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 2014

FINANCIAL HIGHLIGHTS

- Revenue decreased by approximately 2.2% to approximately RMB9,485,570,000
- Gross profit decreased by approximately 1.8% to approximately RMB1,064,776,000
- Profit attributable to shareholders increased by approximately 1.0% to approximately RMB511,943,000
- Earnings per share was approximately RMB0.14

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 2014 and the comparative figures for the corresponding period of 2013 as follows:

* *For identification purposes only*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
	Note	**2014**	2013
		RMB'000	*RMB'000*
Revenue	*3*	**9,485,570**	9,701,044
Cost of sales	*5*	**(8,420,794)**	(8,616,264)
Gross profit		**1,064,776**	1,084,780
Distribution costs	*5*	**(255,180)**	(266,446)
Administrative expenses	*5*	**(814,407)**	(749,257)
Other gains, net		**213,361**	94,914
Other income	*4*	**136,675**	124,775
Operating profit		**345,225**	288,766
Finance income		**21,368**	35,249
Finance costs		**(104,512)**	(136,707)
Finance costs, net	*6*	**(83,144)**	(101,458)
Share of post-tax profits of joint venture		**317,514**	353,816
Share of post-tax profits of associates		**51,084**	44,099
Profit before income tax		**630,679**	585,223
Income tax expense	*7*	**(66,906)**	(44,785)
Profit for the year		**563,773**	540,438
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefit obligations		**(2,322)**	(355)
Income tax relating to remeasurements of retirement benefit obligations		**110**	(63)
Share of other comprehensive income of investments accounted for using the equity method		**452**	–
Items that may be reclassified to profit or loss			
Fair value gains/(losses) on available-for-sale financial assets		**2,189**	(813)
Income tax relating to available-for-sale financial assets		**(328)**	122
Currency translation differences		**(2,179)**	(1,305)
Other comprehensive income for the year, net of tax		**(2,078)**	(2,414)
Total comprehensive income for the year		**561,695**	538,024

	Note	Year ended 31 December 2014 RMB'000	2013 RMB'000
Profit attributable to:			
Owners of the Company		**511,943**	506,829
Non-controlling interests		**51,830**	33,609
		563,773	540,438
Total comprehensive income attributable to:			
Owners of the Company		**509,865**	504,415
Non-controlling interests		**51,830**	33,609
		561,695	538,024
Earnings per share for profit attributable to the owners of the Company for the year *(expressed in RMB per share)*			
– Basic and diluted	*8*	**0.14**	0.14
Dividends proposed after the balance sheet date to all shareholders	*9*	**169,493**	184,232

CONSOLIDATED BALANCE SHEETS

	Note	Group As at 31 December 2014 RMB'000	2013 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment		**3,105,368**	2,734,318
Investment properties		**29,828**	29,825
Lease prepayments		**466,672**	482,704
Intangible assets		**289,469**	286,872
Investments in associates		**540,112**	508,417
Investment in joint venture		**316,169**	310,143
Deferred income tax assets		**72,515**	74,819
Available-for-sale financial assets		**8,029**	2,840
Other non-current assets		**24,263**	11,425
		4,852,425	4,441,363
Current assets			
Inventories		**1,700,880**	1,669,709
Trade and other receivables	*10*	**4,187,371**	3,877,374
Dividend receivable		**313,426**	157,464
Amount due from customers for contract work		**498,025**	464,871
Financial assests at fair value through profit or loss		**194,939**	–
Restricted cash		**684,039**	447,163
Cash and cash equivalents		**1,203,508**	1,792,359
		8,782,188	8,408,940
Total assets		**13,634,613**	12,850,303
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital		**3,684,640**	3,684,640
Reserves		**(723,987)**	(752,910)
Retained earnings			
– Proposed final dividend		**169,493**	184,232
– Others		**2,714,332**	2,402,883
		5,844,478	5,518,845
Non-controlling interests		**406,491**	367,420
Total equity		**6,250,969**	5,886,265

	Note	Group As at 31 December **2014** ***RMB'000***	2013 *RMB'000*
LIABILITIES			
Non-current liabilities			
Trade and other payables	*11*	**30,000**	–
Borrowings		**1,421,986**	1,489,258
Deferred income		**410,617**	475,757
Deferred income tax liabilities		**50,279**	21,786
Long-term employee benefit obligations		**50,451**	37,003
		1,963,333	2,023,804
Current liabilities			
Trade and other payables	*11*	**4,200,117**	3,828,431
Dividend payable		**27,175**	25,381
Amount due to customers for contract work		**15,239**	8,568
Current income tax liabilities		**44,599**	50,796
Borrowings		**1,072,975**	996,881
Deferred income		**32,206**	–
Current portion of long-term employee benefit obligations		**11,605**	9,316
Provisions for warranty		**16,395**	20,861
		5,420,311	4,940,234
Total liabilities		**7,383,644**	6,964,038
Total equity and liabilities		**13,634,613**	12,850,303
Net current assets		**3,361,877**	3,468,706
Total assets less current liabilities		**8,214,302**	7,910,069

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 2013	3,684,640	(787,733)	2,246,485	5,143,392	338,799	5,482,191
Comprehensive income						
Profit for the year	–	–	506,829	506,829	33,609	540,438
Other comprehensive income						
Changes in fair value of available-for-sales financial assets, net of tax	–	(691)	–	(691)	–	(691)
Remeasurements of retirement benefit obligations, net of tax	–	(418)	–	(418)	–	(418)
Currency translation differences	–	(1,305)	–	(1,305)	–	(1,305)
Total other comprehensive income	–	(2,414)	–	(2,414)	–	(2,414)
Total comprehensive income	–	(2,414)	506,829	504,415	33,609	538,024
Total contributions by and distributions to owners of the Company recognised directly in equity						
Dividends relating to 2012	–	–	(128,962)	(128,962)	–	(128,962)
Dividends to non-controlling interests	–	–	–	–	(4,988)	(4,988)
Total contributions by and distributions to owners of the Company	–	–	(128,962)	(128,962)	(4,988)	(133,950)
Transfer to reserves	–	37,237	(37,237)	–	–	–
Total transactions with owners	–	37,237	(166,199)	(128,962)	(4,988)	(133,950)
Balance at 31 December 2013	3,684,640	(752,910)	2,587,115	5,518,845	367,420	5,886,265

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

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 automobile parts and components, general machinery, machinery tools and power equipment. The Group has operations mainly in the People's Republic of China (the "PRC" or "China").

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

The H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 13 June 2008.

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 24 March 2015.

2. Basis of preparation

The consolidated financial statements of Chongqing Machinery & Electric Co., Ltd. have been prepared in accordance with 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 consolidated financial statements are prepared in accordance with the applicable requirements of the predecessor Companies Ordinance (Cap. 32) for this financial year and the comparative period.

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

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following standards have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2014:

- Amendment to HKAS 32, 'Financial instruments: Presentation' on offsetting financial assets and financial liabilities. This amendment clarifies that the right of set-off must not be contingent on a future event. It must also be legally enforceable for all counterparties in the normal course of business, as well as in the event of default, insolvency or bankruptcy. The amendment also considers settlement mechanisms. The amendment did not have a significant effect on the group financial statements.

- Amendments to HKAS 36, 'Impairment of assets', on the recoverable amount disclosures for non-financial assets. This amendment removed certain disclosures of the recoverable amount of CGUs which had been included in HKAS 36 by the issue of HKFRS 13.

- Amendment to HKAS 39, 'Financial instruments: Recognition and measurement' on the novation of derivatives and the continuation of hedge accounting. This amendment considers legislative changes to 'over-the-counter' derivatives and the establishment of central counterparties. Under HKAS 39 novation of derivatives to central counterparties would result in discontinuance of hedge accounting. The amendment provides relief from discontinuing hedge accounting when novation of a hedging instrument meets specified criteria. The Group has applied the amendment and there has been no significant impact on the group financial statements as a result.

- HK(IFRIC) 21, 'Levies', sets out the accounting for an obligation to pay a levy if that liability is within the scope of HKAS 37 'Provisions'. The interpretation addresses what the obligating event is that gives rise to the payment a levy and when a liability should be recognised. The Group is not currently subjected to significant levies so the impact on the Group is not material.

Other standards, amendments and interpretations which are effective for the financial year beginning on 1 January 2014 are not material to the Group.

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation as from the Company's first financial year commencing on or after 3 March 2014 in accordance with section 358 of that Ordinance. The Group is in the process of making an assessment of expected impact of the changes in the Companies Ordinance on the consolidated financial statements in the period of initial application of Part 9 of the new Hong Kong Companies Ordinance (Cap. 622). So far it has concluded that the impact is unlikely to be significant and only the presentation and the disclosure of information in the consolidated financial statements will be affected.

(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 2014, and have not been applied in preparing these consolidated financial statement. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

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

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

- HKFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Revenue is recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. The standard replaces HKAS 18 'Revenue' and HKAS 11 'Construction contracts' and related interpretations. The standard is effective for annual periods beginning on or after 1 January 2017 and earlier application is permitted. The Group is assessing the impact of HKFRS 15.

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 2014 is as follows:

	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wires and cables	General machinery	Financial services	Machinery tools	High-voltage transformers	Material sales	All other segments	Total Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment revenue	–	735,065	407,454	2,449,903	1,109,236	121,705	1,159,435	–	3,620,441	1,250,357	10,853,596
Inter-segment revenue	–	(1,295)	–	–	–	(34,771)	(277,122)	–	(1,054,838)	–	(1,368,026)
Revenue from external customers	–	733,770	407,454	2,449,903	1,109,236	86,934	882,313	–	2,565,603	1,250,357	9,485,570
Operating profit	–	(4,781)	123,385	83,610	65,031	55,229	76,609	–	7,809	(61,667)	345,225
Finance income	–	1,722	1,793	1,657	7,634	–	3,906	–	290	4,366	21,368
Finance costs	–	(1,039)	(3,781)	(25,929)	(12,709)	–	(26,665)	–	(3,289)	(31,100)	(104,512)
Share of post-tax profits of associates and joint venture	317,514	560	–	–	6,400	8,951	–	15,748	–	19,425	368,598
Profit before income tax											630,679
Income tax expense	–	(2,200)	(14,506)	(7,627)	(4,654)	(13,545)	(10,980)	–	(17)	(13,377)	(66,906)
Profit for the year											563,773

	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wires and cables	General machinery	Financial services	Machinery tools	High-voltage transformers	Material sales	All other segments	Total Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other items											
Depreciation on property, plant and equipment and investment properties	–	27,401	11,551	16,709	44,136	121	42,737	–	424	48,431	191,510
Amortisation of lease prepayments and intangible assets	–	4,428	849	676	5,607	114	10,333	–	113	3,463	25,583
(Write back)/write down of inventories	–	(12)	–	(4,024)	734	–	(1,406)	–	–	5,661	953
(Reversal of)/provision for impairment on trade and other receivables	–	(944)	1,342	(1,564)	7,223	1,611	12,672	–	(46)	6,273	26,567
Impairment loss of property, plant and equipment	–	–	–	–	–	–	–	–	–	8,162	8,162
Total assets	316,169	1,351,741	1,154,868	905,604	2,115,648	1,592,228	2,848,870	159,259	390,382	2,799,844	13,634,613
Total assets include:											
Investments in associates and joint venture	316,169	6,621	11,339	–	72,080	102,055	6,994	159,259	–	181,764	856,281
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	262,335	58,869	11,770	100,570	66	194,467	–	17	50,972	679,066

The segment information for the year ended 31 December 2013 is as follows:

	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wires and cables	General machinery	Financial services	Machinery tools	High-voltage transformers	Material sales	All other segments	Total Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment revenue	–	845,278	351,288	2,584,169	704,820	94,099	1,368,711	–	4,039,635	1,652,888	11,640,888
Inter-segment revenue	–	–	(2,862)	(1,080)	(196)	(28,087)	(433,135)	–	(1,462,149)	(12,335)	(1,939,844)
Revenue from external customers	–	845,278	348,426	2,583,089	704,624	66,012	935,576	–	2,577,486	1,640,553	9,701,044
Operating profit	–	19,528	44,729	95,337	37,059	34,709	55,002	–	12,494	(10,092)	288,766
Finance income	–	1,056	1,593	1,680	6,050	–	10,137	–	94	14,639	35,249
Finance costs	–	(1,755)	(5,865)	(33,981)	(5,762)	–	(34,781)	–	(3,254)	(51,309)	(136,707)
Share of post-tax profits of associates and joint venture	353,816	1,729	680	–	2,212	3,967	1,090	21,557	–	12,864	397,915
Profit before income tax											585,223
Income tax expense	–	(4,952)	(5,021)	(9,451)	(277)	(16,261)	(8,312)	–	(214)	(297)	(44,785)
Profit for the year											540,438

	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	Material sales RMB'000	All other segments RMB'000	Total Group RMB'000
Other items											
Depreciation on property, plant and equipment and investment properties	–	28,197	10,959	19,211	28,929	121	43,960	–	293	40,628	172,298
Amortisation of lease prepayments and intangible assets	–	4,428	1,018	711	4,276	114	10,142	–	16	3,425	24,130
Write down/(write back) of inventories	–	56	–	5,575	455	–	(354)	–	–	336	6,068
(Reversal of)/provision for impairment on trade and other receivables	–	(215)	(7,414)	331	14	2,791	(549)	–	340	9,022	4,320
Total assets	310,143	1,329,946	1,119,986	881,227	1,579,141	1,987,212	2,671,388	163,020	67,437	2,740,803	12,850,303
Total assets include:											
Investments in associates and joint venture	310,143	4,871	10,545	–	91,570	93,967	2,971	163,020	–	141,473	818,560
Additions to non-current assets (other than financial instruments and deferred tax assets)	–	135,392	25,026	8,289	89,538	1,951	472,511	–	980	58,694	792,381

Except Holroyd Precision Limited, Precision Components Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited, PTG Deutschland GmbH ("PTG six entities"), Precision Technologies Group Investment Development Company Limited ("PTGHK") 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 2014 is approximately RMB9,102,593,000 (2013: RMB9,362,389,000), and the total of its revenue from external customers from other countries is approximately RMB382,977,000 (2013: RMB338,655,000).

The total of non-current assets other than financial instruments and deferred income tax assets located in the PRC was RMB4,545,972,000 (2013: RMB4,130,217,000), and the total of non-current assets located in other countries was RMB225,909,000 (2013: RMB233,487,000).

4. Other income

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Government grants in relation to		
– Tax refunds *(a)*	**20,847**	28,754
– Further development of manufacturing technology *(b)*	**31,542**	33,042
– Relocation for environmental protection *(b)*	**71,939**	56,006
– Others	**12,347**	6,973
	136,675	124,775

(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 2014 and 2013, the Group received certain grants from local government for the compensation of the Group's expenditures on further development of manufacturing technology and relocation for environmental protection.

5. Expenses by nature

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Depreciation on property, plant and equipment	**187,904**	169,297
Depreciation on investment properties	**3,606**	3,001
Amortisation of lease prepayments	**11,500**	11,328
Amortisation of intangible assets	**14,083**	12,802
Amortisation of deferred income	**(306)**	(306)
Employee benefit expense	**984,660**	996,917
Changes in inventories of finished goods and work in progress	**25,696**	(40,495)
Raw materials and consumables used	**7,511,280**	7,682,947
Transportation	**81,872**	85,020
Research and development costs	**134,373**	105,655
Utilities	**109,732**	112,906
Repairs and maintenance expenditure on property, plant and equipment	**32,317**	30,037
Operating lease rentals	**27,054**	32,429
Write down of inventories	**953**	6,068
Provision for impairment of receivables	**26,567**	4,320
Provision for impairment of property, plant and equipment	**8,162**	–
Provision for warranty	**34,141**	42,041
Auditors' remuneration	**5,500**	5,000
Other expenses	**291,287**	373,000
Total cost of sales, distribution costs and administrative expenses	**9,490,381**	9,631,967

6. Finance costs, net

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Finance income		
– Interest income on short-term bank deposits	**21,368**	35,249
Finance cost:		
– Bank borrowings wholly repayable within five years	**(102,390)**	(89,481)
– Corporate bonds	**(67,200)**	(67,200)
– Finance lease liabilities	**(229)**	(1,420)
– Net exchange gain	**1,041**	874
Less: amounts capitalized on qualifying assets	**64,266**	20,520
	(104,512)	(136,707)
Net finance costs	**(83,144)**	(101,458)

7. Taxation

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

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
Current income tax	**36,327**	48,791
Deferred tax	**30,579**	(4,006)
Income tax expense	**66,906**	44,785

8. Earnings per share

	Year ended 31 December	
	2014	2013
Profit attributable to equity holders of the Company *(RMB'000)*	**511,943**	506,829
Weighted average number of ordinary shares in issue *(thousands)*	**3,684,640**	3,684,640
Basic and diluted earnings per share *(RMB per share)*	**0.14**	0.14

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

9. Dividends

The dividends paid in 2014 and 2013 were RMB184,232,000 (RMB0.05 per share) and RMB128,962,000 (RMB0.035 per share) respectively. A dividend in respect of the year ended 31 December 2014 of RMB 0.046 per share, amounting to a total dividend of RMB169,493,000 is to be proposed at the annual general meeting on 18 June 2015. These financial statements do not reflect this dividend payable.

	2014	2013
	RMB'000	*RMB'000*
Interim dividend	**–**	–
Proposed final dividend of RMB0.046 (2013: RMB0.05) per share	**169,493**	184,232

The aggregate amounts of the dividends paid and proposed during 2013 and 2014 have been disclosed in the consolidated financial statements in accordance with the Hong Kong Companies Ordinance.

10. Trade and other receivables

	Group As at 31 December 2014 *RMB'000*	2013 *RMB'000*
Trade and bills receivables *(a)*	**3,436,583**	3,365,881
Less: provision for impairment of trade receivables	**(263,281)**	(249,715)
Trade and bills receivables – net	**3,173,302**	3,116,166
Deposits paid	**74,148**	76,698
Less: provision for impairment of deposits paid	**(11,296)**	(10,683)
Deposits paid – net	**62,852**	66,015
Prepayments	**400,837**	273,124
Staff advances	**14,383**	24,124
Loans	**442,485**	254,230
Less: provision for impairment of loans	**(4,425)**	(2,542)
Loans – net	**438,060**	251,688
Others	**120,780**	170,770
Less: provision for impairment of receivables other than trade receivables, loans and deposits paid	**(22,843)**	(24,513)
	4,187,371	3,877,374
Less: long-term other receivables	**–**	–
Current portion	**4,187,371**	3,877,374

As at 31 December 2014, all loans were provided to related parties. The maturity of the above loans were within one year. The effective interest rates of these loans ranged from 4.20% to 6.90% for the year ended 31 December 2014 (2013: 4.20% to 7.02%).

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

Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Less than 30 days	**440,468**	484,306
31 days to 90 days	**924,431**	530,460
91 days to 1 year	**1,376,832**	1,699,720
1 year to 2 years	**335,534**	308,064
2 years to 3 years	**114,351**	124,233
Over 3 years	**244,967**	219,098
	3,436,583	3,365,881

As at 31 December 2014, trade and bills receivables of approximately RMB1,732,834,000 (2013: RMB2,054,874,000) 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:

Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
91 days to 1 year	**1,367,477**	1,687,485
1 year to 2 years	**321,551**	281,902
2 years to 3 years	**43,806**	85,487
	1,732,834	2,054,874

As at 31 December 2014, trade receivables of RMB338,850,000 (2013: RMB294,873,000) were impaired. The amount of provision was RMB263,281,000 as at 31 December 2014 (2013: RMB249,715,000). 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:

Group

	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
91 days to 1 year	**9,355**	12,236
1 year to 2 years	**13,983**	24,794
2 years to 3 years	**70,545**	38,745
Over 3 years	**244,967**	219,098
	338,850	294,873

(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	
	2014	2013
	RMB'000	*RMB'000*
RMB	**4,005,922**	3,675,879
UK pound ("UKP")	**101,894**	176,574
USD	**3,880**	6,431
EUR	**75,675**	2,713
HKD	**–**	15,777
	4,187,371	3,877,374

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

Group

Trade receivables

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
At beginning of the year	**249,715**	249,922
Provision for impairment of receivables	**25,720**	1,677
Receivables written off during the year as uncollectible	**(12,154)**	(1,884)
At end of the year	**263,281**	249,715

Deposits paid

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
At beginning of the year	**10,683**	10,639
Provision for impairment of receivables	**613**	44
At end of the year	**11,296**	10,683

Loans

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
At beginning of the year	**2,542**	–
Provision for impairment of receivables	**1,883**	2,542
At end of the year	**4,425**	2,542

Others

	Year ended 31 December	
	2014	2013
	RMB'000	*RMB'000*
At beginning of the year	**24,513**	24,456
Provision for impairment of receivables	**(1,649)**	57
Receivables written off during the year as uncollectible	**(21)**	–
At end of the year	**22,843**	24,513

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) As at 31 December 2013, Group's trade and bills receivables of RMB53,920,000 were secured for the Group's borrowings.

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

11. Trade and other payables

	Group	
	As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Non-current		
Deposit taking *(a)*	**30,000**	–
Current		
Deposit taking	**607,579**	442,967
Trade and bills payables *(b)*	**2,392,201**	2,172,868
Other taxes payables	**94,256**	105,633
Other payables	**188,931**	372,834
Interest payables	**27,221**	26,893
Accrued payroll and welfare	**71,663**	84,546
Advances from customers	**818,266**	622,690
	4,200,117	3,828,431
Total trade and other payables	**4,230,117**	3,828,431

As at 31 December 2014, all deposit taking were due to related parties. The effective interest rate of non-current deposit taking is 3.94% and the effective interest rate of current deposit taking ranged from 0.35% to 3.30% for the year ended 31 December 2014 (2013: 0.37% to 3.30%).

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

The carrying value and fair value of non-current deposit taking is set out as follows:

	Group As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Carrying amount	**30,000**	–
Fair value	**30,334**	–

(b) As at 31 December 2014 and 2013, the ageing analysis of the trade and bills payables of the Group was as follows:

	Group As at 31 December	
	2014	2013
	RMB'000	*RMB'000*
Less than 30 days	**583,177**	574,192
31 days than 90 days	**565,432**	531,698
91 days to 1 year	**1,085,117**	804,383
1 year to 2 years	**63,155**	150,861
2 years to 3 years	**32,521**	71,194
Over 3 years	**62,799**	40,540
	2,392,201	2,172,868

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 2014 (the "Period" or the "Year"). This annual results have been audited by the Company's auditor, PricewaterhouseCoopers. It is my pleasure to present the results of the Group as well as its sustainable development strategy and outlook to shareholders.

RESULTS REVIEW

In a profound post-crisis adjustment cycle, the world economy moved sluggishly in recovery through 2014. A recession in fixed asset investment was seen as the global weakness continued into the second half of the year, driven by the depreciation of Euro and Japanese Yen and a nosedive of Rouble amid global currency volatilities triggered by the tapering of quantitative easing in the U.S. as well as oil price slumps due to joint economic sanctions by the U.S. and European Community against Russia. China also stepped into a development phase featuring slower paces, structural improvement, new impetus and multiple challenges, coupled with softer momentum of fixed asset investment, muted overall market demand and a notable deceleration of export growth. Thanks to the macro policy package with an aim at stabilising growth, optimising structure and deepening reform, China expedited the industrial restructuring with its annual GDP growth staying at 7.4%. Despite the challenges from shrinking market demand, intensifying competition and the hiking labour costs, the Group stabilised its growth by pressing forward reforms and innovations under its new "321" strategy with a focus on quality and profitability improvements and a proposition of the "Year of Management Enhancement".

Total revenue of the Group for the year ended 31 December 2014 was approximately RMB9,485.6 million (2013: RMB9,701.0 million), representing a decrease of approximately RMB215.4 million or approximately 2.2% over last year. Gross profit was approximately RMB1,064.8 million (2013: RMB1,084.8 million), representing a decrease of approximately RMB20.0 million or approximately 1.8% over last year. Profit attributable to the shareholders of the Company amounted to approximately RMB511.9 million (2013: RMB506.8 million), representing an increase of approximately RMB5.1 million or approximately 1.0% from 2013.

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 higher than last year in general. The Group maintained a healthy financial position during the Period. As at 31 December 2014, total cash and bank deposits of the Group amounted to approximately RMB1,887.5 million, lower than last year by approximately 15.7%.

Earnings per share for the Period were approximately RMB0.14 (2013: approximately RMB0.14). Total assets as at 31 December 2014 amounted to approximately RMB13,634.6 million (as at 31 December 2013: RMB12,850.3 million), while total liabilities amounted to approximately RMB7,383.6 million (as at 31 December 2013: RMB6,964.0 million); and net asset value per share was approximately RMB1.70 (as at 31 December 2013: RMB1.60).

BUSINESS REVIEW AND OUTLOOK

Automobile parts and components (gear boxes, steering systems)

In 2014, China's automobile industry maintained an overall stable growth with a year-on-year growth of approximately 7% both in output and sales. However, due to a slowdown in domestic investment, rapid development of high-speed rails, bullet trains and urban rail transit and the implementation of the National IV Standard ahead of schedule, the commercial vehicle sector (large and medium passenger vehicles and heavy-duty trucks) in close relation to the Group witnessed weaker market demand compared to last year, with production and sales volumes decreasing by approximately 6% year-on-year. The Group's gear boxes and steering systems business, albeit with a slight drop in output and sales volumes, recorded a steady growth in market share desirably. The diesel engine business experienced a decline in operating performance, as a result of the prolonged real estate investment recession as well as inadequate demand from power equipment, engineering machinery, petroleum machinery and shipbuilding markets. The automobile parts and components business of the Group recorded revenue of approximately RMB1,114.7 million for the year, representing a decrease of approximately 10.6% from 2013.

The Group's proprietary Automatic Mechanical Transmission (AMT) product for large and medium passenger vehicles and energy-efficient and environment-friendly gear boxes for new energy passenger vehicles were well recognised in markets at home and aboard with increasing orders. The gear boxes with electric power steering system (EPS) have achieved industrialisation and bulk production. For the gear box production base with an annual capacity of 400,000 units for medium and heavy-duty trucks, Phase 1 of 200,000 gear boxes of the project is expected to commence trial production in the first half of 2015.

In view of the escalating government-led infrastructure investment and faster urbanisation paces in China, this segment is expected to remain in a stable track in 2015.

Chongqing Cummins Engine Co., Ltd. ("Chongqing Cummins"), a jointly controlled entity of the Group, is engaged in diesel engine business mainly including three series (Cummins N, K and M) of diesel engines for diesel power generators, engineering machinery, shipbuilding and heavy-duty automobiles, taking a leading position in the domestic high-horsepower engine sector. To meet the domestic demand for phase III non-road diesel engines, it expects to complete trial production and bulk sale of the upgraded 14-litre QSN electronic-controlled engine in 2015. Trial production of the QSK50 high-horsepower engine has been completed, which will commence sale in 2015 according to market demand. Trial production of QSK60 high-horsepower engine is estimated to complete in 2015. Chongqing Cummins has completed groundwork for its engine technology R&D centre and production line, which will start construction by stage and are expected to finish construction and commence operation in the third quarter of 2017. The Group's medium to long-term goal is to build Chongqing Cummins into a world-class high-horsepower engine manufacturing base. The Group's share of post-tax profits of joint venture was approximately RMB317.5 million, a decrease of approximately 10.3% as compared with that for the same period last year.

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

In 2014, sales of electrical wires and cables recorded a stable increase due to factors such as the Chinese Government's promotion of clean energy, smart power grid construction, rapid urban development, and increased pace of expansion of the electrical wires and cables market. Due to the stable increase in overseas orders and the improvement in the quality of orders, revenue and profit from hydroelectric generators both recorded a growth. During the year, the Group restructured its non-ferrous metal powder business with extremely low gross profit margin, and transferred the control of its non-ferrous metal powder business to a joint venture established with a leader in the industry. This led to a year-on-year decrease in the segment's overall revenue, but sales results demonstrated significant improvement. The segment recorded revenue of approximately RMB3,122.0 million for the year, representing a year-on-year decrease of approximately 9.4%.

During the Period, the Group's tractive power supply equipment passed the qualification certification by China Railway Certification Center (CRCC), and became the only enterprise in China which obtained both the administrative license for railway products and the CRCC certification. The Group's electrical wires and cables business also passed annual review by the National Safety Mark Center for Coal Mine Supplies and hence became qualified to supply power cable products to coal mines, laying a solid ground to expand its presence in different segment markets. The "Technology R&D and Industrialisation of High-head Hydroelectric Generating Sets" was granted the "Science and Technology Progress Award (Second Prize)" in the machinery industry of China.

In view of the government-led intelligent power grid projects and faster urbanisation paces, rapid overseas market development and sound orders, this segment is expected to maintain a stable growth in 2015.

General machinery (industrial pumps, gas compressors, separation machines, refrigeration machines, industrial fans and power rotor blades)

In 2014, the traditional market of general machinery, including the iron and steel, metallurgy and cement industries, was still in recession in general. The business performance in separation machines and compressors was still weak, with subdued and continual decline in demand. However, benefiting from the stable performance in industrial pumps in the medium and high-end market, and the rapidly increasing revenue from wind power rotor blades, the segment's revenue recorded a rapid increase. The segment recorded revenue of approximately RMB1,714.1 million for the year, representing a year-on-year increase of approximately 19.1%.

With fan products successfully passing the review by an expert panel of China Quality Certification Center ("CQC"), the Group became the first certified energy-efficient fan manufacturer in China. The Group has started designing for its offshore windpower blade industrialisation project. The Group also actively explores overseas market to foster new growth drivers. In addition to the sales contract on wind power rotor blades secured in the North American market, the Group's industrial pump segment has successfully entered into the charging pump unit supply contract on generators 2# and 3# (K-2/K-3) of the nuclear power generation project in Karachi, Pakistan.

In view of the escalating government-led infrastructure investment, incentive policies on clean energy, rapid overseas market development and sound orders for wind power rotor blades and high-end industrial pumps, this segment is expected to maintain a stable growth in 2015.

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

In 2014, the market for CNC machine tools was affected by adjustments in the world economic structure and industrial cycle. China's CNC machine tool industry operated under pressure, and was situated in a downward interval in general. With shrinking production capabilities and investments in traditional industries such as automobile, engineering machinery, general machinery and vessels, the overall machine tool sector was in a downtrend. The segment recorded revenue of approximately RMB882.3 million, representing a year-on-year decrease of approximately 5.7%.

Our proprietary products including YW7232CNC high-efficiency precision grinding machine and YZ3120CNC series CNC hobbing machine were selected in gear processing equipment upgrades in automobile and aviation industries, and were well received in market. Our 4 products were certified as high-tech products in Chongqing, including Y3132CNC5 CNC hobbing machine, Y3140CNC5 CNC hobbing machine, YDZ4232CNC5 CNC automatic shaving machine and YBS3120A hobbing machine. Chongqing Machine Tools completed its environmental relocation in the second half of 2014, and has entered into normal production gradually.

The Group envisages that the segment will face more competitions from abroad in 2015. Nevertheless, in view of our faster paces in upgrading CNC machine tools to better meet market demand, this segment is expected to maintain a stable growth in 2015.

Trade business

In 2014, the bulk commodity procurement platform of the Group increased the types of procurement, directly reducing commodity procurement cost of the Group by approximately RMB15.0 million. The turnover of this segment amounted to approximately RMB2,565.6 million, representing a year-on-year decrease of approximately 0.5%.

The Group will further increase the commodity types and scope of its centralised bulk commodity procurement and strengthen the supervision and risk control, so as to cut down bulk commodity procurement cost and upgrade its supply chain and logistics management. This segment is expected to remain steady in 2015.

Financial services

In 2014, The Group gave full play to its functions in the provision of various financial services by providing its subordinate enterprises with loans, guarantees and deposits to reduce their financial costs and enhance the efficient use of funds. Revenue amounted to approximately RMB86.9 million during the year, representing a year-on-year increase of approximately 31.7%.

The Group will further draw upon financial services function of the Finance Company to carry out comprehensive financial business within the scope authorised by the State. The Group expects to further revitalise its internal funds and reduce the volume of external indirect financing. This segment is expected to maintain broadly stable with a slight decline in 2015.

DEVELOPMENT FOUNDATION AND ADVANTAGES

The Group ranked in the "Fortune China 500 Companies" for 5 consecutive years from 2010 to 2014 and won the title of "2014 China Top 500 Machinery Manufacturers" (ranking No. 125), and is the largest integrated equipment manufacturing enterprise based in western China. The following foundations and advantages will contribute to our future development:

Firstly, the Group benefits from the preferential policies such as the national "314" overall strategic deployment and the large-scale development of China's western region, and enjoys unique geographical and taxation advantages; secondly, the four core businesses of the Group are in line with the national industrial policies, its products have relatively big market shares in the niche markets, and the Group's diversified product portfolio enhances its ability in mitigating and preventing market risks; thirdly, the Group is equipped with the fundamentals for technological development and innovation by possessing a famous Chinese brand, a Chinese well-known trademark and several Chongqing famous brands, state-level and municipal-level technological centres and numerous patented invention technologies, which, together with the industry-leading craftsmanship and technology accumulated over years as well as on-going investment in research and development, brings us a strong brand advantage and technological innovation and R&D ability; fourthly, the Group has established an efficient and standardised corporate governance structure and system as well as the monitoring mechanisms on decision-making and production safety, which ensure sound oversight over efficient operation and effective corporate governance; fifthly, the Group has a sound human resources management system and incentive mechanism, featuring the six mechanisms for talents management, i.e. "selection, cultivation, utilisation, retaining, dismissal and backup", and through means of attracting talents both locally and abroad, job rotations, communications and training, the quality and ability of our staff are improved continuously, which provide talents support to the sustainable development of the Group; and sixthly, the forthcoming new "Yangtze River Economic Belt" and the Chongqing-Xinjiang-Europe Railway will usher in opportunities for the Group to develop new business chains and markets, and facilitate resource sharing between Chongqing's equipment manufacturing industry and global peers as well as the upstream and downstream players to complement each other for mutual growth. The Board, management and all employees of the Group have full confidence in future development.

DEVELOPMENT STRATEGY

The Group's development strategy and work priorities in 2015 are set out as follows:

I. Development Strategy

Based on the "Twelfth Five-year Plans" of China and the Company, we will continue to incorporate the new "321" strategy focusing on "sharpening up existing business, boosting new business and continuous innovation", deepen the reformation, enhance the management, improve quality and profitability and strengthen risk control, so as to promote our sustainable and healthy development.

II. Work Priorities

(1) Focus on the quality of business operation to improve profitability

Achieve digitalisation of business operation indicators by leveraging on the information platform; keep a close eye on and analyze indicators such as trade receivables, inventory and operating profit; enhance the awareness of product quality, with an emphasis on quality loss per RMB100 sales revenue; actively expand new businesses and vigorously develop overseas markets in emerging economies; gradually promote the pilot logistics optimisation programme to reduce logistics costs; and deepen centralised procurement and explore on energy contract management to achieve cost reduction and efficiency improvement.

(2) Press ahead with innovations on systems and mechanisms and deepen reform and restructuring

Accelerate ownership restructuring of subsidiaries, introduce investors, push forward managerial ownership and strive to achieve substantive breakthrough for reform and restructuring.

(3) Accelerate transformation and upgrading with a focus on project execution and technological innovation

Ensure the progress of environmental relocation and key projects; keep track of and promote new industries and projects to identify new business drivers; increase investment in technological innovation projects and the development of new projects based on a market-oriented approach; and optimize patent mix to increase the proportion of patents for invention.

(4) Place emphasis on talent training under innovative human resources management

Tackle the selected issues in organisational structure, staffing and remuneration allocation under the model of "one policy for one enterprise; pilot programmes go first" and "classified guidance and implementation in batch"; and optimize the workforce of the Group through a combination of means such as learning, training and practising, and actively introduce high-level international talents to gradually build up a talent team for overseas operation of the Group.

(5) Improve capital efficiency through financial foundation management

Carry forward the overall budget management, and gradually establish a standardised system on costs and expenses; optimise the financial model and evaluation method for investment projects, and develop an overall annual financing scheme covering funding requirements from production, operation and project construction; plan for value-added tax in lieu of business tax, giving full play to the tax benefits from the taxation reform; establish financial warning management system model and risk warning mechanism; use financial leverage to revitalise internal stock of unused funds and optimise financial structure; and deepen the application of the EAS system.

(6) Strengthen risk prevention and control through monitoring and auditing services

Give full play to the "immune efficacy" of auditing by stepping up on-going monitoring and strengthening process supervision and management with a focus on special auditing of connected transactions; earnestly implement self-examination and maintenance of the internal control system of the Group and carry out internal control evaluation on a regular basis; and establish and improve the legal risk prevention mechanism to enhance the rule of law and compliance management in corporate governance.

(7) Reinforce centralized management through the construction of information platform

Advance the construction project of the information system in strict accordance with the design proposal and schedule plan of the Group's management and information system.

(8) Protect shareholders' rights through the regulation of corporate governance

Strengthen centralised training for the Company's directors, supervisors and senior management on Listing Rules; further regulate the operation of the corporate governance structure of the Company's subsidiaries; and enhance the performance of duties and responsibilities of dispatched directors and supervisors to protect shareholders' rights.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Operation Analysis

Automobile Parts and Components

In 2014, China's automobile industry maintained an overall stable growth with a year-on-year growth of approximately 7% both in output and sales. However, due to a slowdown in domestic investment, rapid development of high-speed rails, bullet trains and urban rail transit and the implementation of the National IV Standard ahead of schedule, the commercial vehicle sector (large and medium passenger vehicles and heavy-duty trucks) in close relation to the Group witnessed weaker market demand compared to last year, with production and sales volumes decreasing by approximately 6% year-on-year. The Group's gear boxes and steering systems business, albeit with a slight drop in output and sales volumes, recorded a steady growth in market share desirably. The diesel engine business experienced a decline in operating performance, as a result of the prolonged real estate investment recession as well as inadequate demand from power equipment, engineering machinery, petroleum machinery and shipbuilding markets. The automobile parts and components business of the Group recorded revenue of approximately RMB1,114.7 million for the year, representing a decrease of approximately 10.6% from 2013.

Power Equipment

In 2014, sales of electrical wires and cables recorded a stable increase due to factors such as the Chinese Government's promotion of clean energy, smart power grid construction, rapid urban development, and increased pace of expansion of the electrical wires and cables market. Due to the stable increase in overseas orders and the improvement in the quality of orders, revenue and profit from hydroelectric generators both recorded a growth. During the year, the Group restructured its non-ferrous metal powder business with extremely low gross profit margin, and transferred the control of its non-ferrous metal powder business to a joint venture established with a leader in the industry. This led to a year-on-year decrease in the segment's overall revenue, but sales results demonstrated significant improvement. The segment recorded revenue of approximately RMB3,122.0 million for the year, representing a year-on-year decrease of approximately 9.4%.

General Machinery

In 2014, the traditional market of general machinery, including the iron and steel, metallurgy and cement industries, was still in recession in general. The business performance in separation machines and compressors was still weak, with subdued and continual decline in demand. However, benefiting from the stable performance in industrial pumps in the medium and high-end market, and the rapidly increasing revenue from wind power rotor blades, the segment's revenue recorded a rapid increase. The segment recorded revenue of approximately RMB1,714.1 million for the year, representing a year-on-year increase of approximately 19.1%.

CNC Machine Tools

In 2014, the market for CNC machine tools was affected by adjustments in the world economic structure and industrial cycle. China's CNC machine tool industry operated under pressure, and was still situated in a downward interval in general. With shrinking production capabilities and investments in traditional industries such as automobile, engineering machinery, general machinery and vessels, the overall demand for machine tools was still in a downtrend. The segment recorded revenue of approximately RMB882.3 million, representing a year-on-year decrease of approximately 5.7%.

Trade Business

In 2014, the bulk commodity procurement platform of the Group increased the types of procurement, directly reducing procurement cost of the Group by approximately RMB15.0 million. The turnover of this segment amounted to approximately RMB2,565.6 million, representing a year-on-year decrease of approximately 0.5%.

Financial Services

In 2014, The Group gave full play to its functions in the provision of various financial services by providing its subordinate enterprises with loans, guarantees and deposits to reduce their financial costs and enhance the efficient use of funds. Revenue amounted to approximately RMB86.9 million during the year, representing a year-on-year increase of approximately 31.7%.

SALES

For the year ended 31 December 2014, the Group's total revenue amounted to approximately RMB9,485.6 million, a decrease of approximately RMB215.4 million or approximately 2.2% as compared with approximately RMB9,701.0 million for the same period of 2013. As compared with 2013, the revenue of automobile parts and components was approximately RMB1,114.7 million (accounting for approximately 11.8% of total revenue), a decrease of approximately 10.6%; revenue of power equipment was approximately RMB3,122.0 million (accounting for approximately 32.9% of total revenue), a decrease of approximately 9.4%; revenue of general machinery was approximately RMB1,714.1 million (accounting for approximately 18.1% of total revenue), an increase of approximately 19.1%; revenue of CNC machine tools was approximately RMB882.3 million (accounting for approximately 9.3% of total revenue), a decrease of approximately 5.7%; revenue of trade business was approximately RMB2,565.6 million (accounting for approximately 27.0% of total revenue), a decrease of approximately 0.5%; and revenue of financial services was approximately RMB86.9 million (accounting for approximately 0.9% of total revenue), an increase of approximately 31.7%.

GROSS PROFIT

The gross profit for 2014 was approximately RMB1,064.8 million, decreased by approximately RMB20.0 million or approximately 1.8%, as compared with approximately RMB1,084.8 million for the same period of 2013. Gross profit margin was approximately 11.2%, the same as that for the same period last year. Excluding the trade business and financial services, the gross profit margin was approximately 14.3% (2013: approximately 14.4%).

As compared with 2013, gross profit and the proportion for power equipment and general machinery increased. On the other hand, the gross profit for automobile parts and components and CNC machine tools dropped.

OTHER INCOME AND GAINS

The other income and gains for 2014 were approximately RMB350.0 million, an increase of approximately RMB130.3 million or approximately 59.3%, as compared with approximately RMB219.7 million for the same period of 2013, mainly due to an income of approximately RMB173.7 million from disposal of lands by Chongqing Water Turbine and Chongqing Machine Tools, and the government subsidies and support for technology development increased by approximately RMB11.9 million.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for 2014 were approximately RMB1,069.6 million, an increase of approximately RMB53.9 million or approximately 5.3%, as compared with approximately RMB1,015.7 million for the same period of 2013, mainly due to the increase in research and development costs and the provision for impairment of assets. The overall selling and administrative expenses accounted for approximately 11.3% of sales, a slight increase of approximately 0.8 percentage point as compared with 10.5% for the same period of 2013.

OPERATING PROFITS

The operating profit for 2014 was approximately RMB345.2 million, an increase of approximately RMB56.4 million or approximately 19.5%, as compared with approximately RMB288.8 million for the same period of 2013.

FINANCE COSTS

Interest expense for 2014 amounted to approximately RMB104.5 million, a decrease of approximately RMB32.2 million or approximately 23.6%, as compared with approximately RMB136.7 million for the same period of 2013, mainly due to the fact that more financial expenses were capitalized and a decrease in the income from the bank interests during the Period.

SHARE OF POST-TAX PROFITS OF JOINT VENTURE

The Group's share of post-tax profits of joint venture for the year ended 31 December 2014 was approximately RMB317.5 million, a decrease of approximately RMB36.3 million or approximately 10.3%, as compared with approximately RMB353.8 million for the same period last year. Such decrease was due to the slight decline in the sales of Chongqing Cummins Engine Co., Ltd.

SHARE OF POST-TAX PROFITS OF ASSOCIATES

The Group's share of post-tax profits of associates for the year ended 31 December 2014 was approximately RMB51.1 million, an increase of approximately RMB7.0 million or approximately 15.9%, as compared with approximately RMB44.1 million for the same period of 2013. The increase was attributable to an increase of approximately RMB8.3 million in the results of Chongqing Midea General Refrigeration Equipment Co., Ltd. and Knorr-Bremse CAFF Systems for Commercial Vehicles (Chongqing) Ltd. and an increase of approximately RMB4.0 million in the results of Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd. On the contrary, the results of Chongqing ABB Power Transformer Co. Ltd. decreased by approximately RMB5.8 million.

INCOME TAX EXPENSES

The income tax expenses for the year ended 31 December 2014 were approximately RMB66.9 million, an increase of approximately RMB22.1 million, or approximately 49.3%, as compared with approximately RMB44.8 million for the same period of 2013, mainly due to the change in deferred income tax.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year ended 31 December 2014 was approximately RMB511.9 million, an increase of approximately RMB5.1 million or approximately 1.0% as compared with approximately RMB506.8 million for the same period of 2013. Earnings per share for 2014 amounted to approximately RMB0.14, the same as that of 2013.

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 2014 under HKFRSs and CAS were RMB1,271,495,000 and RMB1,431,835,000 respectively. Thus, as at 31 December 2014, the Company's distributable reserve attributable to shareholders of the Company amounted to RMB1,271,495,000.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.046 per share (tax inclusive) for the year ended 31 December 2014 (for the year ended 31 December 2013: RMB0.05 per share), which is calculated based on the total share capital of 3,684,640,154 shares for the year ended 31 December 2014, totalling RMB169,493,447.08 (totalling RMB184,232,007.70 for the year ended 31 December 2013). Subject to approval by shareholders at the annual general meeting to be convened on 18 June 2015, the proposed final dividend will be paid on or around 31 July 2015 to shareholders whose names appear on the Register of Members of the Company on 29 June 2015 ("Record Date").

In order to ascertain the entitlements of the shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Wednesday, 24 June 2015 to Monday, 29 June 2015 (both days inclusive), during which period no transfer of shares will be registered. All transfer documents accompanied by share certificates of the holders of H Shares of the Company must be lodged at our H Share Registrar, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Tuesday, 23 June 2015.

WITHHOLDING AND PAYMENT OF ENTERPRISE INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS

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

Any H shares registered in the name of non-individual shareholders will be treated as being held by non-resident corporate shareholders and hence the dividends payable to them will be subject to the withholding of enterprise income tax. Non-resident corporate shareholders may apply to the relevant taxation authorities for tax refunds in accordance with the applicable tax treaty (if any). The final dividends payable to natural person shareholders whose names appear on H Share Register of Members on the Record Date is not subject to the withholding of 10% enterprise income tax by the Company. For dividends payable to resident corporate shareholders whose names appear on H Share Register of Members on the Record Date, the Company will not withhold enterprise income tax on such dividends, provided that a legal opinion is provided by a resident corporate shareholder within the prescribed time period and confirmed by the Company.

If any resident enterprise (as defined in the EIT Law) whose name appears on the H Share Register of Members which is duly incorporated in the PRC or under the laws of a foreign country (or a territory) but with a PRC-based de facto management body does not wish to have the 10% enterprise income tax to be withheld by the Company, it should lodge all transfer documents with and submit a legal opinion issued by a PRC certified lawyer (with affixation of common seal of the law firm thereto) that establishes its resident enterprise status to the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 23 June 2015. Any natural person investor whose H shares are registered in the name of any such non-individual shareholders and who does not wish to have any enterprise income tax to be withheld by the Company, may consider transferring the legal title of the relevant H shares into his or her own name and lodging all relevant transfer documents accompanied by the H share certificates with the Company's H Share Registrars for registration no later than 4:30 p.m. on 23 June 2015. Shareholders are recommended to consult their tax advisors regarding tax issues in respect of the ownership and disposal of H shares in the PRC and Hong Kong and other tax effects.

CLOSURE OF REGISTER OF MEMBERS

In order to ascertain the entitlements of the shareholders to attend and vote on the annual general meeting, the register of members of the Company will be closed from Tuesday, 19 May 2015 to Thursday, 18 June 2015 (both days inclusive), during which period no transfer of shares will be registered. All transfer documents accompanied by the relevant share certificates must be lodged with the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on Monday, 18 May 2015.

CASH FLOW

As at 31 December 2014, the cash and bank deposits (including restricted cash) of the Group amounted to approximately RMB1,887.5 million (31 December 2013: approximately RMB2,239.5 million), representing a decrease of approximately RMB352.0 million or approximately 15.7%, mainly due to the increase in the capital expenditure for environmental relocation.

During the Period, the Group had a net cash outflow from operating activities of approximately RMB27.4 million (for the year ended 31 December 2013: approximately RMB134.3 million), a net cash outflow from investing activities of approximately RMB379.3 million (for the year ended 31 December 2013: a net cash outflow of approximately RMB318.2 million), and a net cash outflow from financing activities of approximately RMB181.1 million (for the year ended 31 December 2013: a net cash outflow of approximately RMB280.6 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 2014, the total assets of the Group amounted to approximately RMB13,634.6 million, representing an increase of approximately RMB784.3 million as compared with approximately RMB12,850.3 million as at 31 December 2013. Total current assets amounted to approximately RMB8,782.2 million, an increase of approximately RMB373.3 million as compared with approximately RMB8,408.9 million as at 31 December 2013, accounting for approximately

64.4% of total assets. However, total non-current assets amounted to approximately RMB4,852.4 million, representing an increase of approximately RMB411.0 million as compared with approximately RMB4,441.4 million as at 31 December 2013, and accounting for approximately 35.6% of total assets.

As at 31 December 2014, total liabilities of the Group amounted to approximately RMB7,383.6 million, representing an increase of approximately RMB419.6 million as compared with approximately RMB6,964.0 million as at 31 December 2013. Total current liabilities were approximately RMB5,420.3 million, an increase of approximately RMB480.1 million as compared with approximately RMB4,940.2 million as at 31 December 2013, accounting for approximately 73.4% of total liabilities. However, total non-current liabilities were approximately RMB1,963.3 million, representing a decrease of approximately RMB60.5 million as compared with approximately RMB2,023.8 million as at 31 December 2013, and accounting for approximately 26.6% of total liabilities.

As at 31 December 2014, net current assets of the Group were approximately RMB3,361.9 million, representing a decrease of approximately RMB106.8 million as compared with approximately RMB3,468.7 million as at 31 December 2013.

CURRENT RATIO

As at 31 December 2014, current ratio (the ratio of current assets to current liabilities) of the Group was 1.62:1 (31 December 2013: 1.70:1).

GEARING RATIO

As at 31 December 2014, by dividing the borrowing by the total capital, the gearing ratio of the Group was 28.5% (31 December 2013: 29.7%).

INDEBTEDNESS

As at 31 December 2014, the Group had an aggregate bank and other borrowings of approximately RMB2,495.0 million, representing an increase of approximately RMB8.9 million as compared with approximately RMB2,486.1 million as at 31 December 2013.

Borrowings repayable by the Group within one year were approximately RMB1,073.0 million, representing an increase of approximately RMB76.1 million as compared with approximately RMB996.9 million as at 31 December 2013. Borrowings repayable after one year were approximately RMB1,422.0 million, representing a decrease of approximately RMB67.3 million as compared with approximately RMB1,489.3 million as at 31 December 2013.

SECURED ASSETS

As at 31 December 2014, approximately RMB684.0 million of the Group was deposited with the banks with pledge or restricted for use (31 December 2013: approximately RMB447.2 million). In addition, certain bank borrowings of the Group were secured by certain land use 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 RMB231.9 million as at 31 December 2014 (31 December 2013: approximately RMB982.5 million).

CONTINGENT LIABILITIES

As at 31 December 2014, the Group had no significant contingent liabilities.

SIGNIFICANT EVENTS

Events in the period

(1) Chongqing Water Turbine, a wholly owned subsidiary of the Company, disposed a land parcel of approximately 181,485 square meters to Chongqing Land Group at a consideration of RMB544,460,000, and Chongqing Machine Tools, a wholly owned subsidiary of the Company, disposed a land parcel of approximately 278,572.7 square meters to Chongqing Land Group at a consideration of RMB752,148,000. For details, please refer to the circular of the Board published on the websites of the Hong Kong Stock Exchange and the Company on 30 April 2014.

(2) The resignation of Mr. Chen Xianzheng as an executive director and the appointment of Mr. Xiang Hu as an executive director to hold office from the date of the meeting until expiry of the term of the third session of the Board were approved at the 2013 annual general meeting of the Company held on 18 June 2014, at which, the Board was authorized to determine the remuneration of Mr. Xiang Hu pursuant to the remuneration standard for directors passed at the 2012 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.

(3) The resignation of Mr. Yang Zhimin as an independent non-executive director and appointment of Mr. Liu Wei as an independent non-executive director to hold office from the date of the meeting until expiry of the term of the third session of the Board were approved at the first extraordinary general meeting in 2014 held on 29 September 2014, at which, the Board was authorised to fix the remuneration of Mr. Liu Wei pursuant to the remuneration standard for directors passed at the 2012 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.

(4) The resignation of Mr. Liu Xing and Mr. Du Chengrong as an independent supervisor and appointment of Ms. Wu Yi and Mr. Huang Hui as an independent supervisor to hold office from the date of the meeting until expiry of the term of the third session of the Board were approved at the first extraordinary general meeting in 2014 held on 29 September 2014, at which, the Board was authorised to fix the remuneration of supervisors pursuant to the remuneration standard for supervisors passed at the 2012 annual general meeting and to enter into a service agreement with 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.

(5) The amendments to the remuneration package of the third session of directors were approved at the first extraordinary general meeting in 2014 held on 29 September 2014.

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

SUBSEQUENT EVENTS

The Group had no significant events after 31 December 2014.

CAPITAL EXPENDITURE

As at 31 December 2014, the total capital expenditure of the Group was approximately RMB679.1 million, which was principally used for environmental relocation, plant expansion, production technology improvement and equipment upgrade (31 December 2013: approximately RMB792.4 million).

CAPITAL COMMITMENT

As at 31 December 2014, the Group had capital commitments of approximately RMB490.6 million (31 December 2013: approximately RMB559.6 million) in respect of fixed assets and intangible assets.

RISK OF FOREIGN EXCHANGE

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

As at 31 December 2014, the bank deposits of the Group included HK dollar valued at approximately RMB0.07 million, US dollar valued at approximately RMB12.0 million, GBP valued at approximately RMB24.1 million and EUR valued at approximately RMB4.4 million (31 December 2013: HK dollar valued at approximately RMB0.07 million, US dollar valued at approximately RMB1.9 million, GBP valued at approximately RMB7.3 million, and EUR valued at approximately RMB3.4 million). Save as the aforesaid, the Group was not exposed to any significant risk of foreign exchange.

EMPLOYEES

As at 31 December 2014, the Group had a total of 13,878 employees (31 December 2013: 15,595 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 2014, the non-competition agreement entered into between Chongqing Machinery and Electronic Holding (Group) Co., Ltd., the Parent Company, and the Company remained effective. Please refer to the Prospectus for details of such undertakings.

CONTINUING CONNECTED TRANSACTIONS

Pursuant to Chapter 14A of the Listing Rules, the Company shall disclose the following continuing connected transactions in its annual report:

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. (the "Parent Company"). Pursuant to the Master Sales Agreement, the Company has agreed to sell certain products such as control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables (the "Products") to the Parent Company and its associates.

Additionally, in case where there are material fluctuations in the prices of any or all of the Products, the parties shall re-negotiate the terms of the Master Sales Agreement in good faith by way of entering into a supplemental agreement or a new master sales agreement. The Master Sales Agreement is valid for a period of three years from the date of the agreement and can be renewed by the Company for successive term of three years by giving notice at least three months prior to the expiry of the initial term. Pursuant to which, as approved at the extraordinary general meeting held on 30 December 2013, the approved annual caps of sales for 2014, 2015 and 2016 were set at RMB220 million, RMB250 million and RMB310 million respectively.

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

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

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

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

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

For the year ended 31 December 2014, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB87.3 million (for the year ended 31 December 2013: RMB113.0 million).

Master Supplies Agreement

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

Additionally, in case where there are material fluctuations in the prices of any or all of the products, the parties shall re-negotiate the terms of the Master Supplies Agreement in good faith by way of entering into a supplemental agreement or a new master supplies agreement. The Master Supplies Agreement is valid for successive term of three years from the date of the agreement and can be renewed by the Company for another three years by giving notice at least three months prior to the expiry of the initial term. Pursuant to which, as approved at the extraordinary general meeting held on 30 December 2013, the approved annual caps of supplies for 2014, 2015 and 2016 were set at RMB160 million, RMB84 million and RMB99 million respectively.

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

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

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

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

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

For the year ended 31 December 2014, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB81.1 million (for the year ended 31 December 2013: RMB67.1 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 leasing of land and buildings by the Parent Company and its associates to the Company for use as offices, production facilities, workshops and staff quarters.

The Parent Company leased land and buildings to the Company with a total area of 256,667.02 sq.m. and 242,740.15 sq.m. respectively. Pursuant to which, the annual caps of leasing amounts for 2014, 2015 and 2016 as approved by the Board were set at RMB42 million, RMB44 million and RMB45 million respectively.

For the year ended 31 December 2014, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB34.5 million (for the year ended 31 December 2013: RMB33.2 million).

Financial Services Framework Agreement

(I) Parent Group Financial Services Framework Agreement

Chongqing Machinery and Electronics Holding (Group) Finance Co., Ltd. (the "Finance Company"), a subsidiary of the Company, entered into a financial services framework agreement (the "Parent Group Financial Services Framework Agreement") with the Parent Company on 14 October 2013, (i) as approved at the extraordinary general meeting held on 30 December 2013, the approved proposed annual caps for the transactions in respect of the loan services for the year ended/ending 31 December 2014, 2015 and 2016 was/is RMB1,570 million, RMB2,130 million and RMB2,500 million (including the corresponding accrued interests) respectively; (ii) as approved at the extraordinary general meeting held on 30 December 2013, the proposed annual caps for the transactions in respect of the guarantee services for each of the years ended/ending 31 December 2014, 2015 and 2016 was/is RMB618 million (including the corresponding accrued interests); (iii) the proposed annual caps for transactions in respect of other financial services for each of the years ended/ending 31 December 2014, 2015 and 2016 was/is RMB46 million.

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

Loan services

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

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

Guarantee services

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

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

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

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

For the year ended 31 December 2014, pursuant to the financial services framework agreement, the daily maximum limit amount in respect of loan services provided by the Finance Company to the Parent Group was approximately RMB608.1 million, the transaction amount in respect of guarantee services was approximately RMB82.9 million and the transaction amount of other financial services was approximately RMB1.8 million.

(II) Group Financial Services Framework Agreement

The Finance Company entered into a financial services framework agreement (the "Group Financial Services Framework Agreement") with the Company on 14 October 2013, (i) as approved at the extraordinary general meeting held on 30 December 2013, the approved proposed annual caps for the transactions in respect of the deposit services for the year ended/ending 31 December 2014, 2015 and 2016 was/is RMB1,600 million, RMB1,840 million and RMB2,116 million (including the corresponding accrued interests) respectively; (ii) the proposed annual caps for transactions in respect of other financial services for each of the years ended/ending 31 December 2014, 2015 and 2016 was/is RMB52 million.

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

Deposit services

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

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

Other financial services

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

For the year ended 31 December 2014, pursuant to the financial services framework agreement, the daily maximum limit amount in respect of deposit services provided by the Finance Company to the Group was approximately RMB1,178.1 million and the daily maximum limit amount of other financial services was approximately RMB8.8 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 Company;

(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.

Under Rule 14A.56 of the Listing Rules, the Company's auditor PricewaterhouseCoopers has performed certain agreed procedures for the above continuing connected transactions ("Transactions") in accordance with Hong Kong Standard on Related Services 4400 "Engagement to Perform Agreed-Upon Procedures Regarding Financial Information" issued by Hong Kong Institute of Certified Public Accountants, and reported that:

(1) the Transactions have been approved by the Board of the Company;

(2) the pricing of the Transactions, on a sample basis, are in accordance with the Company's pricing policies;

(3) the Transactions, on a sample basis, have been entered into in accordance with the terms of relevant agreements governing such Transactions; and

(4) the amounts of the Transactions have not exceeded the annual caps.

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 are 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 2014 in compliance with the code provisions under the Corporate Governance Code set out in Appendix 14 to the Listing Rules.

AUDIT COMMITTEE

The Company has established an audit committee with terms of reference, which clearly defined the powers and duties of the committee. The major duties of the Audit 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 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 Committee. The Audit Committee has reviewed the Company's results for the period under review and respective recommendation and opinion have been made.

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

STRATEGIC COMMITTEE

A strategic committee of the Board has been established by the Board of the Company based on the Company's needs for strategic development. The Strategic Committee of the Company comprises four executive directors, namely Mr. Wang Yuxiang, Mr. Yu Gang, Mr. Ren Yong and Mr. Xiang Hu, 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 six supervisors, namely Mr. Yang Mingquan, Mr. Wang Pengcheng, Ms. Wu Yi, Mr. Huang Hui, Mr. Chen Qing, Mr. Zhao Zicheng. 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 2014.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

During the year ended 31 December 2014, 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 10 April 2015 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
24 March 2015

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