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 2016

FINANCIAL HIGHLIGHTS

- Revenue increased by approximately 1.3% to approximately RMB9,129,302,000
- Gross profit increased by approximately 2.3% to approximately RMB1,010,458,000
- Profit attributable to shareholders increased by approximately 6.2% to approximately RMB443,502,000
- Earnings per share was approximately RMB0.12

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 2016 and the comparative figures for the corresponding period of 2015 as follows:

* *For identification purposes only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Note	**2016**	2015
		RMB'000	*RMB'000*
Revenue	*3*	**9,129,302**	9,010,422
Cost of sales	*6*	**(8,118,844)**	(8,022,954)
Gross profit		**1,010,458**	987,468
Distribution costs	*6*	**(242,519)**	(270,407)
Administrative expenses	*6*	**(784,468)**	(1,087,097)
Other gains, net	*4*	**226,676**	642,380
Other income	*5*	**73,477**	71,501
Operating profit		**283,624**	343,845
Finance income		**18,329**	24,395
Finance costs		**(118,881)**	(133,281)
Finance costs, net	*7*	**(100,552)**	(108,886)
Share of post-tax profits of joint venture		**251,019**	265,127
Share of post-tax profits of associates		**100,609**	23,810
Profit before income tax		**534,700**	523,896
Income tax expense	*8*	**(28,501)**	(57,311)
Profit for the year		**506,199**	466,585

	Note	Year ended 31 December **2016** **RMB'000**	2015 RMB'000
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
– Remeasurements of retirement and termination benefit obligations		**2,016**	9,935
– Income tax relating to remeasurements of retirement and termination benefit obligations		**(243)**	(349)
Items that may be reclassified to profit or loss			
– Fair value losses on available-for-sale financial assets		**(495)**	(266)
– Income tax relating to available-for-sale financial assets		**74**	40
– Net investment hedge		**(13,351)**	–
– Currency translation differences		**17,517**	1,856
– Share of other comprehensive income of investments accounted for using the equity method		**529**	–
Other comprehensive income for the year, net of tax		**6,047**	11,216
Total comprehensive income for the year		**512,246**	477,801
Profit attributable to:			
Owners of the Company		**443,502**	417,634
Non-controlling interests		**62,697**	48,951
		506,199	466,585
Total comprehensive income attributable to:			
Owners of the Company		**449,549**	428,850
Non-controlling interests		**62,697**	48,951
		512,246	477,801
Earnings per share for profit attributable to the owners of the Company for the year (expressed in RMB per share)			
– Basic and diluted	*9*	**0.12**	0.11
Dividends proposed after the balance sheet date to all shareholders	*10*	**128,962**	92,116

CONSOLIDATED BALANCE SHEET

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**3,877,917**	3,715,249
Investment properties		**12,087**	25,958
Lease prepayments		**519,562**	616,515
Intangible assets		**307,917**	297,956
Investments in associates		**709,102**	484,977
Investment in joint venture		**337,236**	326,990
Trade and other receivables	*11*	**85,329**	41,985
Deferred income tax assets		**88,521**	86,574
Available-for-sale financial assets		**7,267**	7,763
Other non-current assets		**53,766**	23,613
		5,998,704	5,627,580
Current assets			
Inventories		**1,435,147**	1,880,756
Trade and other receivables	*11*	**5,129,424**	4,301,327
Dividends receivable		**245,557**	428,645
Amount due from customers for contract work		**589,744**	527,389
Available-for-sale financial assets		**150,000**	–
Restricted cash		**407,613**	457,399
Cash and cash equivalents		**1,385,953**	1,543,975
		9,343,438	9,139,491
Total assets		**15,342,142**	14,767,071
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		**3,684,640**	3,684,640
Reserves		**(654,383)**	(678,400)
Retained earnings			
– Proposed final dividend		**128,962**	92,116
– Others		**3,304,621**	3,008,051
		6,463,840	6,106,407
Non-controlling interests		**553,367**	448,395
Total equity		**7,017,207**	6,554,802

		As at 31 December	
		2016	2015
	Note	***RMB'000***	*RMB'000*
LIABILITIES			
Non-current liabilities			
Borrowings		**1,551,456**	668,779
Deferred income		**460,798**	411,518
Deferred income tax liabilities		**70,761**	75,940
Long-term employee benefit obligations		**145,987**	186,974
		2,229,002	1,343,211
Current liabilities			
Trade and other payables	*12*	**4,637,313**	4,588,696
Dividend payable		**24,952**	24,190
Amount due to customers for contract work		**13,018**	4,535
Current income tax liabilities		**35,728**	56,559
Borrowings		**1,298,477**	2,101,047
Deferred income		**39,928**	38,605
Current portion of long-term employee benefit obligations		**30,533**	39,907
Provisions for warranty		**15,984**	15,519
		6,095,933	6,869,058
Total liabilities		**8,324,935**	8,212,269
Total equity and liabilities		**15,342,142**	14,767,071

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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

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

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 31 March 2017.

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. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the annual report.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

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

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

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

- Annual improvements to HKFRSs 2012-2014 cycle, and

- Disclosure initiative – amendments to HKAS 1.

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

(b) New standards and interpretations not yet adopted

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

HKFRS 9, 'Financial instruments'

The new standard addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

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

The other financial assets held by the Group include:

- equity instruments currently classified as AFS for which a FVOCI election is available, and

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

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

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

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

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

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

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

HKFRS 15, 'Revenue from contracts with customers'

The HKICPA has issued a new standard for the recognition of revenue. This will replace HKAS 18 which covers contracts for goods and services and HKAS 11 which covers construction contracts. The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

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

- revenue from service – the application of HKFRS 15 may result in the identification of separate performance obligations which could affect the timing of the recognition of revenue.

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

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

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

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

HKFRS 16, 'Leases'

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

The accounting for lessors will not significantly change.

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

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

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

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.

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

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

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

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

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

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

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

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

4. OTHER GAINS, NET

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

5. OTHER INCOME

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

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

(b) During the years ended 31 December 2016 and 2015, the Group received certain grants from local government for the compensation of the Group's expenditures on further development of manufacturing technology and relocation for environmental protection.

6. EXPENSES BY NATURE

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Depreciation on property, plant and equipment	**208,031**	201,612
Depreciation on investment properties	**2,168**	3,870
Amortisation of lease prepayments	**13,004**	14,041
Amortisation of intangible assets	**14,348**	14,980
Amortisation of deferred income on sell and leaseback transaction	**(338)**	449
Employee benefit expense	**848,117**	1,222,069
Changes in inventories of finished goods and work in progress	**428,739**	(210,662)
Raw materials and consumables used	**6,812,988**	7,317,965
Transportation	**72,250**	93,209
Research and development costs	**161,055**	166,065
Utilities	**95,859**	95,663
Repairs and maintenance expenditure on property, plant and equipment	**27,955**	23,394
Operating lease rentals	**48,169**	35,507
Write-down of inventories	**34,930**	19,883
Provision for impairment of receivables	**45,775**	31,953
Provision for impairment of property, plant and equipment	**9,998**	–
Provision for warranty	**28,947**	38,981
Auditors' remuneration		
– Audit services	**3,500**	4,700
– Non-audit services	**–**	450
Other expenses	**290,336**	306,329
Total cost of sales, distribution costs and administrative expenses	**9,145,831**	9,380,458

7. FINANCE COSTS, NET

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Finance income		
– Interest income on bank deposits	**18,329**	24,395
Finance cost:		
– Bank borrowings	**(97,998)**	(96,171)
– Corporate bonds	**(51,836)**	(67,200)
– Finance lease liabilities	**(100)**	(89)
– Net exchange loss	**(7,514)**	(2,163)
Less: amounts capitalized on qualifying assets	**38,567**	32,342
	(118,881)	(133,281)
Net finance costs	**(100,552)**	(108,886)

8. TAXATION

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

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
Current income tax	**49,189**	46,018
Deferred income tax	**(20,688)**	11,293
Income tax expense	**28,501**	57,311

9. EARNINGS PER SHARE

	Year ended 31 December	
	2016	2015
Profit attributable to equity holders of the Company *(RMB'000)*	**443,502**	417,634
Weighted average number of ordinary shares in issue *(thousands)*	**3,684,640**	3,684,640
Basic and diluted earnings per share *(RMB per share)*	**0.12**	0.11

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

10. DIVIDENDS

The dividends paid in 2016 and 2015 were approximately RMB92,116,000 (RMB0.025 per share) and RMB169,493,000 (RMB0.046 per share) respectively. A dividend in respect of the year ended 31 December 2016 of RMB0.035 per share, amounting to a total dividend of approximately RMB128,962,000 is to be proposed at the annual general meeting on 16 June 2017. These financial statements do not reflect this dividend payable.

	2016	2015
	RMB'000	*RMB'000*
Interim dividend	**–**	–
Proposed final dividend of RMB0.035 (2015: RMB0.025) per share	**128,962**	92,116
	128,962	92,116

11. TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Trade and bills receivables *(a)*	**3,451,637**	3,163,828
Less: provision for impairment of trade receivables	**(273,941)**	(283,672)
Trade and bills receivables, net	**3,177,696**	2,880,156
Deposits paid	**92,385**	77,325
Less: provision for impairment of deposits paid	**(11,725)**	(12,349)
Deposits paid, net	**80,660**	64,976
Loans	**1,262,499**	646,781
Less: provision for impairment of loans	**(18,712)**	(7,376)
Loans, net	**1,243,787**	639,405
Prepayments	**234,504**	309,330
Staff advances	**32,120**	26,572
Others	**487,270**	439,842
Less: provision for impairment of receivables other than trade receivables, loans and deposits paid	**(41,284)**	(16,969)
Others, net	**445,986**	422,873
	5,214,753	4,343,312
Less: Long-term loans	**(85,989)**	(42,409)
provision for impairment of long-term loans	**660**	424
Less: long-term loans, net	**(85,329)**	(41,985)
Current portion	**5,129,424**	4,301,327

As at 31 December 2016, all loans were provided to related parties. The effective interest rates of these loans ranged from 1.20% to 6.02% for the year ended 31 December 2016 (2015: 4.13% to 6.44%).

The Group transferred certain trade receivables to a third party with a total amount of RMB350,000,000 in December 2016.

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Less than 30 days	**1,040,045**	363,548
31 days to 90 days	**573,233**	669,243
91 days to 1 year	**1,165,986**	1,338,943
1 year to 2 years	**298,928**	411,163
2 years to 3 years	**124,551**	142,268
Over 3 years	**248,894**	238,663
	3,451,637	3,163,828

As at 31 December 2016, trade and bills receivables of approximately RMB1,506,711,000 (2015: RMB1,758,124,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The analysis of ageing, which were counted from the day of recognition of trade receivables, is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
91 days to 1 year	**1,148,555**	1,324,201
1 year to 2 years	**268,851**	349,508
2 years to 3 years	**89,305**	84,415
	1,506,711	1,758,124

As at 31 December 2016, trade receivables of approximately RMB331,648,000 (2015: RMB416,192,000) were impaired. The amount of provision was approximately RMB273,941,000 as at 31 December 2016 (2015: RMB283,672,000). The individually impaired receivables mainly relate to certain customers, which are in difficult financial situations. It was assessed that a portion of the receivables is expected to be recovered based on the past collection history under similar circumstances. The ageing of these receivables is as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
91 days to 1 year	**17,431**	14,742
1 year to 2 years	**30,077**	61,655
2 years to 3 years	**35,246**	101,132
Over 3 years	**248,894**	238,663
	331,648	416,192

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

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

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

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
RMB	**5,132,949**	4,191,055
UKP	**35,300**	101,278
USD	**6,014**	132
EUR	**29,366**	170
HKD	**11,124**	50,677
	5,214,753	4,343,312

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

Trade receivables

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**283,672**	263,281
Provision for impairment of receivables	**10,124**	29,148
Disposal of subsidiaries	**(12,943)**	–
Receivables written off during the year as uncollectible	**(6,912)**	(8,757)
At end of the year	**273,941**	283,672

Deposits paid

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**12,349**	11,296
Provision for impairment of receivables	**–**	1,053
Disposal of subsidiaries	**(624)**	–
At end of the year	**11,725**	12,349

Short-term loans

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**6,952**	4,425
Provision for impairment of receivables	**11,100**	2,527
At end of the year	**18,052**	6,952

Long-term loans

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**424**	–
Provision for impairment of long-term loans	**236**	424
At end of the year	**660**	424

Others

	Year ended 31 December	
	2016	2015
	RMB'000	*RMB'000*
At beginning of the year	**16,969**	22,843
Provision for/(reversal of) impairment of receivables	**24,315**	(1,199)
Receivables written off during the year as uncollectible	**–**	(4,675)
At end of the year	**41,284**	16,969

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

(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. Loans to related parties of approximately RMB52,750,000 were secured by certain property, plant and equipment with an aggregate fair value of approximately RMB75,364,000 as at 31 December 2016.

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

12. TRADE AND OTHER PAYABLES

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Deposit taking	**1,150,015**	852,908
Trade and bills payables *(a)*	**2,335,672**	2,436,050
Other taxes payables	**103,407**	95,646
Other payables	**376,368**	369,015
Interest payable	**10,759**	28,875
Accrued payroll and welfare	**72,950**	104,213
Advances from customers	**588,142**	701,989
	4,637,313	4,588,696

As at 31 December 2016, all deposit taking were due to related parties. The effective interest rate of current deposit taking ranged from 0.37% to 3.02% for the year ended 31 December 2016 (2015: 0.35% to 3.30%).

(a) As at 31 December 2016 and 2015, the ageing analysis of the trade and bills payables of the Group was as follows:

	As at 31 December	
	2016	2015
	RMB'000	*RMB'000*
Less than 30 days	**598,942**	387,204
31 days than 90 days	**620,918**	642,619
91 days to 1 year	**864,007**	1,187,388
1 year to 2 years	**149,474**	105,414
2 years to 3 years	**55,695**	36,035
Over 3 years	**46,636**	77,390
	2,335,672	2,436,050

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 2016 (the "Period" or the "Year"). The Group's annual results have been audited by the Company's auditor, PricewaterhouseCoopers. It is my pleasure to present the annual results of the Group as well as its sustainable development strategy and outlook to shareholders.

RESULTS REVIEW

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

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

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

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

BUSINESS REVIEW AND OUTLOOK

Automobile parts and components (transmission systems, steering systems)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

In 2017, with the accelerating of pace of the state intelligent manufacturing, the Group expects the intelligent development of the equipment manufacturing industry will bottom out towards intelligent development. Driven by product upgrading, industrial transformation and the new increment in intelligent equipment and agricultural machinery, the Group expects the segment will be stabilized and rallied in 2017.

Trade Business

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

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

Financial Business

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

DEVELOPMENT FOUNDATION AND ADVANTAGES

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

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

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

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

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

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

DEVELOPMENT STRATEGIES

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

I. Development strategies

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

II. Work priorities

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Operation Analysis

Automobile Parts and Components

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

Power Equipment

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

General Machinery

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

CNC Machine Tools

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

Trade Business

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

Financial Business

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

SALES

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

Despite the decline in sales revenue of the Group due to the decreased market demand in the vehicle parts and components segment and CNC machine tools segment and the termination of lower margin products in the power equipment segment, the overall sales revenue of the Group rose due to the faster growth achieved in sales revenue from the general machinery segment and trade segment during the Period.

GROSS PROFIT

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

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

OTHER INCOME AND GAINS

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

DISTRIBUTION AND ADMINISTRATIVE EXPENSES

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

OPERATING PROFITS

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

NET FINANCE COSTS

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

SHARE OF POST-TAX PROFITS OF ASSOCIATES

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

SHARE OF PROFITS OF JOINT VENTURE

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

INCOME TAX EXPENSES

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

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

DISTRIBUTABLE RESERVES

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

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

FINAL DIVIDEND

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

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

WITHHOLDING OF ENTERPRISE INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS

Pursuant to the Enterprise Income Tax Law of the People's Republic of China ("EIT Law") and the implementation rules thereof and the Circular on Issues Concerning the Withholding of Enterprise Income Tax by PRC Resident Enterprises on Dividends Payable to H Share Non-resident Corporate Shareholders (Guo Shui Han [2008] No.897), the Group 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 Group ("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 Group. For dividends payable to resident corporate shareholders whose names appear on H Share Register of Members on the Record Date, the Group 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 Group.

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 Group, it should lodge all transfers with and submit a legal opinion issued by a PRC certified lawyer (with affixation of common seal of the law firm thereto) that establishes its resident enterprise status to the Group's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 21 June 2017. Any natural person investor whose H shares are registered in the name of any such non-individual shareholders and who does not wish to have any enterprise income tax to be withheld by the Group, 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 Group's H Share Registrars for registration no later than 4:30 p.m. on 21 June 2017. Shareholders are recommended to consult their tax advisors regarding tax issues in respect of the ownership and disposal of H shares in the PRC and Hong Kong and other tax effects.

CLOSURE OF REGISTER OF MEMBERS

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

CASH FLOW

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

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

ASSETS AND LIABILITIES

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

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

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

CURRENT RATIO

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

GEARING RATIO

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

INDEBTEDNESS

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

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

SECURED ASSETS

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

CONTINGENT LIABILITIES

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

SIGNIFICANT EVENTS

Events in the Period

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

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

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

(4) On 28 June 2016, the Company approved its wholly-owned subsidiary Chongqing Gas Compressor Factory Co., Ltd. to enter into the two Expropriation and Compensation Agreements with Shapingba Building Management Bureau, pursuant to which Gas Compressor Company will sell the Disposal Land No. 1 measuring approximately a total of 1,304 square meters and certain assets thereon for the consideration of RMB4,888,453.58; and sell the Disposal Land No. 2 measuring approximately a total of 84,488 square meters and certain assets thereon for the consideration of RMB325,111,546.42. For details, please refer to the announcement of the Board of the Company published on the website of the Hong Kong Stock Exchange and the Company on 28 June 2016.

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

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

(II) The Company re-elected the members of the Supervisory Committee and elected the following members of the fourth session of the Supervisory Committee: Mr. Xiang Hu, Ms. Wu Yi and Mr. Huang Hui as Supervisors of the Company. Mr. Zhang Mingzhi and Mr. Xia Hua were democratically elected as employee representative Supervisors. The term of aforesaid Supervisors commences from the date of the meeting until expiry of the term of the fourth session of the Supervisory Committee. The Board was authorized to fix the remuneration of each Supervisor pursuant to the remuneration standard for Supervisors passed at the 2015 annual general meeting and to enter into a service agreement with each of them on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.

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

SUBSEQUENT EVENTS

The Group had no significant discloseable subsequent events.

CAPITAL EXPENDITURE

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

CAPITAL COMMITMENT

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

RISK OF FOREIGN EXCHANGE

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

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

EMPLOYEES

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

OTHER CORPORATE INFORMATION

Competition and Conflict of Interests

As at 31 December 2016, 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:

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

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

CONTINUING CONNECTED TRANSACTIONS

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

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

Master Sales Agreement

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

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

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

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

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

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

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

Master Supplies Agreement

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

Additionally, in case where there are material fluctuations in the prices of any or all of the products, the parties shall re-negotiate the terms of the Master Supplies Agreement in good faith by way of entering into a supplemental agreement or a new master supplies agreement. The Master Supplies Agreement is valid for successive term of three years from the date of the agreement and can be renewed by the Company for another three years by giving notice at least three months prior to the expiry of the initial term. Pursuant to which, as approved at the held on, the approved annual caps of sales was set at RMB99 million for the year ended 31 December 2016 (Extraordinary General Meeting was held on 30 December 2013). The approved annual caps of supplies for each of the year ended 31 December 2017, 2018 and 2019 (Board Meeting was held on 8 April 2016) were set at RMB80 million, respectively.

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

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

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

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

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

Master Leasing Agreement

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

The Parent Group leases land and buildings to the Group as the Group's offices, production facilities, workshops and staff quarters. Accordingly, for the year ended 31 December 2016 as approved by the board of directors, the annual lease limit was set to be RMB45 million. For the years ended 31 December 2017, 2018 and 2019, (the board of directors on April 8 2016), it was approved that the annual cap of the lease for three years was set to be RMB45 million, respectively.

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

FINANCIAL SERVICES FRAMEWORK AGREEMENT

(I) Parent Group Financial Services Framework Agreement

The Company's subsidiary Chongqing Electrical Holdings Group Finance Company Limited (the "Finance Company") and the Parent Company entered into the Framework of Financial Service Framework Agreement on 14 October 2013 (the "Parent Group Financial Services Framework Agreement"), (i) As approved at the Extraordinary General Meeting held on 30 December 2013, the approved proposed annual caps in respect of loan services transactions for the year ended 31 December 2016 was RMB2,500 million (including the corresponding interest). As approved at the Annual General Meeting held on 28 June 2016, the approved proposed annual cap for loan services for the years ended 31 December 2017, 31 December 2018 and 31 December 2019 are RMB2,500 million, RMB2,800 million and RMB3,000 million respectively; (ii) As approved at the Extraordinary General Meeting held on 30 December 2013, the approved proposed annual cap for guarantee services transactions for the year ended 31 December 2016 was RMB618 million (including the corresponding interests). As approved at the Annual General Meeting held on 28 June 2016, the approved proposed annual caps for guarantee for each of the years ended 31 December 2017, 31 December 2018 and 31 December 2019 are RMB100 million (including corresponding handling fees); (iii) The proposed approved annual cap for financial services transactions for the year ended 31 December 2016 was RMB46 million. As approved at the Directors' Meeting held on 8 April 2016, the approved proposed annual caps for financial services were RMB27.5 million, RMB33 million and RMB38.5 million respectively.

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

Loan services

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

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

Guarantee services

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

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

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

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

(II) Group Financial Services Framework Agreement

The Finance Company entered into a financial services framework agreement (the "Group Financial Services Framework Agreement") with the Company on 14 October 2013, (i) as approved at the Extraordinary General Meeting held on 30 December 2013, the approved proposed annual caps for the transactions in respect of the deposit services for the year ended 31 December 2016 was RMB2,116 million (including the corresponding interests). As approved at the Annual General Meeting held on 28 June 2016, the approved proposed annual caps for the transactions in respect of the deposit services for each of the years ended 31 December 2017, 2018 and 2019 are RMB2,600 million, RMB3,000 million and RMB3,500 million; (ii) the proposed annual caps for transactions in respect of other financial services for each of the years ended 31 December 2016 was RMB52 million. As approved at the Directors' Meeting held on 8 April 2016, the approved proposed annual caps for the transactions in respect of the deposit services for each of the year ending 31 December 2017, 2018 and 2019 are RMB29 million, RMB34 million and RMB39 million respectively.

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

Deposit services

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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 2016 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. Huang Yong). 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) and three independent non-executive directors, namely, Mr. Wang Yuxiang, Mr. Ren Xiaochang, Mr. Jin Jingyu and Mr. Liu Wei. 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, Ms. Chen Ping, 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. Xiang Hu, 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 2016.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2016, 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 12 April 2017 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
31 March 2017

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