CQME

Chongqing Machinery & Electric Co., Ltd.*
重慶機電股份有限公司

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

(Stock Code: 02722)

ANNOUNCEMENT OF GROUP RESULTS FOR THE YEAR ENDED 31 DECEMBER 2015

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 5.0% to approximately RMB9,010,422,000
- Gross profit decreased by approximately 7.3% to approximately RMB987,468,000
- Profit attributable to shareholders decreased by approximately 18.4% to approximately RMB417,634,000
- Earnings per share was approximately RMB0.11

ANNUAL RESULTS

The board of directors (the "Board") of Chongqing Machinery & Electric Co., Ltd.* (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2015 and the comparative figures for the corresponding period of 2014 as follows:

* *For identification purposes only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Note	**2015**	2014
		RMB'000	*RMB'000*
Revenue	*3*	**9,010,422**	9,485,570
Cost of sales	*5*	**(8,022,954)**	(8,420,794)
Gross profit		**987,468**	1,064,776
Distribution costs	*5*	**(270,407)**	(255,180)
Administrative expenses	*5*	**(1,087,097)**	(814,407)
Other gains, net		**642,380**	213,361
Other income	*4*	**71,501**	136,675
Operating profit		**343,845**	345,225
Finance income		**24,395**	21,368
Finance costs		**(133,281)**	(104,512)
Finance costs, net	*6*	**(108,886)**	(83,144)
Share of post-tax profits of associates		**23,810**	51,084
Share of post-tax profits of joint venture		**265,127**	317,514
Profit before income tax		**523,896**	630,679
Income tax expense	*7*	**(57,311)**	(66,906)
Profit for the year		**466,585**	563,773

	Note	Year ended 31 December 2015 RMB'000	2014 RMB'000
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
– Remeasurements of retirement benefit obligations		**9,935**	(2,322)
– Income tax relating to remeasurements of retirement benefit obligations		**(349)**	110
– Share of other comprehensive income of investments accounted for using the equity method		**–**	452
Items that may be reclassified subsequently to profit or loss			
– Fair value (losses)/gains on available-for-sale financial assets		**(266)**	2,189
– Income tax relating to available-for-sale financial assets		**40**	(328)
– Currency translation differences		**1,856**	(2,179)
Other comprehensive income for the year, net of tax		**11,216**	(2,078)
Total comprehensive income for the year		**477,801**	561,695
Profit attributable to:			
Owners of the Company		**417,634**	511,943
Non-controlling interests		**48,951**	51,830
		466,585	563,773
Total comprehensive income attributable to:			
Owners of the Company		**428,850**	509,865
Non-controlling interests		**48,951**	51,830
		477,801	561,695
Earnings per share for profit attributable to the owners of the Company for the year (expressed in RMB per share)			
– Basic and diluted	*8*	**0.11**	0.14
Dividends proposed after the balance sheet date to all shareholders	*9*	**92,116**	169,493

CONSOLIDATED BALANCE SHEET

	Note	As at 31 December **2015** *RMB'000*	2014 *RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**3,715,249**	3,105,368
Investment properties		**25,958**	29,828
Lease prepayments		**616,515**	466,672
Intangible assets		**297,956**	289,469
Investments in associates		**484,977**	540,112
Investment in joint venture		**326,990**	316,169
Trade and other receivables	*10*	**41,985**	–
Deferred income tax assets		**86,574**	72,515
Available-for-sale financial assets		**7,763**	8,029
Other non-current assets		**23,613**	24,263
		5,627,580	4,852,425
Current assets			
Inventories		**1,880,756**	1,700,880
Trade and other receivables	*10*	**4,301,327**	4,187,371
Dividends receivable		**428,645**	313,426
Amount due from customers for contract work		**527,389**	498,025
Financial assets at fair value through profit or loss		**–**	194,939
Restricted cash		**457,399**	684,039
Cash and cash equivalents		**1,543,975**	1,203,508
		9,139,491	8,782,188
Total assets		**14,767,071**	13,634,613
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		**3,684,640**	3,684,640
Reserves		**(678,400)**	(723,987)
Retained earnings			
– Proposed final dividend		**92,116**	169,493
– Others		**3,008,051**	2,714,332
		6,106,407	5,844,478
Non-controlling interests		**448,395**	406,491
Total equity		**6,554,802**	6,250,969

	Note	As at 31 December 2015 RMB'000	2014 RMB'000
LIABILITIES			
Non-current liabilities			
Trade and other payables	*11*	**–**	30,000
Borrowings		**668,779**	1,421,986
Deferred income		**411,518**	410,617
Deferred income tax liabilities		**75,940**	50,279
Long-term employee benefit obligations		**186,974**	50,451
		1,343,211	1,963,333
Current liabilities			
Trade and other payables	*11*	**4,588,696**	4,200,117
Dividend payable		**24,190**	27,175
Amount due to customers for contract work		**4,535**	15,239
Current income tax liabilities		**56,559**	44,599
Borrowings		**2,101,047**	1,072,975
Deferred income		**38,605**	32,206
Current portion of long-term employee benefit obligations		**39,907**	11,605
Provisions for warranty		**15,519**	16,395
		6,869,058	5,420,311
Total liabilities		**8,212,269**	7,383,644
Total equity and liabilities		**14,767,071**	13,634,613

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

NOTES:

1. GENERAL INFORMATION

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

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

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

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

2. BASIS OF PREPARATION

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2015:

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

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

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

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

(b) New Hong Kong Companies Ordinance (Cap.622)

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

(c) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2015, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

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

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

- HKFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and related interpretations. HKFRS15 is effective for annual periods beginning on or after 1 January 2018 and earlier application is permitted. The Group is assessing the impact of HKFRS 15.

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

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

3. SEGMENT INFORMATION

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

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

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

The segment information provided to the operating management committee for the reportable segments for the year ended 31 December 2015 is as follows:

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

The segment information for the year ended 31 December 2014 is as follows:

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

Except Holroyd Precision Limited, Precision Components Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited, PTG Deutschland GmbH ("PTG six entities"), Precision Technologies Group Investment Development Company Limited ("PTGHK"), Precision Technologies Group (PTG) Limited and Holroyd Precision Rotors Inc, the other entities of the Group are domiciled in the PRC. The result of the Group's revenue from external customers in the PRC for the year ended 31 December 2015 is approximately RMB8,592,066,000 (2014: RMB9,102,593,000), and the total of its revenue from external customers from other countries is approximately RMB418,356,000 (2014: RMB382,977,000).

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

4. OTHER INCOME

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

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

(b) During the years ended 31 December 2015 and 2014, the Group received certain grants from local government for the compensation of the Group's expenditures on further development of manufacturing technology and relocation for environmental protection.

5. EXPENSES BY NATURE

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

6. FINANCE COSTS, NET

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

7. TAXATION

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

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

8. EARNINGS PER SHARE

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

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

9. DIVIDENDS

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

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

10. TRADE AND OTHER RECEIVABLES

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

As at 31 December 2015, all loans were provided to related parties. The maturity of the above loans were within one year. The effective interest rates of these loans ranged from 4.13% to 6.44% for the year ended 31 December 2015 (2014: 4.20% to 6.90%).

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

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

As at 31 December 2015, trade and bills receivables of approximately RMB1,758,124,000 (2014: RMB1,732,834,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The analysis of ageing, which were counted from the day of recognition of trade receivables, is as follows:

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

As at 31 December 2015, trade receivables of approximately RMB416,192,000 (2014: RMB338,850,000) were impaired. The amount of provision was approximately RMB283,672,000 as at 31 December 2015 (2014: RMB263,281,000). The individually impaired receivables mainly relate to certain customers, which are in difficult financial situations. It was assessed that a portion of the receivables is expected to be recovered based on the past collection history under similar circumstances. The ageing of these receivables is as follows:

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

(b) There is no concentration of credit risk with respect to the Group's trade receivables, as the Group has a large number of customers which are internationally dispersed.

(c) The carrying amounts of the current portion of trade and other receivables approximate their fair value.

(d) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2015	2014
	RMB'000	*RMB'000*
RMB	**4,191,055**	4,005,922
UK Pound	**101,278**	101,894
USD	**132**	3,880
EUR	**170**	75,675
HKD	**50,677**	–
	4,343,312	4,187,371

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

Trade receivables

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

Deposits paid

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

Short-term loans

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

Long-term loans

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

Others

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

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

(f) The general credit period granted to customers is up to 90 days.

(g) The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The Group does not hold any collateral as security.

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

11. TRADE AND OTHER PAYABLES

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

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

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

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

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

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

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

CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to announce the annual results of the Group for the year ended 31 December 2015 (the "Period" or the "Year"). This annual results have been audited by the Company's auditor, PricewaterhouseCoopers. It is my pleasure to present the results of the Group as well as its sustainable development strategy and outlook to shareholders.

RESULTS REVIEW

In 2015, the global economy faced complex and ever-changing situations, and recorded an overall slowdown in growth. The European economy was again inflicted by the EU debt problem, terrorists attack and the tide of refugees and underwent fluctuations of economy, while the Euro currency has been experiencing volatility for a long time. Despite the modest rate of recovery, the US economy failed to give enough momentum to boost the recovery of the global economy. In the face of the complicated conditions both home and abroad, in particular, the ongoing downward pressure on the economy and the volatile capital market and exchange rate, China's economy has seen continued optimisation of industrial structure and entered "New Normal" as the state government continued to insist on the overall work keynote of making progress while maintaining stability and implemented a number of measures, such as stabilising growth, promote reform, adjust structure, care for the welfare of the people and guard against risks. The overall GDP increased by 6.9%, which is lower than the annual target for GDP growth of 7.0%. The Group has been facing unprecedented significant pressure and challenges as the equipment manufacturing industry was afflicted with structural overcapacity and cruel market competition. Against this backdrop, the Group took the general approach of "deepen reform for further development, refine management to enhance efficiency", and took an aggressive strategy to secure orders, strengthen management and control, push ahead with the transformation, accelerate transformation and upgrading, speed up reform and innovation and expansion of market. Through these efforts, the prescribed annual target was largely achieved.

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

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

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

BUSINESS REVIEW AND OUTLOOK

Automobile parts and components (gear boxes, steering systems)

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

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

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

In addition, Chongqing Cummins Engine Company Limited ("Chongqing Cummins"), a joint venture of the Group, is engaged in the production and sale of high-horsepower diesel engine. The Company completed the trial batch production and sale of 14-litre QSN upgraded electrical engine and QSK50 high-horsepower engine, and received recognition from the market. At the same time, the QSK60 high-horsepower engine entered the phase of production testing. Currently, the high-horsepower engine developed by Chongqing Cummins has a domestic market share of about 21%, and continues to maintain its leading position and stable market presence. The high-horsepower technology research and development centre of Chongqing Cummins has entered the stage of preparation for tendering of construction.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Trade business

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

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

Financial Business

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

DEVELOPMENT FOUNDATION AND ADVANTAGES

The Group ranked in the "Fortune China 500 Companies" for 6 consecutive years from 2010 to 2015 and won the title of "2015 China Top 500 Machinery Manufacturers" (ranking No. 122), and is the largest integrated equipment manufacturing enterprise based in western China. The following foundations and advantages will contribute to our future development:

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

DEVELOPMENT STRATEGY

The Group's development strategy and work priorities in 2016 are set out as follows:

I. Development Strategy

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

II. Work Priorities

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

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

(II) Deepen refined management and enhance quality and efficiency

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

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

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

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

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

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Operation Analysis

Automobile Parts and Components

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

Power Equipment

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

General Machinery

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

CNC Machine Tools

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

Trade Business

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

Financial Services

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

SALES

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

GROSS PROFIT

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

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

OTHER INCOME AND GAINS

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

SELLING AND ADMINISTRATIVE EXPENSES

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

OPERATING PROFITS

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

NET FINANCE COSTS

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

SHARE OF POST-TAX PROFITS OF ASSOCIATES

The Group's share of post-tax profits of associates for the year ended 31 December 2015 was approximately RMB23.8 million, a significant decrease of approximately RMB27.3 million or approximately 53.4%, as compared with approximately RMB51.1 million for the same period of 2014. The decrease was attributable to reduction in losses of approximately RMB9.5 million and approximately RMB12.3 million in the results of Knorr-Bremse CAFF Systems for Commercial Vehicles (Chongqing) Ltd. (克諾爾卡福商用車系統（重慶）有限公司) and CQMEM (重慶北部新區機電小額貸款有限公司) as compared with the results of last year, and a decrease of approximately RMB2.9 million in the results of Chongqing ABB Power Transformer Co. Ltd during the period.

SHARE OF POST-TAX PROFITS OF JOINT VENTURE

The Group's share of post-tax profits of joint venture for the year ended 31 December 2015 was approximately RMB265.1 million, a decrease of approximately RMB52.4 million or approximately 16.5%, as compared with approximately RMB317.5 million for the same period last year. Such decrease was due to the slight decline in the sales and profits of Chongqing Cummins Engine Co., Ltd.

INCOME TAX EXPENSES

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

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

DISTRIBUTABLE RESERVES

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

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

FINAL DIVIDEND

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

In order to ascertain the entitlements of the shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Tuesday, 5 July 2016 to Sunday,10 July 2016 (both days inclusive), during which period no transfer of shares will be registered. All transfer documents accompanied by share certificates of the holders of H Shares of the Company must be lodged at our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Monday, 4 July 2016.

WITHHOLDING OF ENTERPRISE INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS

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

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

If any resident enterprise (as defined in the EIT Law) whose name appears on the H Share Register of Members which is duly incorporated in the PRC or under the laws of a foreign country (or a territory) but with a PRC-based de facto management body does not wish to have the 10% enterprise income tax to be withheld by the Company, it should lodge all transfers with and submit a legal opinion issued by a PRC certified lawyer (with affixation of common seal of the law firm thereto) that establishes its resident enterprise status to the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 4 July 2016. Any natural person investor whose H shares are registered in the name of any such non-individual shareholders and who does not wish to have any enterprise income tax to be withheld by the Company, may consider transferring the legal title of the relevant H shares into his or her own name and lodging all relevant transfer instruments accompanied by the H share certificates with the Company's H Share Registrars for registration no later than 4:30 p.m. on 4 July 2016. Shareholders are recommended to consult their tax advisors regarding tax issues in respect of the ownership and disposal of H shares in the PRC and Hong Kong and other tax effects.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements of the shareholders to attend and vote on the Annual General Meeting, the register of members of the Company will be closed from Sunday, 29 May 2016 to Tuesday, 28 June 2016 (both days inclusive), during which period no transfer of shares will be registered. All transfers accompanied by the relevant share certificates must be lodged with the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Friday, 27 May 2016.

CASH FLOW

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

During the Period, the Group had a net cash inflow from operating activities of approximately RMB180.8 million (for the year ended 31 December 2014: net cash outflow used in operating activities of approximately RMB27.4 million), a net cash inflow from investing activities of approximately RMB59.5 million (for the year ended 31 December 2014: a net cash outflow of approximately RMB379.3 million), and a net cash inflow from financing activities of approximately RMB100.5 million (for the year ended 31 December 2014: a net cash outflow of RMB181.1 million). Directors believe that the Group is financially sound and has sufficient resources to meet its operating capital needs and fund any predictable capital expenditure.

ASSETS AND LIABILITIES

As at 31 December 2015, the total assets of the Group amounted to approximately RMB14,767.1 million, representing an increase of approximately RMB1,132.5 million as compared with approximately RMB13,634.6 million as at 31 December 2014. Total current assets amounted to approximately RMB9,139.5 million, an increase of approximately RMB357.3 million as compared with approximately RMB8,782.2 million as at 31 December 2014, accounting for approximately 61.9% of total assets. However, total non-current assets amounted to approximately RMB5,627.6 million, representing an increase of approximately RMB775.2 million as compared with approximately RMB4,852.4 million as at 31 December 2014, accounting for approximately 38.1% of total assets.

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

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

CURRENT RATIO

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

GEARING RATIO

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

INDEBTEDNESS

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

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

SECURED ASSETS

As at 31 December 2015, approximately RMB457.4 million of the Group was deposited with the banks with pledge or restricted for use (31 December 2014: approximately RMB684.0 million). In addition, certain bank borrowings of the Group were secured by certain land user rights, properties, plants and equipment and investment properties of the Group, and other assets of the Group, which had a net book value of approximately RMB705.7 million as at 31 December 2015 (31 December 2014: approximately RMB231.9 million).

CONTINGENT LIABILITIES

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

SIGNIFICANT EVENTS

Events in the Period

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

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

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

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

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

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

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

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

(ii) to approve Mr. Ren Yong's resignation as an executive Director, and to approve the appointment of Mr. Yang Quan as an executive Director of the Company to hold office from the date of the extraordinary general meeting until expiry of the term of the third session of the Board and to authorize the Board to fix the remuneration of Mr. Yang Quan pursuant to the remuneration standard for Directors passed at the 2012 Annual General Meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.

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

SUBSEQUENT EVENTS

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

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

CAPITAL EXPENDITURE

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

CAPITAL COMMITMENT

As at 31 December 2015, the Group had capital commitments of approximately RMB452.9 million (31 December 2014: approximately RMB490.6 million) in respect of fixed assets and intangible assets.

RISK OF FOREIGN EXCHANGE

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

As at 31 December 2015, the bank deposits of the Group included HK dollar valued at approximately RMB0.07 million, US dollar valued at approximately RMB33.4 million, GBP valued at approximately RMB17.9 million and EUR valued at approximately RMB7.1 million (31 December 2014: HK dollar valued at approximately RMB0.07 million, US dollar valued at approximately RMB12.0 million, GBP valued at approximately RMB24.1 million, and EUR valued at approximately RMB4.4 million). Save as the aforesaid, the Group was not exposed to any significant risk of foreign exchange.

EMPLOYEES

As at 31 December 2015, the Group had a total of 12,733 employees (31 December 2014: 13,878 employees). The Group will continue the upgrade of its technical talent base, foster and recruit technical and management personnel possessed with extensive professional experiences, optimise the distribution system that links with the remunerations and performance reviews of our management and employees, improve training on safety so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

OTHER CORPORATE INFORMATION

Competition and Conflict of Interests

As at 31 December 2015, the non-competition agreement entered into between Chongqing Machinery and Electronic Holding (Group) Co., Ltd., the Parent Company, and the Company in 18 January 2008 remained effective. Please refer to the Prospectus for details of such undertakings.

CONNECTED TRANSACTIONS

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

(1) As at 16 December 2015, the Company and the parent company entered into an equity transfer agreement, according to which, the parent company will transfer its 3.33% equity in Transformer Company to the Company at a consideration of RMB9.27301 million. After the transaction, the Company still holds 69.02% equity of Transformer Company.

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

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

CONTINUING CONNECTED TRANSACTIONS

For the year ended 31 December 2015, the summary of the related party transactions is set out in Notes to the Consolidated Financial Statements, where a majority of the transactions constituted continuing connected transactions as defined in Chapter 14A of the Hong Kong Listing Rules.

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

Master Sales Agreement

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

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

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

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

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

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

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

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

Master Supplies Agreement

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

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

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

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

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

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

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

For the year ended 31 December 2015, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB80.2 million (for the year ended 31 December 2014: RMB 81.1million).

Master Leasing Agreement

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

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

For the year ended 31 December 2015, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB32.4 million (for the year ended 31 December 2014: RMB34.5 million).

Financial Services Framework Agreement

(I) Parent Group Financial Services Framework Agreement

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

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

Loan services

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

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

Guarantee services

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

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

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

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

For the year ended 31 December 2015, pursuant to the financial services framework agreement, the daily maximum limit amount in respect of loan services provided by the Finance Company to the Parent Group was approximately RMB778.2 million, the transaction amount in respect of guarantee services was approximately RMB102.6 million and the transaction amount of other financial services was approximately RMB1.7 million.

(II) Group Financial Services Framework Agreement

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

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

Deposit services

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

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

Other financial services

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

For the year ended 31 December 2015, pursuant to the financial services framework agreement, the daily maximum limit amount in respect of deposit services provided by the Finance Company to the Group was approximately RMB1,061.4 million and the daily maximum limit amount of other financial services was approximately RMB9.4 million.

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

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

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

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

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

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

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

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

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

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

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

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

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2015 in compliance with the code provisions under the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

AUDIT AND RISK MANAGEMENT COMMITTEE

The Company has established an Audit and Risk Management committee with terms of reference, which clearly defined the powers and duties of the committee. The major duties of the Audit and Risk Management Committee are to review and supervise the financial reporting process and internal control systems of the Company, as well as providing opinion and recommendation to the directors of the Company.

The Audit and Risk Management Committee comprises three independent non-executive directors and one non-executive director, namely Mr. Lo Wah Wai, Mr. Jin Jingyu, Mr. Liu Wei and Mr. Deng Yong. Mr. Lo Wah Wai is the chairman of the Audit and Risk Management Committee. The Audit and Risk Management Committee has reviewed the Company's results for the period under review and respective recommendation and opinion have been made.

REMUNERATION COMMITTEE

The Remuneration Committee of the Company consists of three independent non-executive directors (Mr. Ren Xiaochang, Mr. Lo Wah Wai and Mr. Jin Jingyu) and one non-executive director (Mr. Wang Jiyu). The primarily duties of the Remuneration Committee are to formulate the Company's policies for remuneration of the directors, supervisors and senior management, and evaluate the performance of executive directors and the terms of their service contracts.

NOMINATION COMMITTEE

Chaired by the Chairman, the Nomination Committee of the Company consists of one executive director (Chairman), three independent non-executive directors and one non-executive director, namely, Mr. Wang Yuxiang, Mr. Ren Xiaochang, Mr. Jin Jingyu, Mr. Liu Wei and Mr. Huang Yong. The Nomination Committee is responsible for the identification and evaluation of candidates for appointment or reappointment as directors and senior management, as well as the development and maintenance of the Company's overall corporate governance policies and practices.

STRATEGIC COMMITTEE

A strategic committee of the Board has been established by the Board of the Company based on the Company's needs for strategic development. The Strategic Committee of the Company comprises three executive directors, namely Mr. Wang Yuxiang, Mr. Xiang Hu, and Mr.Yang Quan, one non-executive director, Mr. Huang Yong, and three independent non-executive directors, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei. Mr. Wang Yuxiang serves as the chairman of the Strategic Committee. The Strategic Committee is mainly in charge of studying and proposing suggestions on the Company's long-term development strategies and material investment decisions and providing decision-making references to the Board.

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises five supervisors, namely Mr. Wang Pengcheng, Ms. Wu Yi, Mr. Huang Hui, Mr. Zhang Mingzhi, Mr. Xia Hua. The Supervisory Committee of the Company is responsible for supervising the financial activities of the Company and the performance of the Board and its members as well as the senior management of their duties, so as to safeguard the interests of shareholders.

SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted procedures governing directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Individual confirmation has been obtained from all directors to confirm compliance with the Model Code during the year ended 31 December 2015.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2015, none of the Company and its subsidiaries purchased, sold or redeemed any listed securities of the Company.

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

The annual results announcement has been published on the Company's website (http://www.chinacqme.com) and the Stock Exchange's website. The annual report will also be available at the Company's and the Stock Exchange's websites on or around 11 April 2016 and will be dispatched to shareholders of the Company thereafter according to the means they chose to receive communications.

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

Chongqing, the PRC
30 March 2016

As at the date of the announcement, the executive Directors are Mr. Wang Yuxiang, Mr. Xiang Hu and Mr. Yang Quan; the non-executive Directors are Mr. Huang Yong, Mr. Wang Jiyu, Mr. Yang Jingpu and Mr. Deng Yong; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei.