220,603
Transactions with owners, recognised directly in equity							
Dividends relating to 2015		–	–	(92,116)	(92,116)	–	(92,116)
Effects of changes in subsidiaries		–	–	–	–	361	361
Total transactions with owners, recognised directly in equity		–	–	(92,116)	(92,116)	361	(91,755)
Balance at 30 June 2016		3,684,640	(672,160)	3,180,890	6,193,370	490,280	6,683,650

The notes on pages 41 to 76 form an integral part of this condensed consolidated interim financial information.

Interim Condensed Consolidated Statement of Cash Flows

For the six months ended 30 June 2017

	Note	Unaudited Six months ended 30 June 2017 RMB'000	2016 RMB'000
Cash flows from operating activities			
Cash used in operations		**(602,263)**	(408,865)
Income tax paid		**(27,490)**	(36,881)
Interest paid		**(44,710)**	(34,902)
Cash flows from operating activities – net		**(674,463)**	(480,648)
Cash flows from investing activities			
Proceeds from return of investments		**151,467**	–
Government grants received relating to assets		**6,441**	9,909
Purchases of property, plant and equipment		**(212,089)**	(303,597)
Proceeds on disposal of property, plant and equipment, investment properties and lease prepayments		**93,530**	197,876
Purchases of intangible assets		**(14,228)**	(7,171)
Increase in lease prepayments		**–**	(3,923)
Dividends received		**93,285**	299,100
Interest received		**7,431**	8,025
Gains on disposal of a subsidiary, net of cash disposed		**–**	62,934
Investments in associates		**(1,631)**	(15,273)
Loans paid back from associates		**10,000**	–
Employee termination payments in relation to disposal of a subsidiary	25	**(10,732)**	–
Cash flows from investing activities – net		**123,474**	247,880
Cash flows from financing activities			
Proceeds from borrowings		**639,837**	392,862
Repayments of borrowings		**(358,562)**	(279,898)
Finance lease payments		**(15,977)**	(11,248)
Contribution from non-controlling interests		**5,360**	–
Dividends paid to non-controlling interests		**(99,628)**	(7,334)
Transaction with non-controlling interests	20	**(142,067)**	–
Cash flows from financing activities – net		**28,963**	94,382
Net decrease in cash and cash equivalents		**(522,026)**	(138,386)
Cash and cash equivalents at beginning of the period		**1,385,953**	1,543,975
Exchange gains/(losses) – net		**6,221**	(15,008)
Cash and cash equivalents at end of the period		**870,148**	1,390,581

The notes on pages 41 to 76 form an integral part of this condensed consolidated interim financial information.

1. GENERAL INFORMATION

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

The Company was established in the PRC on 27 July 2007 as a joint stock company with limited liability as part of the reorganisation of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. ("CQMEHG") in preparation for a listing of the Company's H 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.

This condensed consolidated interim financial information is presented in Renminbi ("RMB"), unless otherwise stated, and was approved and authorised for issue by the Board of Directors of the Company on 30 August 2017.

This condensed consolidated interim financial information has not been audited.

Significant events and transactions

In June 2017, the Company acquired an additional 19% of the equity interests of Chongqing Machinery and Electronics Holding Group Finance Company Limited ("CMEFC"), one of the Company's subsidiaries, for a purchase consideration of approximately RMB142,067,000 (Note 20).

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2017 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs").

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016, as described in those annual financial statements, except for the estimation of income tax using the tax rate that would be applicable to expected total annual earnings and the adoption of amendments to HKFRSs effective for the financial year ending 31 December 2017.

(a) Amendments to HKFRSs that have been issued and are effective for the Group's reporting periods commencing on 1 January 2017

Amendments to HKAS 12 "Income Taxes" clarify how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to HKAS 7 "Statement of Cash Flows" introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKFRS 12 "Disclosure of Interests in Other Entities" clarify that the disclosure requirements of HKFRS 12 are applicable to interests in entities classified as held for sale except for summarised financial information.

The adoption of the above amendments to HKFRSs did not give rise to any significant impact on the Group's results of operations and financial position for the six months ended 30 June 2017.

3. ACCOUNTING POLICIES *(CONTINUED)*

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

(i) HKFRS 9 "Financial Instruments"

HKFRS 9 "Financial Instruments" addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets. The Group has decided not to adopt HKFRS 9 until it becomes mandatory on 1 January 2018.

The Group does not expect the new guidance to have a significant impact on the classification and measurement of its financial assets for the following reasons:

- The debt instruments that are currently classified as available-for-sale ("AFS") financial assets 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.

- A FVOCI election is available for the equity instruments which are currently classified as AFS.

- Equity investments currently measured at fair value through profit or loss ("FVPL") will likely continue to be measured on the same basis under HKFRS 9.

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.

3. ACCOUNTING POLICIES *(CONTINUED)*

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

(i) HKFRS 9 "Financial Instruments" *(continued)*

The new 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 has not yet undertaken 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.

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.

3. ACCOUNTING POLICIES *(CONTINUED)*

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

(ii) HKFRS 15 "Revenue from Contracts with Customers"

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

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

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

Management has identified the following areas that are likely to be affected:

- bundle sales – 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 costs incurred in fulfilling a contract – certain costs which are currently expensed may need to be recognised as an asset under HKFRS 15, and

- rights of return – HKFRS 15 requires separate presentation on the balance sheet of the right to recover the goods from the customer and the refund obligation.

At this stage, the Group is not able to estimate the effect of the new rules on the Group's financial statements. The Group will make more detailed assessments of the effect over the next twelve months.

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.

3. ACCOUNTING POLICIES *(CONTINUED)*

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

(iii) HKFRS 16 "Leases"

HKFRS 16 was issued in January 2016. It will results in almost all leases being recognized 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 recognized. 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 the Group's operating leases. As at the reporting date, the Group has non-cancellable operating lease commitments of approximately RMB90,947,000. 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 standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the Group does not intend to adopt the standard before its effective date.

4. ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The condensed consolidated interim financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

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

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

5.2 Liquidity risk

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

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 30 June 2017				
Trade and other payables (i)	3,958,524	–	–	–
Bank borrowings	1,559,578	162,260	306,601	338,603
Other borrowings	16,831	14,267	15,959	–
Corporate bonds	34,240	34,240	834,240	–
Finance lease liabilities	36,932	35,058	24,726	–
Financial guarantee contracts	69,000	–	–	–
Total financial liabilities	5,675,105	245,825	1,181,526	338,603

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2016				
Trade and other payables (i)	3,874,022	–	–	–
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
Financial guarantee contracts	69,000	–	–	–
Total financial liabilities	5,336,769	282,428	1,053,313	440,302

Note:

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

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

5.3 Fair value estimation

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

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

The following table presents the Group's financial assets that are measured at fair value at 30 June 2017.

	Level 1 *RMB'000*	Level 2 *RMB'000*	Level 3 *RMB'000*	Total *RMB'000*
Assets				
Available-for-sale financial assets				
– Equity securities	4,555	–	3,000	7,555
Total assets	4,555	–	3,000	7,555

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

5.3 Fair value estimation *(continued)*

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

During the six months ended 30 June 2017, there were no transfers between levels of the fair value hierarchy used in measuring the fair value of the Group's financial assets, and there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets. In addition, there were no reclassifications of financial assets.

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

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

5.4 Fair value measurements using significant unobservable inputs (Level 3)

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Opening balance at 1 January	**153,000**	3,000
Disposals	**(151,467)**	–
Gains or losses recognised	**1,467**	–
Closing balance at 30 June	**3,000**	3,000

5.5 Group's valuation processes

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

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

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

5.6 Fair values of financial assets and liabilities measured at amortised cost

The fair values of borrowings are as follows:

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Non-current	**1,573,039**	1,578,570
Current	**1,591,321**	1,298,477
	3,164,360	2,877,047

The fair values of the following financial assets and liabilities approximate their carrying amounts:

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

6. SEGMENT INFORMATION

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

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

The operating management committee assesses the performance of the operating segments based on a measure of operating profit. Finance income and expenses 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 terms of the underlying agreements. The revenue from external parties reported to the operating management committee is measured in a manner consistent with that in the interim condensed consolidated statement of comprehensive income.

6. SEGMENT INFORMATION *(CONTINUED)*

The segment results for the six months ended 30 June 2017 are as follows:

	Engines *RMB'000*	Transmission systems *RMB'000*	Hydropower equipment *RMB'000*	Electrical wires and cables *RMB'000*	General machinery *RMB'000*	Financial services *RMB'000*	Machinery tools *RMB'000*	High-voltage transformers *RMB'000*	Materials sales *RMB'000*	All other segments *RMB'000*	Total *RMB'000*
Total segment revenue	-	136,429	150,360	735,931	848,458	49,211	398,183	-	1,284,807	503,713	4,107,092
Inter-segment revenue	-	-	-	(3,588)	(8)	(21,283)	(6,512)	-	(499,711)	(65,942)	(597,044)
Revenue from external customers	-	136,429	150,360	732,343	848,450	27,928	391,671	-	785,096	437,771	3,510,048
Operating profit/(loss)	-	(66,506)	111,078	54,946	26,063	22,795	(51,181)	(241)	(963)	3,882	99,873
Finance income	-	81	367	116	4,487	-	346	3	62	1,969	7,431
Finance expenses	-	(1,831)	(73)	(5,070)	(10,947)	-	(20,088)	-	(1,036)	(9,044)	(48,089)
Share of post-tax profits/(losses) of associates and a joint venture	131,984	(239)	-	-	1,111	(6,836)	-	58,280	-	14,403	198,703
Profit before income tax											257,918
Income tax expense	-	304	(23,645)	(8,517)	(2,287)	(9,476)	17,934	-	-	(4,735)	(30,422)
Profit for the period											227,496
Other items											
Depreciation on property, plant and equipment and investment properties	-	9,231	4,220	15,307	32,193	49	36,017	21	13	15,741	112,792
Amortisation of lease prepayments and intangible assets	-	1,285	1,109	368	3,258	140	6,486	-	-	1,004	13,650
Write down of inventories	-	5,338	-	-	-	-	54	-	-	468	5,860
Provision for/(reversal of) impairment on trade and other receivables	-	4,665	47,836	157	915	(3,899)	(6,738)	-	(457)	1,447	43,926
Additions to non-current assets (other than financial instruments and deferred income tax assets)	-	26,386	183,390	1,085	97,955	-	70,418	-	5	6,323	385,562

6. SEGMENT INFORMATION *(CONTINUED)*

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

	Engines *RMB'000*	Transmission systems *RMB'000*	Hydropower equipment *RMB'000*	Electrical wires and cables *RMB'000*	General machinery *RMB'000*	Financial services *RMB'000*	Machinery tools *RMB'000*	High-voltage transformers *RMB'000*	Materials sales *RMB'000*	All other segments *RMB'000*	Total *RMB'000*
Total segment revenue	–	190,509	201,462	627,101	915,378	44,780	306,619	–	2,381,602	428,085	5,095,536
Inter-segment revenue	–	–	(16)	(1,263)	(2,674)	(22,698)	(1,240)	–	(274,145)	–	(302,036)
Revenue from external customers	–	190,509	201,446	625,838	912,704	22,082	305,379	–	2,107,457	428,085	4,793,500
Operating profit/(loss)	–	(38,227)	1,346	152,314	36,241	10,712	(40,963)	–	(1,144)	32,226	152,505
Finance income	–	94	285	1,322	984	–	980	–	44	4,316	8,025
Finance expenses	–	(256)	–	(8,301)	(2,404)	–	(15,883)	–	(789)	(28,712)	(56,345)
Share of post-tax profits/(losses) of associates and a joint venture	120,086	6	–	–	1,764	(4,641)	–	4,563	–	17,258	139,036
Profit before income tax											243,221
Income tax expense	–	3,009	(2)	(23,400)	(4,342)	(6,308)	5,109	–	–	(2,924)	(28,858)
Profit for the period											214,363
Other items											
Depreciation on property, plant and equipment and investment properties	–	10,780	4,080	7,854	34,962	127	29,808	–	29	16,022	103,662
Amortisation of lease prepayments and intangible assets	–	1,888	1,108	691	3,470	134	5,992	–	–	1,290	14,573
Write down/(write back) of inventories	–	–	–	–	–	–	75	–	–	(2,170)	(2,095)
Provision for/(reversal of) impairment on trade and other receivables	–	–	380	3,075	1,794	728	(348)	–	(82)	30,168	35,715
Additions to non-current assets (other than financial instruments and deferred income tax assets)	–	30,501	44,598	24,595	72,378	9	59,457	–	–	7,728	239,266

6. SEGMENT INFORMATION *(CONTINUED)*

The segment assets as at 30 June 2017 and 31 December 2016 are as follows:

Total assets	Engines *RMB'000*	Transmission systems *RMB'000*	Hydropower equipment *RMB'000*	Electrical wires and cables *RMB'000*	General machinery *RMB'000*	Financial services *RMB'000*	Machinery tools *RMB'000*	High-voltage transformers *RMB'000*	Materials sales *RMB'000*	All other segments *RMB'000*	Total *RMB'000*
At 30 June 2017	**469,220**	**1,267,679**	**2,123,194**	**745,233**	**3,139,135**	**1,657,835**	**3,245,166**	**294,224**	**330,638**	**2,733,339**	**16,005,663**
Total assets include: Investments in associates and a joint venture	**469,220**	**939**	**8,789**	**–**	**23,035**	**79,099**	**17,578**	**244,308**	**–**	**310,774**	**1,153,742**
At 31 December 2016	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
Total assets include: Investments in associates and a joint venture	337,236	2,720	9,548	–	22,331	85,935	19,097	306,813	–	262,658	1,046,338

7. OPERATING PROFIT

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Write down/(write back) of inventories	**5,860**	(2,095)
Provision for impairment on trade and other receivables	**43,926**	35,715
Gains on financial assets at fair value through profit or loss	**(1,467)**	(507)
Gains on disposal of property, plant and equipment and lease prepayments	**(186,715)**	(75,163)
Gains arising from the termination benefit obligations *(Note 19)*	**–**	(3,927)
Gain on disposal of a subsidiary with loss of control		
– gain on retained interests	**–**	(17,156)
– gain on disposal of interests	**–**	(45,814)

8. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Current income tax	**30,955**	36,151
Deferred income tax	**(533)**	(7,293)
	30,422	28,858

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the six months ended 30 June 2017 is 23% (the estimated tax rate for the six months ended 30 June 2016 was 21%).

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

9. EARNINGS PER SHARE

	Six months ended 30 June	
	2017	2016
Profit attributable to owners of the Company (RMB'000)	**201,594**	172,839
Weighted average number of ordinary shares in issue (thousands)	**3,684,640**	3,684,640
Basic and diluted earnings per share (RMB per share)	**0.05**	0.05

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

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

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

	Property, plant and equipment	Investment properties	Lease prepayments	Other intangible assets	Goodwill
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2017					
Opening net book amount at 1 January 2017	**3,877,917**	**12,087**	**519,562**	**164,605**	**143,312**
Additions	**371,334**	**–**	**–**	**14,228**	**–**
Disposals	**(35,079)**	**–**	**(12,578)**	**–**	**–**
Depreciation and amortisation	**(111,577)**	**(1,215)**	**(6,195)**	**(7,455)**	**–**
Closing net book amount at 30 June 2017	**4,102,595**	**10,872**	**500,789**	**171,378**	**143,312**
Six months ended 30 June 2016					
Opening net book amount at 1 January 2016	3,715,249	25,958	616,515	154,938	143,018
Transfers	2,445	(2,445)	–	–	–
Additions	227,394	538	4,022	7,312	–
Disposals	(153,409)	(13,692)	(81,905)	(140)	–
Depreciation and amortisation	(101,178)	(2,484)	(6,926)	(7,647)	–
Closing net book amount at 30 June 2016	3,690,501	7,875	531,706	154,463	143,018

Note:

(a) As at 30 June 2017, secured borrowings amounting to approximately RMB341,960,000 (31 December 2016: RMB342,999,000) were secured by certain property, plant and equipment and land use rights of the Group with carrying value of approximately RMB537,356,000 and RMB138,977,000, respectively (31 December 2016: RMB564,927,000 and RMB140,544,000 respectively).

11. INVESTMENTS IN ASSOCIATES

	Six months ended 30 June 2017 *RMB'000*
At beginning of the period	709,102
Additions	1,984
Share of post-tax profits of associates	66,719
Dividends declared	(93,283)
At end of the period	684,522

In April 2017, the Company acquired 35% equity interests of Water Gen Power s.r.l at the consideration of approximately RMB1,631,000, and was accounted as an associate.

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

	As at and six months ended 30 June 2017 *RMB'000*
Assets	1,513,925
Liabilities	829,403
Revenue	711,393
Share of post-tax profits	66,719

12. INVESTMENT IN A JOINT VENTURE

	Six months ended 30 June 2017 *RMB'000*
At beginning of the period	337,236
Share of post-tax profit of a joint venture	131,984
At end of the period	469,220

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

	As at and six months ended 30 June 2017 *RMB'000*
Assets	1,089,054
Liabilities	619,834
Revenue	635,502
Share of post-tax profit	131,984

13. TRADE AND OTHER RECEIVABLES

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade and bills receivables	3,993,957	3,451,637
Less: Provision for impairment of trade receivables	(321,447)	(273,941)
Trade and bills receivables – net	3,672,510	3,177,696
Other receivables	1,429,103	846,279
Less: Provision for impairment of other receivables	(52,918)	(53,009)
Other receivables – net	1,376,185	793,270
Loans	973,539	1,262,499
Less: Provision for impairment of loans	(14,813)	(18,712)
Loans – net	958,726	1,243,787
	6,007,421	5,214,753
Less: Long-term loans	(88,000)	(85,989)
Provision for impairment of long-term loans	240	660
Less: Long-term loans – net	(87,760)	(85,329)
	5,919,661	5,129,424

13. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

The general credit period granted to customers is up to 90 days. As at 30 June 2017 and 31 December 2016, the ageing analysis of the trade and bills receivables were as follows:

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Trade and bills receivables		
Less than 30 days	**1,023,196**	1,040,045
31 days to 90 days	**1,035,702**	573,233
91 days to 1 year	**1,172,046**	1,165,986
1 year to 2 years	**383,805**	298,928
2 years to 3 years	**101,624**	124,551
Over 3 years	**277,584**	248,894
	3,993,957	3,451,637

14. SHARE CAPITAL

	Number of shares *thousands*	**Domestic shares** *RMB'000*	**H shares** *RMB'000*	**Share capital** *RMB'000*
Registered, issued and fully paid:				
At 30 June 2017 and 1 January 2017 (nominal value of RMB1.00 each)	**3,684,640**	**2,584,453**	**1,100,187**	**3,684,640**
At 30 June 2016 and 1 January 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 rank pari passu in all aspects.

15. TRADE AND OTHER PAYABLES

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Trade and bills payables	**2,451,827**	2,335,672
Deposit taking	**939,308**	1,150,015
Other taxes payables	**102,460**	103,407
Other payables	**538,808**	376,368
Interest payables	**27,808**	10,759
Accrued payroll and welfare	**68,374**	72,950
Advances from customers	**907,860**	588,142
	5,036,445	4,637,313

As at 30 June 2017 and 31 December 2016, the ageing analysis of the trade and bills payables were as follows:

	30 June 2017 *RMB'000*	31 December 2016 *RMB'000*
Trade and bills payables		
Less than 30 days	**783,733**	598,942
31 days to 90 days	**561,921**	620,918
91 days to 1 year	**821,865**	864,007
1 year to 2 years	**150,086**	149,474
2 years to 3 years	**55,399**	55,695
Over 3 years	**78,823**	46,636
	2,451,827	2,335,672

16. PROVISION FOR WARRANTY

Provision for warranty represents the warranty costs for after-sale services of certain vehicle parts and components, which are estimated based on present after-sale service policies and prior years' experiences on the incurrence of such costs. Such provision for warranty was charged to 'cost of sales' in profit or loss.

	RMB'000
Six months ended 30 June 2017	
Opening net book amount at 1 January 2017	**15,984**
Additional provisions	**12,408**
Utilised during the period	**(13,367)**
Closing net book amount at 30 June 2017	**15,025**
Six months ended 30 June 2016	
Opening net book amount at 1 January 2016	15,519
Additional provisions	11,048
Utilised during the period	(12,151)
Closing net book amount at 30 June 2016	14,416

17. BORROWINGS

	30 June 2017 RMB'000	31 December 2016 RMB'000
Non-current		
Long-term bank borrowings	651,729	648,539
Other borrowings	27,460	34,132
Corporate bonds	796,961	796,264
Finance lease liabilities	56,519	72,521
Total non-current borrowings	1,532,669	1,551,456
Current		
Short-term bank borrowings	1,542,210	1,248,891
Other borrowings	16,466	16,966
Finance lease liabilities	32,645	32,620
Total current borrowings	1,591,321	1,298,477
Total borrowings	3,123,990	2,849,933

17. BORROWINGS *(CONTINUED)*

Movements in borrowings are analysed as follows:

	RMB'000
Six months ended 30 June 2017	
Opening amount as at 1 January 2017	**2,849,933**
Additions	**643,340**
Currency translation differences	**5,256**
Repayments	**(374,539)**
Closing amount as at 30 June 2017	**3,123,990**
Six months ended 30 June 2016	
Opening amount as at 1 January 2016	2,769,826
Additions	392,862
Repayments	(291,146)
Disposal of a subsidiary	(19,050)
Currency translation differences	(15,451)
Closing amount as at 30 June 2016	2,837,041

At the balance sheet date, the Group had the following undrawn borrowing facilities:

	30 June 2017 ***RMB'000***	31 December 2016 *RMB'000*
Fixed rate		
– expiring within 1 year	**2,683,392**	3,207,952
– expiring beyond 1 year	**578,846**	205,000
	3,262,238	3,412,952

18. DEFERRED INCOME TAX LIABILITIES

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Opening balance at 1 January	**70,761**	75,940
Recognised in profit or loss	**15,152**	(7,806)
Closing balance at 30 June	**85,913**	68,134

19. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

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

	30 June	31 December
	2017	2016
	RMB'000	*RMB'000*
Present value of defined benefits obligations	**157,988**	176,520
Total liabilities in the balance sheet	**157,988**	176,520
Less: Current portion	**(30,533)**	(30,533)
	127,455	145,987

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

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

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
At beginning of the period	**176,520**	226,881
For the period		
– Interest costs	**2,415**	3,075
– Actuarial (gains)/losses	**(22)**	12
– Disposal of a subsidiary	**–**	(823)
– Deductions on termination benefit obligations	**–**	(3,927)
– Remeasurement effects recognised in other comprehensive income	**(5,074)**	20
– Payments	**(15,851)**	(23,945)
At end of the period	**157,988**	201,293

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

20. CHANGE IN OWNERSHIP INTERESTS IN A SUBSIDIARY WITHOUT CHANGE OF CONTROL

Acquisition of additional interests in a subsidiary

In June 2017, the Company acquired an additional 19% of the equity interests of CMEFC for a purchase consideration of approximately RMB142,067,000. The carrying amount of the 49% non-controlling interests in CMEFC on the date of acquisition was approximately RMB338,122,000. The Group recognised a decrease in non-controlling interests of approximately RMB131,107,000 and a decrease in other reserves within the equity attributable to owners of the Company of approximately RMB10,960,000. The effect of changes in the ownership interest of CMEFC on the equity attributable to owners of the Company during the period is summarised as follows:

	Six months ended 30 June 2017 *RMB'000*
Carrying amount of non-controlling interests acquired	131,107
Consideration paid to non-controlling interests	(142,067)
Excess of consideration paid recognised within equity	(10,960)

21. DIVIDENDS

A dividend of approximately RMB128,963,000 (RMB0.035 per share) that relates to the year ended 31 December 2016 was approved at the annual general meeting on 16 June 2017 and was recorded as a liability as at 30 June 2017 in this condensed consolidated interim financial information.

The Company's Board of Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2017 (2016: Nil).

22. CONTINGENCIES

The Group has certain legal claims arising in the ordinary course of business as at 30 June 2017. 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.

23. COMMITMENTS

(a) Capital commitments

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

	30 June 2017 **RMB'000**	31 December 2016 *RMB'000*
Property, plant and equipment	**393,031**	456,745
Intangible assets	**14,769**	14,769
	407,800	471,514

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases at the balance sheet date are as follows:

	30 June 2017 **RMB'000**	31 December 2016 *RMB'000*
No later than 1 year	**27,460**	35,648
Later than 1 year and no later than 5 years	**36,541**	46,055
Later than 5 years	**26,946**	28,364
	90,947	110,067

24. RELATED-PARTY TRANSACTIONS

The Company's parent company is CQMEHG, a state-owned enterprise established in the PRC and is controlled by the PRC government that owns a significant portion of the productive assets in the PRC.

The Group has adopted HKAS 24 (Revised), "Related Party Disclosures" from 1 January 2011. In accordance with HKAS 24 (Revised), government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include CQMEHG and its subsidiaries (other than the Group), other government-related entities and their subsidiaries, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and CQMEHG as well as their close family members.

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the six months ended 30 June 2016 and 2017, respectively.

24. RELATED-PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Transactions with the parent company, fellow subsidiaries and fellow associates		
Revenue		
– Revenue from sales of goods	**61,812**	31,359
– Revenue from provision of services	**385**	1,177
– Revenue from loans service	**21,119**	13,461
Expenses		
– Purchase of materials	**34,306**	30,172
– Services	**9,496**	8,147
– Expenses for deposit taking service	**4,719**	3,821
– Other expenses	**13,337**	15,917
Transactions with associates		
Revenue		
– Revenue from sales of goods	**4,883**	6,317
Expenses		
– Purchase of materials	**4,612**	9,585
Transactions with joint venture		
Revenue		
– Revenue from loans service	**740**	403

24. RELATED-PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties

	30 June 2017	31 December 2016
	RMB'000	*RMB'000*
Trade and other receivables		
Trade receivables due from		
– Fellow subsidiaries and fellow associates	**59,682**	41,779
– Associates	**2,776**	2,544
Other receivables due from		
– CQMEHG	**773**	1,267
– Fellow subsidiaries	**17,082**	3,920
– Joint venture	**2,698**	2,521
– Associates	**42,963**	40,068
Prepayments due from		
– Fellow subsidiaries	**1,672**	523
– Associates	**40**	677
Loans to		
– CQMEHG	**–**	230,000
– Fellow subsidiaries and fellow associates	**871,539**	920,499
– Joint venture	**42,000**	42,000
– Associates	**60,000**	70,000
	1,101,225	1,355,798

24. RELATED-PARTY TRANSACTIONS *(CONTINUED)*

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

	30 June 2017 RMB'000	31 December 2016 RMB'000
Trade and other payables		
Trade payables due to		
– Fellow subsidiaries and fellow associates	**19,392**	23,881
– Associates	**2,386**	–
Other payables due to		
– CQMEHG	**6,783**	3,696
– Associates	**2,402**	161
– Fellow subsidiaries and fellow associates	**75,234**	65,881
Deposit taking from		
– CQMEHG	**397,627**	104,055
– Fellow subsidiaries and fellow associates	**535,599**	1,034,657
– Associates	**6,081**	11,303
	1,045,504	1,243,634

(c) Financial guarantee contracts

	30 June 2017 RMB'000	31 December 2016 RMB'000
Financial guarantee contracts provided to		
– Fellow subsidiaries	**69,000**	69,000
Guaranteed by		
– CQMEHG	**982,000**	982,000

24. RELATED-PARTY TRANSACTIONS *(CONTINUED)*

(d) Key management compensation

	Six months ended 30 June	
	2017	2016
	RMB'000	*RMB'000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,397**	1,272
Contributions to pension plans	**230**	388
Discretionary bonuses	**2,742**	651
	4,369	2,311

(e) Transactions with government-related entities in PRC

Apart from the transactions mentioned above, transactions with other government-related entities include but are not limited to sales and purchases of goods and other assets; use of public utilities; bank deposits and bank borrowings.

These transactions are conducted in the ordinary course of the Group's business on terms similar to those that would have been entered into with non-government-related entities. The Group has also established its pricing strategy and approval processes for material transactions. Such pricing strategy and approval processes do not depend on whether the counterparties are government-related entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

25. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

In April 2017, Chongqing Machine Tools (Group) Co., Ltd. ("Chongqing Machine Tools"), a wholly-owned subsidiary of the Company, entered into an equity transfer agreement with Zhejiang Shuanghuan Driveline Co., Ltd. ("Shuanghuan Driveline"), pursuant to which Chongqing Machine Tools transferred 65% equity interests in Chongqing Shenjian Automotive Drive Part Co., Ltd. ("Chongqing Shenjian") to Shuanghuan Driveline at the consideration of approximately RMB103,183,000. Upon completion of the transaction, the Group will hold 35% equity interests in Chongqing Shenjian, and will be accounted as an associate. As at 30 June 2017, the equity transfer transaction has not been completed and there has incurred employee termination payments in relation to the equity transfer transaction of approximately RMB10,732,000. The equity transfer transaction was completed in July 2017.