



重慶機電股份有限公司

CHONGQING MACHINERY & ELECTRIC CO., LTD.*

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

Stock Code: 02722

Sophisticated Manufacturing
Unlimited Possibilities

2014
Interim
Report

** For identification purposes only*

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Wang Yuxiang (*Chairman*)

Mr. Yu Gang

Mr. Ren Yong

Mr. Xiang Hu

(Appointed on 18 June 2014)

Non-executive Directors

Mr. Huang Yong

Mr. Wang Jiyu

Mr. Yang Jingpu

Mr. Deng Yong

Independent Non-executive Directors

Mr. Lo Wah Wai

Mr. Ren Xiaochang

Mr. Jin Jingyu

Mr. Yang Zhimin

SUPERVISORS

Mr. Yang Mingquan

Mr. Wang Pengcheng

Mr. Liu Xing

Mr. Du Chengrong

Mr. Chen Qing

Mr. Zhao Zicheng

LEGAL REPRESENTATIVE

Mr. Wang Yuxiang

COMPANY SECRETARY

Mr. Wang Xiaojun (*Practising Lawyer*)

QUALIFIED ACCOUNTANT

Mr. Kam Chun Ying, Francis

(*Certified Public Accountant*)

AUTHORIZED REPRESENTATIVES AND CONTACT INFORMATION

Mr. Xiang Hu

No. 60 Middle Section of Huangshan Avenue

New North Zone, Chongqing City, the PRC

Postal code: 401123

Tel.: (86) 023-63075688

Mr. Wang Xiaojun

Suite 3701-10, 37th Floor, Jardine House,

No.1 Connaught Place, Central, Hong Kong

Tel.: 852-2167 0000

ALTERNATE AUTHORIZED REPRESENTATIVE AND CONTACT INFORMATION

Mr. Lo Wah Wai

33rd Floor, Shui On Centre,

No. 6-8 Harbour Road, Wanchai,

Hong Kong

Tel.: 852-2802 2191



CORPORATE INFORMATION

REGISTERED ADDRESS

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

HONG KONG SHARE REGISTRAR

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

COMMITTEES UNDER BOARD OF DIRECTORS

Members of the Audit Committee

Mr. Lo Wah Wai (*Chairman*)
Mr. Jin Jingyu
Mr. Yang Zhimin
Mr. Deng Yong

Members of the Remuneration Committee

Mr. Ren Xiaochang (*Chairman*)
Mr. Lo Wah Wai
Mr. Jin Jingyu
Mr. Wang Jiyu

Members of the Nomination Committee

Mr. Wang Yuxiang (*Chairman*)
Mr. Ren Xiaochang
Mr. Jin Jingyu
Mr. Yang Zhimin
Mr. Huang Yong

Members of the Strategic Committee

Mr. Wang Yuxiang (*Chairman*)
Mr. Yu Gang
Mr. Ren Yong
Mr. Xiang Hu
Mr. Huang Yong
Mr. Ren Xiaochang
Mr. Jin Jingyu
Mr. Yang Zhimin

INTERNATIONAL AUDITOR

PricewaterhouseCoopers

LEGAL ADVISORS TO THE COMPANY

Jun He Law Offices (As to Hong Kong Laws)
Beijing Kaiwen Law Firm Chongqing Branch
(As to PRC Laws)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 3701-10, 37th Floor, Jardine House,
No.1 Connaught Place, Central, Hong Kong



CORPORATE INFORMATION

WEBSITE

www.chinacqme.com

PRINCIPAL BANKERS

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

SHARE INFORMATION

Listing Place

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

STOCK CODE

02722

FINANCIAL YEAR END

31 December



RESULTS HIGHLIGHTS

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

- Revenue of the Group for the six months ended 30 June 2014 amounted to approximately RMB4,841.6 million, representing a slight decrease of around 0.3% from the corresponding period last year.
- Gross profit of the Group for the six months ended 30 June 2014 amounted to approximately RMB501.7 million, representing a decrease of around 4.1% from the corresponding period last year.
- Profit attributable to the shareholders of the Company for the six months ended 30 June 2014 was approximately RMB191.7 million, representing a decrease of around 14.1% from the corresponding period last year.
- Basic earnings per share for the six months ended 30 June 2014 was approximately RMB0.05.



CHAIRMAN'S STATEMENT

Dear Shareholders,

The board of directors (the "Board") of the Company is pleased to announce the interim results of the Group for the six months ended 30 June 2014 (the "Period"). The Group's interim results have not been audited but have been reviewed by the audit committee and the Company's auditor, PricewaterhouseCoopers.

RESULTS

Total revenue of the Group for the six months ended 30 June 2014 amounted to approximately RMB4,841.6 million, representing a slight decrease of around 0.3% from approximately RMB4,857.1 million for the corresponding period last year.

Profit attributable to the shareholders of the Company for the six months ended 30 June 2014 amounted to approximately RMB191.7 million, representing a decrease of around 14.1% from approximately RMB223.1 million for the corresponding period last year.

For the six months ended 30 June 2014, earnings per share were approximately RMB0.05 (for the first half of 2013: approximately RMB0.06). Total assets as at 30 June 2014 amounted to approximately RMB13,779.6 million (as at 31 December 2013: approximately RMB12,850.3 million), while total liabilities amounted to approximately RMB7,864.8 million (as at 31 December 2013: approximately RMB6,964.0 million); total equity was approximately RMB5,914.8 million (as at 31 December 2013: approximately RMB5,886.3 million); net asset value per share was approximately RMB1.6 (as at 31 December 2013: approximately RMB1.6).

Reviewing the first half of 2014, the world economy showed signs of continuous improvement. The US economy presented a sustained recovery trend, and the European debt crisis gradually stabilized and weakened. Although advanced economies such as Europe, the US and Japan, and emerging economies experienced diversified growth, global economic activities grew stronger as a whole with signs of recovery.



China's economy has faced considerable pressure since the beginning of the year, with the growth of GDP for the first quarter, hitting a record low of 7.4% since the first quarter of 2009 due to the decrease in growth of investment and export, real estate adjustment and other factors. Since the second quarter, the Central Committee of the Communist Party of China and the State Council have continued to innovate new ways of thinking and patterns of macro-control, and successively introduced fiscal stimulus package through shantytown transformations and railway construction with "targeted control and precise implementation" as a guiding principle. The problem of "difficult and expensive financing" was effectively resolved through the monetary policy of "refinancing and targeted cut in reserve ration", financial support towards real economy (in particular, small and micro enterprises, agriculture, farmers and rural areas) was implemented and enhanced. GDP grew by 7.5% and 7.4% for the second quarter and the first half of the year, respectively. Overall, the economy remained gradual and stable.

Confronted with the adverse impact of the increasing downward pressure on domestic economy, slowdown of investment in fixed assets, excess production capacity of traditional industries and other macro environments, the Company was committed to controlling the overall situation with the "321" strategy, taking the "year of management enhancement" as its main theme, focusing on improving quality and enhancing efficiency. Further, the Company used deepening reform and continuous innovation as the impetus to seize the market, secure orders, strengthen management, promote reform, seek improvement in stability to weather current hardships, and allow various works to proceed in order.

DEVELOPMENT STRATEGY

The Group will insist to take the State and Company's "Twelfth Five-Year Plans" as the blueprint and incorporate the "321" strategy by focusing on "sharpening up existing business, boosting new business and continuous innovation". Through determining the year as the "year of management enhancement", the Group will deepen reform, promote innovation, enhance management, carry out regulation and control for increased efficiency and perform risk review so as to fully promote management upgrading and recruitment of talents.



Work Priorities for the Second Half of 2014

- (1) Enhance management and step up quality of economic operations. The focus will be placed on regulation and control of economic operations, precision management, integration of sales resources, in-depth promotion of procurement, improving products' quality and promoting comprehensive budget management.
- (2) Deepen reform and generate motivation for corporate development. Boost acquisition, merger and reorganization according to laws and regulations, with the aim of striving to complete the aforementioned tasks in about three years and achieve the activation of existing system and mechanism.
- (3) Continue to innovate to drive the sustainable development of the Company. The major works include: constructing a scientific research platform, investing more in research and development, boosting information construction and the adjustment concerning the industry, products and business mode, and achieve "three transformations", i.e. Transformation from single manufacturing to the combination of product manufacturing and industrial technical services, transformation from single manufacturing to integration of product manufacturing and industry, and transformation of business operation model from olive type to dumbbell type.
- (4) Care for people and deal with concrete matters in relation to the foundation of human resources. The major works include: encouraging talent team construction, carrying out evaluation and employment of chief staff, strengthening cooperation between universities and enterprises, and granting awards for invention patents, etc.
- (5) Standardize management and control and strictly control operation risks of the Company. The major works include continuous promotion of the internal control system construction, performing evaluation of the effectiveness of internal controls, implementing supervision and review of effectiveness, etc.



BUSINESS REVIEW AND OUTLOOK

Vehicle parts and components (gear boxes, steering systems and other products)

In the first half of 2014, China's automobile industry maintained an overall stable growth. However, under the impact of a decline in overall investment, rapid development of high-speed rails, bullet trains and urban rail transit and consumer spending ahead of the implementation of the National IV Standard and other factors, the sales of large and medium passenger vehicles which closely related to the Group showed a double-digit decline and the sales of heavy trucks which closely related to the Group recorded a slight increase. The revenue from gear boxes decreased despite its superior performance in the industry and the increase in its market share in the first half year; the revenue from the steering systems dropped slightly; the operating results of diesel engines dropped due to the impact of contraction in demand of the electricity market, engineering machinery market and export.

The sales volume of the Group's independently developed Automatic Mechanical Transmission (AMT) product for large and medium passenger vehicles and new energy saving and environment friendly gear boxes gradually increased and won the recognition of markets both at home and abroad; the gear boxes with electric power steering system (EPS) have achieved industrialization and maintained a good growth; 200,000 units of Phase 1 of the production base for an annual output of 400,000 gear boxes for medium and heavy-duty vehicles is expected to be completed at the end of 2014. As the market situation is not expected to be improved, the Group expects that it will be difficult for this business segment to record growth in 2014.

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

In the first half of 2014, driven by clean energy, the intelligent grid project, the speeding-up of urbanization and other factors, this business segment achieved growth in revenue. The revenue from electrical wires and cables and hydraulic generators recorded an increase; as the Group stopped the business of copper product processing (which had an extremely low gross profit margin within the business of nonferrous metal powder products), the revenue from non-ferrous metal power business decreased over the same period last year, while its operating results improved.

CHAIRMAN'S STATEMENT (CONTINUED)

Chongqing Pigeon Electric Wires & Cables Co., Ltd. won the first “Yubei District Chief Quality Management Award of Chongqing Municipality” (「重慶市渝北區區長質量管理獎」). The Group expects that this business segment will remain stable in 2014.

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

In the first half of 2014, in spite of the the overall down turn in the traditional market, the segment achieved steady growth in revenue, driven by the growth in the new markets of petroleum and petrochemicals, coal chemicals, mining, nuclear power and wind power, etc. Traditional machinery market of steel, metallurgy and cement industry remained in downturn, resulting in a relatively weak performance in the industrial pumps, separation machines and compressors business, but the sale of wind power rotor blades witnessed rapid growth.

The high-end pump industrialization for capacity expansion and renovation project, which is equipped with an annual production capacity of 50 units/sets of high-end pumps with being nuclear pumps has been completed and put into production, and is expected to obtain orders for nuclear pumps worth of more than RMB100 million throughout the year. The Group expects the business of the segment will remain basically stable in 2014.

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

In the first half of 2014, being affected by the structural and periodic adjustment to Chinese economy and the slowing down in the production capacity of automobiles, engineering machinery, general machinery and ships and other traditional heavy industries, the machine tools industry as a whole suffered a continuous decrease in demand. Therefore, despite the superior performance of the Group's CNC machine tools business within the industry, revenue from this segment still declined.

The environmental relocation project of Chongqing Machine Tools (Group) Co., Ltd. will be completed and put into operation in the second half of 2014. The Group expects the segment will stabilize and recover in the second half of 2014 and remain stable throughout the year.



Trade business

In the first half of 2014, the bulk commodity procurement platform of the Group effectively increased procurement types and quantities, directly reducing procurement cost of the Group by approximately RMB8.0 million, representing an increase of around 14.3% over the corresponding period last year.

Financial services

In the first half of 2014, the revenue from financial services of the Group amounted to approximately RMB50.3 million, representing an increase of approximately 1.3 times over the same period last year, which reduced financial costs and promoted capital efficiency of the Group.

SUMMARY

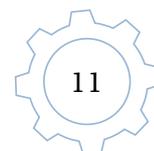
It is expected that in the second half of 2014, the economy of the United States, European and other economies will be on the up and recovery, the global economy will continue to improve in a moderate manner, increase in domestic investment will bottom out, and that there will be slight rebound for export under the impact of recovery of foreign demands. With a series of micro-stimulation policies gradually taking effects, it is also expected that the Chinese economy will show improvement as a whole. Driven by the macroeconomic policy of "micro-stimulation" advanced by the Chinese government, the transformation of railway and shantytown, the construction of new-type urbanization area and other investment projects in the first half of 2014, the equipment manufacturing industry is expected to recover in a moderate manner and the Group's business will continue to operate steadily in 2014.

Taking this opportunity, on behalf of the Board, I would like to extend my heartfelt gratitude to our shareholders for their support and trust. My sincere appreciation also goes to our directors, supervisors and all our staff for their efforts.

Wang Yuxiang

Executive Director and Chairman

Chongqing, the PRC, 20 August 2014



REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION



羅兵咸永道

TO THE BOARD OF DIRECTORS OF CHONGQING MACHINERY & ELECTRIC CO., LTD.

(incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 14 to 53, which comprises the interim condensed consolidated balance sheet of Chongqing Machinery & Electric Co., Ltd. (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2014 and the related interim condensed consolidated statement of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 “Interim Financial Reporting” issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.



SCOPE OF REVIEW

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

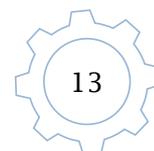
CONCLUSION

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

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 20 August 2014



UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Note	Unaudited	
		Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
Revenue	6	4,841,594	4,857,059
Cost of sales		(4,339,892)	(4,334,054)
Gross profit		501,702	523,005
Distribution costs		(131,068)	(143,490)
Administrative expenses		(342,698)	(355,614)
Other gains, net		4,549	38,244
Other income		34,630	41,919
Operating profit	7	67,115	104,064
Finance income		36,086	12,072
Finance costs		(73,998)	(78,578)
Share of post-tax profits of associates	11	38,560	9,550
Share of post-tax profits of jointly controlled entities	12	169,758	191,371
Profit before income tax		237,521	238,479
Income tax expense	8	(25,531)	(9,663)
Profit for the period		211,990	228,816
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Remeasurements of retirement benefit obligations		(572)	(570)
Income tax relating to remeasurements of retirement benefit obligations		28	31



UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2014

		Unaudited	
		Six months ended 30 June	
	<i>Note</i>	2014	2013
		RMB'000	RMB'000
Items that may be reclassified subsequently to profit or loss			
Fair value losses on available-for-sale financial assets		—	(688)
Income tax relating to available-for-sale financial assets		—	103
Currency translation differences		1,345	(1,443)
Other comprehensive income for the period, net of tax		801	(2,567)
Total comprehensive income for the period		212,791	226,249
Profit attributable to:			
— Owners of the Company		191,709	223,100
— Non-controlling interests		20,281	5,716
		211,990	228,816
Total comprehensive income attributable to:			
— Owners of the Company		192,510	220,533
— Non-controlling interests		20,281	5,716
		212,791	226,249
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
— Basic and diluted	9	0.05	0.06

The notes on pages 23 to 53 are an integral part of this unaudited interim condensed consolidated financial information.



UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2014

		30 June 2014	31 December 2013
	<i>Note</i>	RMB'000	<i>RMB'000</i>
		Unaudited	Audited
ASSETS			
Non-current assets			
Property, plant and equipment	10	2,880,786	2,734,318
Investment properties	10	27,335	29,825
Lease prepayments	10	486,347	482,704
Intangible assets	10	296,145	286,872
Investments in associates	11	521,072	508,417
Investments in jointly controlled entities	12	479,901	310,143
Deferred income tax assets		73,849	74,819
Available-for-sale financial assets		2,840	2,840
Other non-current assets		19,068	11,425
Total non-current assets		4,787,343	4,441,363
Current assets			
Inventories		1,726,286	1,669,709
Amounts due from customers for contract work		534,258	464,871
Trade and other receivables	13	4,471,175	3,877,374
Dividend receivable		146,223	157,464
Restricted cash		675,439	447,163
Cash and cash equivalents		1,438,909	1,792,359
Total current assets		8,992,290	8,408,940
Total assets		13,779,633	12,850,303



UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 June 2014

	Note	30 June 2014 RMB'000 Unaudited	31 December 2013 <i>RMB'000</i> Audited
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	3,684,640	3,684,640
Other reserves		(746,719)	(752,910)
Retained profits		2,589,202	2,587,115
		5,527,123	5,518,845
Non-controlling interests		387,701	367,420
Total equity		5,914,824	5,886,265
LIABILITIES			
Non-current liabilities			
Borrowings	17	1,404,549	1,489,258
Deferred income		483,952	475,757
Deferred income tax liabilities		20,164	21,786
Long-term employee benefit obligations	18	34,554	37,003
Total non-current liabilities		1,943,219	2,023,804



UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 June 2014

	<i>Note</i>	30 June 2014 RMB'000 Unaudited	31 December 2013 RMB'000 Audited
Current liabilities			
Trade and other payables	15	4,388,873	3,828,431
Dividends payable		205,128	25,381
Amounts due to customers for contract work		14,817	8,568
Current income tax liabilities		50,949	50,796
Borrowings	17	1,234,194	996,881
Current portion of long-term employee benefit obligations	18	9,637	9,316
Provision for warranty	16	17,992	20,861
Total current liabilities		5,921,590	4,940,234
Total liabilities		7,864,809	6,964,038
Total equity and liabilities		13,779,633	12,850,303
Net current assets		3,070,700	3,468,706
Total assets less current liabilities		7,858,043	7,910,069

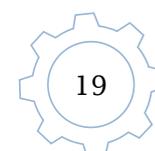
The notes on pages 23 to 53 are an integral part of this unaudited interim condensed consolidated financial information.



UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Unaudited						
	Attributable to owners of the Company					Non-controlling interests	Total equity
	Share capital	Other reserves	Retained profits	Total			
Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2014		<u>3,684,640</u>	<u>(752,910)</u>	<u>2,587,115</u>	<u>5,518,845</u>	<u>367,420</u>	<u>5,886,265</u>
Comprehensive income							
Profit for the period		<u>—</u>	<u>—</u>	<u>191,709</u>	<u>191,709</u>	<u>20,281</u>	<u>211,990</u>
Other comprehensive income							
Remeasurements of retirement benefit obligations, net of tax		<u>—</u>	<u>(544)</u>	<u>—</u>	<u>(544)</u>	<u>—</u>	<u>(544)</u>
Currency translation differences		<u>—</u>	<u>1,345</u>	<u>—</u>	<u>1,345</u>	<u>—</u>	<u>1,345</u>
Total other comprehensive income		<u>—</u>	<u>801</u>	<u>—</u>	<u>801</u>	<u>—</u>	<u>801</u>
Total comprehensive income for the period ended 30 June 2014		<u>—</u>	<u>801</u>	<u>191,709</u>	<u>192,510</u>	<u>20,281</u>	<u>212,791</u>
Total contributions by and distributions to owners of the Company recognised directly in equity							
Dividends relating to 2013	19	<u>—</u>	<u>—</u>	<u>(184,232)</u>	<u>(184,232)</u>	<u>—</u>	<u>(184,232)</u>
Total contributions by and distributions to owners of the Company							
Transfer to reserves		<u>—</u>	<u>5,390</u>	<u>(5,390)</u>	<u>—</u>	<u>—</u>	<u>—</u>
Total transactions with owners		<u>—</u>	<u>5,390</u>	<u>(189,622)</u>	<u>(184,232)</u>	<u>—</u>	<u>(184,232)</u>
Balance at 30 June 2014		<u>3,684,640</u>	<u>(746,719)</u>	<u>2,589,202</u>	<u>5,527,123</u>	<u>387,701</u>	<u>5,914,824</u>



UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2014

	Unaudited						
	Attributable to owners of the Company					Non-controlling interests	Total equity
	Share capital	Other reserves	Retained profits	Total			
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2013 (restated)	3,684,640	(787,733)	2,246,485	5,143,392	338,799	5,482,191	
Comprehensive income							
Profit for the period	—	—	223,100	223,100	5,716	228,816	
Other comprehensive income							
Changes in fair value of available-for-sales financial assets, net of tax	—	(585)	—	(585)	—	(585)	
Remeasurements of retirement benefit obligations, net of tax	—	(539)	—	(539)	—	(539)	
Currency translation differences	—	(1,443)	—	(1,443)	—	(1,443)	
Total other comprehensive income	—	(2,567)	—	(2,567)	—	(2,567)	
Total comprehensive income for the period ended 30 June 2013	—	(2,567)	223,100	220,533	5,716	226,249	
Total contributions by and distributions to owners of the Company recognised directly in equity							
Dividends relating to 2012	—	—	(128,963)	(128,963)	—	(128,963)	
Total transactions with owners	—	—	(128,963)	(128,963)	—	(128,963)	
Balance at 30 June 2013	<u>3,684,640</u>	<u>(790,300)</u>	<u>2,340,622</u>	<u>5,234,962</u>	<u>344,515</u>	<u>5,579,477</u>	

The notes on pages 23 to 53 are an integral part of this unaudited interim condensed consolidated financial information.



UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Note	Unaudited	
		Six months ended 30 June 2014	2013
		RMB'000	RMB'000
Cash flows from operating activities			
Cash used in operations		(44,468)	(255,396)
Income tax paid		(66,979)	(24,741)
Interest paid		(51,826)	(53,162)
Cash flows from operating activities - net		(163,273)	(333,299)
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss	20	(45,991)	(712,000)
Proceeds from the disposal of financial assets at fair value through profit or loss	20	48,129	705,583
Proceeds from government grants related to assets		29,309	8,136
Investments in associates		—	(94,439)
Purchases of property, plant and equipment		(433,265)	(201,257)
Proceeds on disposal of property, plant and equipment		43,640	10,010
Purchase of intangible assets		(15,126)	(19,050)
Increase in lease prepayments		(40,503)	—
Dividends received		37,147	132,107
Interest received		37,403	12,072
Cash flows from investing activities - net		(339,257)	(158,838)



UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2014

	Note	Unaudited	
		Six months ended 30 June	
		2014	2013
		RMB'000	RMB'000
Cash flows from financing activities			
Proceeds from borrowings		1,479,127	717,123
Repayments of borrowings		(1,325,931)	(775,698)
Payments of finance lease obligations		(1,292)	(1,739)
Dividends paid to non-controlling interests		(4,484)	(2,365)
Cash flows from financing activities - net		147,420	(62,679)
Net decrease in cash and cash equivalents			
Cash and cash equivalents at the beginning of the period		1,792,359	2,525,881
Exchange gains/(losses)		1,660	(152)
Cash and cash equivalents at balance sheet		1,438,909	1,970,913

The notes on pages 23 to 53 are an integral part of this unaudited interim condensed consolidated financial information.



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2014

1. GENERAL INFORMATION

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

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

This condensed consolidated interim financial information is presented in Chinese Renminbi (“RMB”), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 20 August 2014.

This condensed consolidated interim financial information has not been audited.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2014 has been prepared in accordance with HKAS 34, “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2013, which have been prepared in accordance with HKFRSs.



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

3. ACCOUNTING POLICIES

Except as described below, the accounting policies applied in the preparation of this unaudited condensed consolidated financial information are consistent with those used in the preparation of the annual financial statements for the year ended 31 December 2013.

- The Group has adopted HK(IFRIC)-Int 21 'Levies'. HK(IFRIC)-Int 21 addresses the accounting for a liability 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 pay a levy, and when should a liability be recognised. The Group is not currently subject to significant levies. The adoption of the interpretation has had no significant effect on the financial statements for earlier periods and on the interim financial information for the period ended 30 June 2014. The Group does not expect HK(IFRIC)-Int 21 to have a significant effect on the results for the financial year ending 31 December 2014.
- Other amendments to HKFRSs effective for the financial year ending 31 December 2014 are not expected to have a material impact on the Group.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

4. ESTIMATES

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

In preparing this condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2013.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2013.

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



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Liquidity risk

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

	Less than 6 months RMB'000	6-12 months RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total contractual cash flows RMB'000	Carrying amount RMB'000
At 30 June 2014							
Trade and other payables (i)	3,215,573	18,503	—	—	—	3,234,076	3,233,373
Borrowings							
(excluding finance leases)	624,954	716,719	343,674	15,634	77,574	1,778,555	1,639,379
Corporate bonds	65,900	—	65,900	1,065,900	—	1,197,700	996,696
Finance lease liabilities	429	1,722	635	—	—	2,786	2,668
Total financial liabilities	3,906,856	736,944	410,209	1,081,534	77,574	6,213,117	5,872,116
At 31 December 2013							
Trade and other payables (i)	2,977,111	12,024	—	—	—	2,989,135	2,988,669
Borrowings							
(excluding finance leases)	468,772	583,664	424,430	17,448	88,252	1,582,566	1,487,124
Corporate bonds	—	65,900	65,900	1,065,900	—	1,197,700	995,997
Finance lease liabilities	17	2,070	1,033	—	—	3,120	3,018
Total financial liabilities	3,445,900	663,658	491,363	1,083,348	88,252	5,772,521	5,474,808

Note:

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



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value estimation

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

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

The following table presents the Group's financial assets that are measured at fair value at 30 June 2014.

	Level 1 <i>RMB'000</i>	Level 2 <i>RMB'000</i>	Level 3 <i>RMB'000</i>	Total <i>RMB'000</i>
Assets				
Available-for-sale financial assets				
— Equity securities	<u>2,840</u>	<u>—</u>	<u>—</u>	<u>2,840</u>
Total assets	<u><u>2,840</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<u><u>2,840</u></u>

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.3 Fair value estimation (Continued)

The following table presents the Group's financial assets that are measured at fair value at 31 December 2013.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
— Equity securities	2,840	—	—	2,840
Total assets	2,840	—	—	2,840

During the six months ended 30 June 2014, there were no transfers between levels of the fair value hierarchy used in measuring the fair value of the Group's financial assets, and there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets. In addition, there were no reclassifications of financial assets.



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.4 Fair value of financial assets and liabilities measured at amortised cost

The fair value of borrowings are as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Non-current	1,430,734	1,513,815
Current	1,232,094	994,828
	<u>2,662,828</u>	<u>2,508,643</u>

The fair value of the following financial assets and liabilities approximate their carrying amount:

- Trade and other receivables
- Other current financial assets
- Cash and banks
- Trade and other payables



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

6. SEGMENT INFORMATION

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

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

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



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

6. SEGMENT INFORMATION (CONTINUED)

The segment results for the six months ended 30 June 2014 are 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	—	330,111	190,217	1,522,127	425,060	65,165	555,728	—	1,808,514	684,202	5,581,124
Inter-segment revenue	—	—	—	(467)	(483)	(14,908)	(140,291)	—	(583,381)	—	(739,530)
Revenue from external customers	—	330,111	190,217	1,521,660	424,577	50,257	415,437	—	1,225,133	684,202	4,841,594
Operating profit/(loss)	—	(22,588)	8,004	52,216	22,332	40,775	(17,272)	—	1,602	(17,954)	67,115
Finance income	—	729	461	1,139	1,289	—	5,555	—	154	26,759	36,086
Finance costs	—	(977)	(796)	(18,056)	(1,260)	—	(12,751)	—	(1,615)	(38,543)	(73,998)
Share of post-tax profits of associates and jointly controlled entities	169,758	2,394	1,031	—	3,681	9,280	1,964	14,738	—	5,472	208,318
Profit before income tax											237,521
Income tax expense	—	(190)	(616)	(5,662)	(517)	(11,886)	(2,793)	—	(9)	(3,858)	(25,531)
Profit for the period											211,990
Other items											
Depreciation on property, plant and equipment and investment properties	—	13,777	5,293	11,562	17,227	241	18,111	—	29	20,531	86,771
Amortisation of lease prepayments and intangible assets	—	1,891	437	351	2,203	114	5,117	—	—	1,709	11,822
Write down/(write back) of inventories	—	—	—	(5,378)	—	—	1	—	—	—	(5,377)
Provision for/(reversal of) impairment on trade and other receivables	—	—	969	(1,582)	8	2,811	—	—	(3,131)	1,765	840
Additions to non-current assets (other than financial instruments and deferred tax assets)	—	143,341	11,615	4,876	51,025	5	31,090	—	2	18,724	260,678

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

6. SEGMENT INFORMATION (CONTINUED)

The segment results for the six months ended 30 June 2013 are as follows:

	Engines RMB'000	Gear boxes RMB'000	Hydroelectric generation equipment RMB'000	Electrical wires and cables RMB'000	General machinery RMB'000	Financial services RMB'000	Machinery tools RMB'000	High-voltage transformers RMB'000	Material sales RMB'000	All other segments RMB'000	Total Group RMB'000
Total segment revenue	—	383,394	174,572	1,203,868	314,187	25,396	741,226	—	2,235,422	874,304	5,952,369
Inter-segment revenue	—	—	(2,752)	(457)	—	(3,692)	(221,054)	—	(867,355)	—	(1,095,310)
Revenue from external customers	—	383,394	171,820	1,203,411	314,187	21,704	520,172	—	1,368,067	874,304	4,857,059
Operating profit/(loss)	—	2,894	11,733	47,736	8,383	5,460	26,869	—	1,438	(449)	104,064
Finance income	—	427	929	730	1,104	—	4,260	—	30	4,592	12,072
Finance costs	—	(3,471)	(2,282)	(25,390)	(2,221)	—	(15,655)	—	(637)	(28,922)	(78,578)
Share of post-tax profits of associates and jointly controlled entities	191,371	201	25	—	334	305	39	228	—	8,418	200,921
Profit before income tax											238,479
Income tax expense	—	(1,779)	(1,559)	(4,666)	3,542	(2,583)	(3,432)	—	(52)	866	(9,663)
Profit for the period											228,816
Other items											
Depreciation on property, plant and equipment and investment properties	—	14,015	5,570	10,698	11,345	121	22,661	—	29	20,303	84,742
Amortisation of lease prepayments and intangible assets	—	1,891	508	356	2,260	114	5,042	—	—	1,360	11,531
Write down/(write back) of inventories	—	68	—	1,261	—	—	(366)	—	—	(4,770)	(3,807)
Provision for/(reversal of) impairment on trade and other receivables	—	(3)	(5,751)	196	(9)	11,145	(182)	—	(1,505)	1,978	5,869
Additions to non-current assets (other than financial instruments and deferred tax assets)	—	43,119	1,178	2,683	66,843	1,951	95,518	—	3	21,449	232,744



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

6. SEGMENT INFORMATION (CONTINUED)

The segment assets as at 30 June 2014 and 31 December 2013 are as follows:

Total assets	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
30 June 2014	<u>479,901</u>	<u>1,311,211</u>	<u>1,169,812</u>	<u>1,184,051</u>	<u>1,807,737</u>	<u>1,716,216</u>	<u>2,933,064</u>	<u>158,249</u>	<u>208,781</u>	<u>2,810,611</u>	<u>13,779,633</u>
Total assets include: Investments in associates and jointly controlled entities	<u>479,901</u>	<u>6,049</u>	<u>11,376</u>	<u>—</u>	<u>95,051</u>	<u>102,384</u>	<u>6,126</u>	<u>158,249</u>	<u>—</u>	<u>141,837</u>	<u>1,000,973</u>
31 December 2013	<u>310,143</u>	<u>1,329,946</u>	<u>1,119,986</u>	<u>881,227</u>	<u>1,579,141</u>	<u>1,987,212</u>	<u>2,671,388</u>	<u>163,020</u>	<u>67,437</u>	<u>2,740,803</u>	<u>12,850,303</u>
Total assets include: Investments in associates and jointly controlled entities	<u>310,143</u>	<u>4,871</u>	<u>10,545</u>	<u>—</u>	<u>91,570</u>	<u>93,967</u>	<u>2,971</u>	<u>163,020</u>	<u>—</u>	<u>141,473</u>	<u>818,560</u>



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

7. OPERATING PROFIT

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

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Inventories write back	(5,377)	(3,807)
Provision for impairment on trade and other receivables	840	5,869
Gains on financial assets at fair value through profit or loss (Note 20)	(2,137)	(5,625)
Gains on disposal of property, plant and equipment	(1,169)	(36)
Gains on reversal of borrowings from independent third parties	—	(27,701)
	<u> </u>	<u> </u>

8. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
Current income tax	25,978	15,460
Deferred income tax	(447)	(5,797)
	<u> </u>	<u> </u>
	<u>25,531</u>	<u>9,663</u>



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

8. INCOME TAX EXPENSE (CONTINUED)

Income tax expense is recognised based on management's estimate of the weighted average annual income tax rate expected for the full financial year.

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

9. EARNINGS PER SHARE

	Six months ended 30 June	
	2014	2013
Profit attributable to owners of the Company (RMB'000)	191,709	223,100
Weighted average number of ordinary shares in issue (thousand)	<u>3,684,640</u>	<u>3,684,640</u>
Basic and diluted earnings per share (RMB per share)	<u>0.05</u>	<u>0.06</u>

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

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

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

	Property, plant and equipment RMB'000	Investment properties RMB'000	Lease prepayments RMB'000	Other intangible assets RMB'000	Goodwill RMB'000
Six months ended 30 June 2014					
Net book value					
Opening net book amount at 1 January 2014	2,734,318	29,825	482,704	143,854	143,018
Additions	235,830	110	9,612	15,126	—
Disposals	(4,543)	(648)	—	—	—
Depreciation and amortisation	(84,819)	(1,952)	(5,969)	(5,853)	—
Closing amount at 30 June 2014	2,880,786	27,335	486,347	153,127	143,018
Six months ended 30 June 2013					
Net book value					
Opening net book amount at 1 January 2013 (Restated)	2,182,750	33,006	462,078	123,109	143,018
Additions	213,694	—	—	19,050	—
Disposals	(9,651)	—	—	(334)	—
Depreciation and amortisation	(83,204)	(1,538)	(5,365)	(6,166)	—
Closing amount at 30 June 2013	2,303,589	31,468	456,713	135,659	143,018

Note:

- (a) As at 30 June 2014, bank borrowings amounting to approximately RMB99,000,000 (31 December 2013: RMB233,000,000) were secured by property, plant and equipment, investment properties and land use rights with an aggregate carrying value of approximately RMB2,210,000, RMB0 and RMB50,502,000, respectively (31 December 2013: RMB611,822,000, RMB33,274,000 and RMB28,019,000, respectively).



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

11. INVESTMENTS IN ASSOCIATES

	Six months ended 30 June 2014 <i>RMB'000</i>
Beginning of the period	508,417
Share of post-tax profits of associates	38,560
Dividend declared	<u>(25,905)</u>
End of the period	<u>521,072</u>

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

	Six months ended 30 June 2014 <i>RMB'000</i>
Assets	1,118,873
Liabilities	565,553
Revenue	507,586
Share of profit	<u>38,560</u>

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

12. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

	Six months ended 30 June 2014
	<i>RMB'000</i>
Beginning of the period	310,143
Share of post-tax profits of jointly controlled entities	<u>169,758</u>
End of the period	<u><u>479,901</u></u>

The Group's share of the assets and liabilities, revenue and results of the jointly controlled entities, which are unlisted, are shown below:

	Six months ended 30 June 2014
	<i>RMB'000</i>
Assets	962,192
Liabilities	478,068
Revenue	774,442
Share of profit	<u><u>169,758</u></u>



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

13. TRADE AND OTHER RECEIVABLES

	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade and bills receivable	3,633,307	3,365,881
Less: provision for impairment of trade receivables	(250,092)	(249,715)
Trade and bills receivable - net	3,383,215	3,116,166
Other receivables	769,400	544,716
Less: provision for impairment of other receivables	(35,273)	(35,196)
Other receivables - net	734,127	509,520
Loans	357,411	254,230
Less: provision for impairment of loans	(3,578)	(2,542)
Loans - net	353,833	251,688
	4,471,175	3,877,374

The ageing of the above loans are all less than 1 year.



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

13. TRADE AND OTHER RECEIVABLES (CONTINUED)

The general credit period granted to customers is up to 90 days. As at 30 June 2014 and 31 December 2013, the ageing analysis of the trade and bills receivable were as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade and bills receivable		
Less than 30 days	1,166,648	484,306
31 days to 90 days	1,085,087	530,460
91 days to 1 year	627,507	1,699,720
1 year to 2 years	384,004	308,064
2 years to 3 years	127,141	124,233
Over 3 years	242,920	219,098
	<u>3,633,307</u>	<u>3,365,881</u>

14. SHARE CAPITAL

	Number of shares '000	Domestic shares RMB'000	H shares RMB'000	Total shares RMB'000
Registered, issued and fully paid At 30 June 2014 and 1 January 2014 (nominal value of RMB1.00 each)	<u>3,684,640</u>	<u>2,584,453</u>	<u>1,100,187</u>	<u>3,684,640</u>
At 30 June 2013 and 1 January 2013 (nominal value of RMB1.00 each)	<u>3,684,640</u>	<u>2,584,453</u>	<u>1,100,187</u>	<u>3,684,640</u>

All the domestic shares and H shares are rank pari passu in all aspects.



**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 June 2014

15. TRADE AND OTHER PAYABLES

	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade and bills payable	2,400,717	2,172,868
Deposit taking	519,362	442,967
Other taxes payables	100,830	105,633
Other payables	313,294	372,834
Interest payables	59,768	26,893
Accrued payroll and welfare	79,020	84,546
Advances from customers	915,882	622,690
	<u>4,388,873</u>	<u>3,828,431</u>

The ageing of the above deposit taking are all less than 1 year.

As at 30 June 2014 and 31 December 2013, the ageing analysis of the trade and bills payable (including amounts due to related parties of trading in nature) were as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade and bills payable		
Less than 30 days	1,004,219	574,192
31 days than 90 days	413,937	531,698
91 days to 1 year	724,260	804,383
1 year to 2 years	71,610	150,861
2 years to 3 years	115,538	71,194
Over 3 years	71,153	40,540
	<u>2,400,717</u>	<u>2,172,868</u>



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

16. PROVISION FOR WARRANTY

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

	<i>RMB'000</i>
Six months ended 30 June 2014	
Opening net book amount at 1 January 2014	20,861
Additional provisions	10,291
Utilised during the period	<u>(13,160)</u>
Closing net book amount at 30 June 2014	<u>17,992</u>
Six months ended 30 June 2013	
Opening net book amount at 1 January 2013 (Restated)	22,003
Additional provisions	13,189
Utilised during the period	<u>(14,800)</u>
Closing net book amount at 30 June 2013	<u>20,392</u>



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

17. BORROWINGS

	30 June 2014 RMB'000	31 December 2013 RMB'000
Non-current		
Long-term bank borrowings	407,285	487,396
Corporate bonds	996,696	995,997
Finance lease liabilities	568	965
Due to non-controlling interests	—	4,900
Total non-current borrowings	1,404,549	1,489,258
Current		
Short-term bank borrowings	1,224,094	991,728
Due to independent third parties	3,100	3,100
Due to non-controlling interests	4,900	—
Finance lease liabilities	2,100	2,053
Total current borrowings	1,234,194	996,881
Total borrowings	2,638,743	2,486,139



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

17. BORROWINGS (CONTINUED)

Movements in borrowings are analysed as follows:

	<i>RMB'000</i>
Six months ended 30 June 2014	
Opening amount as at 1 January 2014	2,486,139
Additions	1,479,826
Repayments	(1,327,222)
	<hr/>
Closing amount as at 30 June 2014	2,638,743
	<hr/> <hr/>
Six months ended 30 June 2013	
Opening amount as at 1 January 2013 (Restated)	2,660,205
Additions	717,123
Repayments	(777,437)
Deductions	(27,701)
	<hr/>
Closing amount as at 30 June 2013	2,572,190
	<hr/> <hr/>

Interest expense on borrowings for the six months ended 30 June 2014 is approximately RMB100,553,000 (2013: RMB79,869,000).

The Group had the following undrawn borrowing facilities:

	30 June 2014 <i>RMB'000</i>	31 December 2013 <i>RMB'000</i>
Fixed rate		
— expiring within 1 year	1,791,204	1,814,208
— expiring beyond 1 year	334,627	281,171
	<hr/>	<hr/>
	2,125,831	2,095,379
	<hr/> <hr/>	<hr/> <hr/>



**NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)**

For the six months ended 30 June 2014

18. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
Present value of defined benefits obligations	<u>44,191</u>	<u>46,319</u>
Liability in the balance sheet	44,191	46,319
Less: current portion	<u>(9,637)</u>	<u>(9,316)</u>
	<u>34,554</u>	<u>37,003</u>

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

	Six months ended 30 June	
	2014 RMB'000	2013 RMB'000
At beginning of the period	46,319	55,874
For the period		
— Interest costs	911	1,004
— Actuarial losses/(gains)	1,374	(166)
— Remeasurement effects recognized in other comprehensive income	572	570
— Payment	<u>(4,985)</u>	<u>(5,522)</u>
At end of the period	<u>44,191</u>	<u>51,760</u>



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

19. DIVIDENDS

A dividend of approximately RMB184,232,000 (RMB0.05 per share) that relates to the year ended 31 December 2013 was approved at the Annual General Meeting on 18 June 2014 and was recorded as a liability as at 30 June 2014 in this condensed consolidated interim financial information.

The Company's Board of Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2014 (2013: Nil).

20. NOTE TO INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

During the six months ended 30 June 2014 and 30 June 2013, the Group invested in certain financial instruments from commercial banks in order to earn a higher interest than that from traditional time deposits. Such financial products are all with short-term maturity from one to three months. The total cash outflows and inflows in respect of such investments during the period were approximately RMB46 million and RMB42 million, respectively (2013: approximately RMB712 million and RMB706 million, respectively).

21. CONTINGENCIES

The Group has certain legal claims arising in the ordinary course of business as at 30 June 2014. Based on the legal opinion provided by the lawyers, the Directors are of the opinion that no material liabilities will arise from those legal claims.



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

22. COMMITMENTS

(a) Capital commitments

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

	30 June 2014 RMB'000	31 December 2013 RMB'000
Property, plant and equipment	205,413	554,247
Intangible assets	—	5,386
Lease prepayments	40,820	—
	<u>246,233</u>	<u>559,633</u>

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	30 June 2014 RMB'000	31 December 2013 RMB'000
No later than 1 year	11,069	24,028
Later than 1 year and no later than 5 years	895	13,578
	<u>11,964</u>	<u>37,606</u>

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

23. RELATED-PARTY TRANSACTIONS

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

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



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

23. RELATED PARTY TRANSACTIONS (CONTINUED)

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the six months ended 30 June 2013 and 2014, respectively:

(a) Significant related party transactions

	Six months ended 30 June	
	2014	2013
	<i>RMB'000</i>	<i>RMB'000</i>
Transactions with the parent company, fellow subsidiaries and associates		
Revenue		
— Revenue from sales of goods	64,383	69,270
— Revenue from provision of service	2,211	—
— Revenue from loans service	12,835	5,504
Expenses		
— Purchase of materials	37,487	47,033
— Services	9,239	2,798
— Expenses for deposit taking service	1,404	1,561
— Other expenses	16,423	14,547
Transactions with associates		
Revenue		
— Revenue from sales of goods	770	4,236
Expenses		
— Purchase of materials	13,169	15,871



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

23. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

	30 June 2014 RMB'000	31 December 2013 RMB'000
Trade and other receivables		
Trade receivables due from		
— Fellow subsidiaries and associates	54,060	49,186
— Associates	—	2
Other receivables due from		
— CQMEHG	6,951	444
— Fellow subsidiaries	24,499	28,555
— Jointly controlled entities	—	1,337
— Associates	2,729	4,514
Prepayments due from		
— CQMEHG	493	—
— Fellow subsidiaries	—	2,607
Loans to		
— Fellow subsidiaries and associates	357,411	254,230
	446,143	340,875



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED
FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

23. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (Continued)

	30 June	31 December
	2014	2013
	RMB'000	<i>RMB'000</i>
Trade and other payables		
Trade payables due to		
— Fellow subsidiaries and associates	26,878	17,980
— Associates	1,875	7,194
Other payables due to		
— CQMEHG	5,596	2,021
— Associates	841	558
— Fellow subsidiaries	40,290	11,121
Deposit taking from		
— CQMEHG	201,781	86,692
— Fellow subsidiaries and associates	317,570	343,555
— Associates	11	12,720
	594,842	481,841



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2014

23. RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Financial guarantee contracts

	30 June	31 December
	2014	2013
	RMB'000	RMB'000
Financial guarantee contracts		
— Fellow subsidiaries	72,900	100,000
— CQMEHG	—	77,826
	72,900	177,826

(d) Key management compensation

	Six months ended 30 June	
	2014	2013
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	1,018	989
Contributions to pension plans	496	358
Discretionary bonuses	838	630
	2,352	1,977



23. RELATED PARTY TRANSACTIONS (CONTINUED)

(e) Transactions with government-related entities in PRC

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

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

24. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 15 July 2014, Chongqing Huahao Smelting Co., Ltd. ("Huahao"), a wholly owned subsidiary of the Company, established a company together with GRIPM Advanced Materials Co., Ltd. and Mr. Panhua. The company is known as Chongqing Youyan Smelting New Material Co., Ltd. ("Chongqing Youyan") with registered capital of RMB80,000,000. The principal activities of the company are manufacturing and sales of metallurgical products. Huahao owns 41.5% equity interest of Chongqing Youyan and considered the company as an associate of the Group. Huahao injected property, plant and equipment of RMB31,825,200 and cash of RMB1,374,800 into Chongqing Youyan as capital.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Including Financial Review)

RESULTS OVERVIEW

SALES

For the six months ended 30 June 2014, the Group's total revenue amounted to approximately RMB4,841.6 million, representing a slight decrease of approximately 0.3% as compared with approximately RMB4,857.1 million for the same period last year.

Overall, revenue of the vehicle parts and components segment was approximately RMB523.9 million (accounting for approximately 10.8% of total revenue), a decrease of approximately 11.8%; revenue of the power equipment segment was approximately RMB1,934.6 million (accounting for approximately 40.0% of total revenue), an increase of approximately 13.8%; revenue of the general machinery segment was approximately RMB692.3 million (accounting for approximately 14.3% of total revenue), an increase of approximately 6.1%; and revenue of the CNC machine tools segment was approximately RMB415.4 million (accounting for approximately 8.6% of total revenue), a decrease of approximately 20.1%; revenue of the trade business was approximately RMB1,225.1 million (accounting for approximately 25.3% of total revenue), a decrease of approximately 10.5%; and revenue of financial services was approximately RMB50.3 million (accounting for approximately 1.0% of total revenue), an increase of approximately 131.8%.

Despite the increase in sales revenue from power equipment and general machinery segments during this period, the overall sales revenue of the Group declined slightly due to the decreased market demand in the vehicle parts and components segment and CNC machine tool segment.

There has been no significant change in the possible future development of the Group's business and the Group's outlook for the financial year of 2014 since the publication of the Group's annual report for the year ended 31 December 2013.



RESULTS OVERVIEW (*CONTINUED*)

GROSS PROFIT

The gross profit for the six months ended 30 June 2014 was approximately RMB501.7 million, a decrease of approximately RMB21.3 million or approximately 4.1%, as compared with approximately RMB523.0 million for the same period last year; gross profit margin was approximately 10.4%, a decrease of approximately 0.4 percentage point as compared with approximately 10.8% for the same period last year. Eliminating trade business and financial services, the gross profit margin was approximately 12.6%, a decrease of approximately 1.8 percentage points as compared with approximately 14.4% for the same period last year. The Group's gross profit margin is expected to remain stable at its current level in the second half of 2014.

OTHER INCOME AND GAINS

Other income and gains for the six months ended 30 June 2014 were approximately RMB39.2 million, a significant decrease of approximately RMB41.0 million or approximately 51.1%, as compared with approximately RMB80.2 million for the same period last year. Such decrease was mainly attributable to the decrease in government subsidies, tax refund and subsidies for the Group's environmental relocation and technological development.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for the six months ended 30 June 2014 were approximately RMB473.8 million, a decrease of approximately RMB25.3 million or approximately 5.1%, as compared with approximately RMB499.1 million for the same period last year. The selling and administrative expenses accounted for approximately 9.8% of sales, a slight decrease as compared with approximately 10.3% for the same period last year, mainly attributable to a year-on-year decrease of approximately RMB12.4 million in promotion fees and sales commissions and a year-on-year decrease of approximately RMB12.9 million in administrative expenses as a result of strict control over administrative expenses.

MANAGEMENT'S DISCUSSION AND ANALYSIS (*CONTINUED*)

(Including Financial Review)

RESULTS OVERVIEW (*CONTINUED*)

OPERATING PROFIT

The operating profit for the six months ended 30 June 2014 was approximately RMB67.1 million, a decrease of approximately RMB37.0 million or approximately 35.5%, as compared with approximately RMB104.1 million for the same period last year.

NET FINANCE COSTS

The net interest expense for the six months ended 30 June 2014 was approximately RMB37.9 million, a significant decrease of approximately RMB28.6 million or approximately 43.0%, as compared with approximately RMB66.5 million for the same period last year. This was mainly due to the fact that interest income increased approximately RMB24.0 million and more financial expenses were capitalized in the Period.

SHARE OF PROFITS OF ASSOCIATES

The Group's share of profits of associates for the six months ended 30 June 2014 was approximately RMB38.6 million, a significant increase of approximately RMB29.0 million or approximately 302.1%, as compared with approximately RMB9.6 million for the same period last year. This increase was attributable to the increase of approximately RMB4.7 million in results of Chongqing Hongyan Fangda Automobile Suspension Co., Ltd., the increase of approximately RMB1.9 million in results of Chongqing Midea General Refrigeration Equipment Co., Ltd. (重慶美的通用製冷設備有限公司), the increase of approximately RMB14.5 million in results of Chongqing ABB Power Transformer Co., Ltd. and the increase of approximately RMB9.1 million in results of Chongqing New North Zone Machinery and Electronic Microcredit Co., Ltd.* (重慶市北部新區機電小額貸款有限公司).



RESULTS OVERVIEW (*CONTINUED*)

SHARE OF PROFITS OF JOINTLY CONTROLLED ENTITIES

The Group's share of profits of jointly controlled entities for the six months ended 30 June 2014 was approximately RMB169.8 million, a decrease of approximately RMB21.6 million or approximately 11.3%, as compared with approximately RMB191.4 million for the same period last year. Such decrease was due to the decline in the sales and profit of Chongqing Cummins Engine Co., Ltd.

INCOME TAX EXPENSES

The corporate income tax expenses for the six months ended 30 June 2014 were approximately RMB25.5 million, an increase of approximately RMB15.8 million, or approximately 162.9%, as compared with approximately RMB9.7 million for the same period last year, mainly due to the increase in assessable profits of financial business and the change in deferred income tax.

PROFIT ATTRIBUTABLE TO THE SHAREHOLDERS OF THE COMPANY

Profit attributable to the shareholders of the Company for the Period was approximately RMB191.7 million, a decrease of approximately RMB31.4 million or approximately 14.1% as compared with approximately RMB223.1 million for the same period last year. Earnings per share decreased from approximately RMB0.06 for the same period last year to approximately RMB0.05.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(Including Financial Review)

RESULTS OVERVIEW (CONTINUED)

BUSINESS PERFORMANCE

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

	<u>Revenue</u>		<u>Gross Profit</u>		<u>Segment Results</u>	
	<u>Period ended</u>		<u>Period ended</u>		<u>Period ended</u>	
	<u>30 June</u>		<u>30 June</u>		<u>30 June</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
	<i>(RMB in millions, except for percentage)</i>					

Vehicle parts and components

Domestic

Gear boxes	<u>330.1</u>	383.4	<u>41.5</u>	72.4	<u>(22.6)</u>	2.9
Other products	<u>193.8</u>	210.4	<u>24.8</u>	28.5	<u>1.7</u>	4.0
Total	<u>523.9</u>	<u>593.8</u>	<u>66.3</u>	<u>100.9</u>	<u>(20.9)</u>	<u>6.9</u>
% of total	<u>10.8%</u>	<u>12.2%</u>	<u>13.2%</u>	<u>19.3%</u>	<u>(31.1)%</u>	<u>6.6%</u>



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(Including Financial Review)

RESULTS OVERVIEW (CONTINUED)

BUSINESS PERFORMANCE (Continued)

	Revenue		Gross Profit		Segment Results	
	Period ended		Period ended		Period ended	
	30 June		30 June		30 June	
	2014	2013	2014	2013	2014	2013
	<i>(RMB in millions, except for percentage)</i>					
Power equipment						
Domestic						
Hydroelectric generation equipment	190.2	171.8	44.8	40.5	8.0	11.7
Electrical wires and cables	1,521.7	1,203.4	94.7	91.6	52.2	47.7
Other products	222.7	325.4	5.0	—	(7.3)	(10.2)
Total	<u>1,934.6</u>	<u>1,700.6</u>	<u>144.5</u>	<u>132.1</u>	<u>52.9</u>	<u>49.2</u>
% of total	<u>40.0%</u>	<u>35.0%</u>	<u>28.8%</u>	<u>25.3%</u>	<u>78.8%</u>	<u>47.3%</u>
General machinery						
Domestic						
Total	<u>692.3</u>	<u>652.7</u>	<u>158.9</u>	<u>147.4</u>	<u>25.5</u>	<u>24.2</u>
% of total	<u>14.3%</u>	<u>13.4%</u>	<u>31.7%</u>	<u>28.2%</u>	<u>38.0%</u>	<u>23.3%</u>



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(Including Financial Review)

RESULTS OVERVIEW (CONTINUED)

BUSINESS PERFORMANCE (Continued)

	Revenue		Gross Profit		Segment Results	
	Period ended		Period ended		Period ended	
	30 June		30 June		30 June	
	2014	2013	2014	2013	2014	2013
<i>(RMB in millions, except for percentage)</i>						
CNC machine tools						
Domestic	336.6	316.8	70.8	66.8	11.5	27.8
Overseas	78.8	203.4	10.5	51.5	(28.8)	0.9
Total	415.4	520.2	81.3	118.3	(17.3)	26.9
% of total	8.6%	10.7%	16.2%	22.6%	(25.8)%	25.8%
Trade business						
Domestic	1,225.1	1,368.1	4.2	4.7	1.6	1.4
Total	1,225.1	1,368.1	4.2	4.7	1.6	1.4
% of total	25.3%	28.2%	0.8%	0.9%	2.4%	1.3%



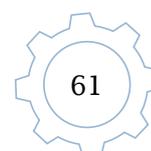
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(Including Financial Review)

RESULTS OVERVIEW (CONTINUED)

BUSINESS PERFORMANCE (Continued)

	Revenue		Gross Profit		Segment Results	
	Period ended		Period ended		Period ended	
	30 June	2013	30 June	2013	30 June	2013
	2014	2013	2014	2013	2014	2013
	<i>(RMB in millions, except for percentage)</i>					
Financial services						
Domestic	<u>50.3</u>	21.7	<u>46.5</u>	19.6	<u>40.8</u>	5.5
Total	<u>50.3</u>	21.7	<u>46.5</u>	19.6	<u>40.8</u>	5.5
% of total	<u>1.0%</u>	0.5%	<u>9.3%</u>	3.7%	<u>60.8%</u>	5.3%
Headquarters						
Total	<u>—</u>	—	<u>—</u>	—	<u>(15.5)</u>	(10.0)
% of total	<u>—%</u>	—%	<u>—%</u>	—%	<u>(23.1%)</u>	(9.6%)
Total	<u>4,841.6</u>	4,857.1	<u>501.7</u>	523.0	<u>67.1</u>	104.1



(Including Financial Review)

RESULTS OVERVIEW (*CONTINUED*)

Vehicle parts and components

Revenue from the vehicle parts and components segment for the six months ended 30 June 2014 was approximately RMB523.9 million, a decrease of approximately RMB69.9 million or approximately 11.8%, as compared with approximately RMB593.8 million for the same period last year. As compared with the same period last year, revenue from the gear box business decreased by approximately RMB53.3 million or approximately 13.9%, while revenue from other products also decreased by approximately RMB16.6 million or approximately 7.9%, primarily due to the impact of falling demand in automotive market, changes in product structure and decline in sales prices.

During the period, the gross profit for the vehicle parts and components segment was approximately RMB66.3 million, a decrease of approximately RMB34.6 million or approximately 34.3%, as compared with approximately RMB100.9 million for the six months ended 30 June 2013, which was primarily due to the changes in sales structure of products and increase in unit prices. Its gross profit margin declined by 4.3 percentage points over the same period of last year.

The result for the vehicle parts and components segment for the six months ended 30 June 2014 recorded a loss of approximately RMB20.9 million for the first time, a decrease of approximately RMB27.8 million as compared with the profit of approximately RMB6.9 million for the six months ended 30 June 2013.

Power equipment

Revenue from the power equipment segment for the six months ended 30 June 2014 was approximately RMB1,934.6 million, an increase of approximately RMB234.0 million or approximately 13.8%, as compared with approximately RMB1,700.6 million for the six months ended 30 June 2013, primarily due to an increase of approximately RMB18.4 million, or approximately 10.7% in revenue from hydroelectric generation equipment business. Revenue from electrical wires and cables business also increased by approximately RMB318.3 million or approximately 26.5%.



RESULTS OVERVIEW (*CONTINUED*)

Power equipment (*Continued*)

During the Period, gross profit for the power equipment segment was approximately RMB144.5 million, an increase of approximately RMB12.4 million or approximately 9.4% as compared with approximately RMB132.1 million for the six months ended 30 June 2013. Gross profit margin slightly decreased to 7.5% for the six months ended 30 June 2014 from 7.8% for the six months ended 30 June 2013.

Overall, the result for the power equipment segment for the six months ended 30 June 2014 was approximately RMB52.9 million, an increase of approximately RMB3.7 million or approximately 7.5% as compared with approximately RMB49.2 million for the six months ended 30 June 2013.

General machinery

Revenue from the general machinery segment for the six months ended 30 June 2014 was approximately RMB692.3 million, an increase of approximately RMB39.6 million or approximately 6.1% as compared with approximately RMB652.7 million for the six months ended 30 June 2013.

During the Period, gross profit for the general machinery segment was approximately RMB158.9 million, an increase of approximately RMB11.5 million or approximately 7.8% as compared with approximately RMB147.4 million for the six months ended 30 June 2013. Gross profit margin slightly increased to approximately 23.0% for the six months ended 30 June 2014 from approximately 22.6% for the six months ended 30 June 2013.

Overall, the result for the general machinery segment for the six months ended 30 June 2014 was approximately RMB25.5 million, an increase of approximately RMB1.3 million or approximately 5.4%, as compared with approximately RMB24.2 million for the six months ended 30 June 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS (*CONTINUED*)

(Including Financial Review)

RESULTS OVERVIEW (*CONTINUED*)

CNC machine tools

Revenue from the CNC machine tools segment for the six months ended 30 June 2014 was approximately RMB415.4 million, a decrease of approximately RMB104.8 million or approximately 20.1% as compared with approximately RMB520.2 million for the six months ended 30 June 2013. Meanwhile, revenue from our British subsidiary, the PTG, for the Period was approximately RMB78.8 million, a decrease of approximately RMB124.6 million or approximately 61.3% as compared with approximately RMB203.4 million for the six months ended 30 June 2013, mainly due to the continued decline in overall demands in the global machine tool industry.

During the Period, gross profit for the CNC machine tools segment was approximately RMB81.3 million, a decrease of approximately RMB37.0 million or approximately 31.3% as compared with approximately RMB118.3 million for the six months ended 30 June 2013. Gross profit margin decreased to approximately 19.6% for the six months ended 30 June 2014 from approximately 22.7% for the six months ended 30 June 2013, primarily due to the increased unit cost resulting from lower volumes of production and sales.

Overall, the result for the CNC machine tools segment for the six months ended 30 June 2014 recorded a loss of approximately RMB17.3 million for the first time, a decrease of approximately RMB44.2 million as compared with the profit of approximately RMB26.9 million for the six months ended 30 June 2013.



RESULTS OVERVIEW (*CONTINUED*)

Trade business

Revenue from the trade business segment for the six months ended 30 June 2014 was approximately RMB1,225.1 million, representing a decrease of approximately RMB143.0 million or approximately 10.5%, as compared with approximately RMB1,368.1 million for the six months ended 30 June 2013.

During the Period, gross profit for the trade business segment was approximately RMB4.2 million, a decrease of approximately RMB0.5 million or approximately 10.6% as compared with approximately RMB4.7 million for the six months ended 30 June 2013. Gross profit was maintained at 0.3% with no change as compared to the same period of last year.

Overall, the result for trade business segment for the six months ended 30 June 2014 was approximately RMB1.6 million, an increase of approximately RMB0.2 million or approximately 14.3% as compared with approximately RMB1.4 million for the six months ended 30 June 2013.

Financial business

Revenue from the financial business segment for the six months ended 30 June 2014 was approximately RMB50.3 million, an increase of approximately RMB28.6 million or approximately 131.8%, as compared with approximately RMB21.7 million for the six months ended 30 June 2013.

During the period, the gross profit of financial business was approximately RMB46.5 million, an increase of approximately RMB26.9 million or approximately 137.2%, as compared with approximately RMB19.6 million for the six months ended 30 June 2013.

Overall, the result of financial business was approximately RMB40.8 million, representing a significant increase of approximately RMB35.3 million or approximately 641.8%, as compared with approximately RMB5.5 million for the six months ended 30 June 2013.

MANAGEMENT'S DISCUSSION AND ANALYSIS (*CONTINUED*)

(Including Financial Review)

CASH FLOW

The Group's cash and bank deposits (including the restricted cash) aggregated to approximately RMB2,114.3 million as at 30 June 2014 (31 December 2013: approximately RMB2,239.5 million), a decrease of approximately RMB125.2 million or approximately 5.6%, mainly due to the increase in capital expenditure.

During the Period, the Group had a net cash outflow from operating activities of approximately RMB163.3 million (for the six months ended 30 June 2013: a net cash outflow of approximately RMB333.3 million), a net cash outflow from investing activities of approximately RMB339.3 million (for the six months ended 30 June 2013: a net cash outflow of approximately RMB158.8 million), and a net cash inflow from financing activities of approximately RMB147.4 million (for the six months ended 30 June 2013: a net cash outflow of approximately RMB62.7 million).

TRADE AND OTHER RECEIVABLES

As at 30 June 2014, the Group's trade and other receivables totaled approximately RMB4,471.2 million, representing an increase of approximately RMB593.8 million, as compared with approximately RMB3,877.4 million as at 31 December 2013, primarily due to an increase of approximately RMB163.4 million in trade receivable attributable to the longer credit period for wind power rotor blade business provided to customers; as well as an increase of approximately RMB153.1 million in prepayments of trade business and the increase of approximately RMB110.1 million in prepayments of CNC machine tool business due to the acquisition of engineering equipment for relocation to new plants; an increase of extended loans of approximately RMB71.6 million from the financial business. Please refer to note 13 to the condensed consolidated financial statements for detailed ageing analysis of the trade and bills receivables.



TRADE AND OTHER PAYABLES

As at 30 June 2014, the Group's trade and other payables totaled approximately RMB4,388.9 million, representing an increase of approximately RMB560.5 million, as compared with approximately RMB3,828.4 million as at 31 December 2013, primarily due to the fact that the bill payable of financial business increased by approximately RMB76.4 million and the trade payable of CNC machine tool business increased by approximately RMB66.9 million due to the longer credit period provided by suppliers; as well as the increase of approximately RMB144.8 million and approximately RMB78.2 million in advances received from customers of trade and general machinery businesses respectively. Please refer to note 15 to the condensed consolidated financial statements for detailed ageing analysis of the trade and bills payable.

ASSETS AND LIABILITIES

As at 30 June 2014, the total assets of the Group amounted to approximately RMB13,779.6 million, an increase of approximately RMB929.3 million as compared with approximately RMB12,850.3 million as at 31 December 2013. The total current assets amounted to approximately RMB8,992.3 million, an increase of approximately RMB583.4 million as compared with approximately RMB8,408.9 million as at 31 December 2013, accounting for approximately 65.3% of the total assets (31 December 2013: approximately 65.4%). However, the total non-current assets amounted to approximately RMB4,787.3 million, an increase of approximately RMB345.9 million as compared with approximately RMB4,441.4 million as at 31 December 2013, accounting for approximately 34.7% of the total assets (31 December 2013: approximately 34.6%).

MANAGEMENT'S DISCUSSION AND ANALYSIS (*CONTINUED*)

(Including Financial Review)

ASSETS AND LIABILITIES (*CONTINUED*)

As at 30 June 2014, total liabilities of the Group amounted to approximately RMB7,864.8 million, an increase of approximately RMB900.8 million as compared with approximately RMB6,964.0 million as at 31 December 2013. Total current liabilities were approximately RMB5,921.6 million, representing an increase of approximately RMB981.4 million as compared with approximately RMB4,940.2 million as at 31 December 2013, and accounting for approximately 75.3% of the total liabilities (31 December 2013: approximately 70.9%). However, the total non-current liabilities amounted to approximately RMB1,943.2 million, a decrease of approximately RMB80.6 million as compared with approximately RMB2,023.8 million as at 31 December 2013, accounting for approximately 24.7% of the total liabilities (31 December 2013: approximately 29.1%).

As at 30 June 2014, net current assets of the Group amounted to approximately RMB3,070.7 million, a decrease of approximately RMB398.0 million as compared with approximately RMB3,468.7 million as at 31 December 2013.

CURRENT RATIO

Current ratio (the ratio of current assets over current liabilities) of the Group as at 30 June 2014 was 1.52:1 (31 December 2013: 1.70:1).

INDEBTEDNESS

As at 30 June 2014, the Group had an aggregate bank and other borrowings of approximately RMB2,638.7 million, representing an increase of approximately RMB152.6 million as compared with approximately RMB2,486.1 million as at 31 December 2013.

Borrowings repayable by the Group within one year were approximately RMB1,234.2 million, representing an increase of approximately RMB237.3 million as compared with approximately RMB996.9 million as at 31 December 2013. Borrowings repayable after one year were approximately RMB1,404.5 million, representing a decrease of approximately RMB84.8 million as compared with approximately RMB1,489.3 million as at 31 December 2013.



SIGNIFICANT EVENTS

EVENTS WITHIN THE PERIOD

- (1) Chongqing Water Turbine Works Co., Ltd., 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 Tool (Group) Co., Ltd., 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 of the Company published on the websites of 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 was approved at the general meeting of the Company held on 18 June 2014, at which, the Board was also authorised to fix 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.

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

SUBSEQUENT EVENTS

On 15 July 2014, Chongqing Huahao Smelting Co., Ltd. ("Huahao"), a wholly owned subsidiary of the Company, established a company together with GRIPM Advanced Materials Co., Ltd. and Mr. Panhua. The company is known as Chongqing Youyan Smelting New Material Co., Ltd. ("Chongqing Youyan") with registered capital of RMB80,000,000. The principal activities of the company are manufacturing and sales of metallurgical products. Huahao owns 41.5% equity interest of Chongqing Youyan and considered the company as an associate of the Group. Huahao injected property, plant and equipment of RMB31,825,200 and cash of RMB1,374,800 into Chongqing Youyan as capital.



MANAGEMENT'S DISCUSSION AND ANALYSIS (*CONTINUED*)

(Including Financial Review)

CONTINGENT LIABILITIES

The Group has certain legal claims arising in the ordinary course of business as at 30 June 2014. Based on the legal opinion provided by the lawyers, the Directors are of the opinion that no material liabilities will arise from those legal claims.

CAPITAL EXPENDITURE

During the Period, the total capital expenditure of the Group was approximately RMB260.7 million, which was principally used for expansion of plants, enhancement of production technologies, upgrading of production equipment and improvement on production capacity (for the six months ended 30 June 2013: approximately RMB232.7 million).

RISK OF FOREIGN EXCHANGE

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

EMPLOYEES

As at 30 June 2014, the Group had a total of 13,759 employees (30 June 2013: 15,913 employees). The Group will continue the upgrade of its technical talent base, foster and recruit technical and management personnel with extensive professional experiences, optimize the distribution system that links with the remunerations and performance, improve training on safety so as to ensure employees' safety and maintain good and harmonious employee-employer relations.



OTHER INFORMATION

SHARE CAPITAL STRUCTURE

	Number of share	Approximate percentage of issued share capital (%)
Domestic Shares	2,584,452,684	70.14
H Shares (<i>Note</i>)	<u>1,100,187,470</u>	<u>29.86</u>
Total	<u><u>3,684,640,154</u></u>	<u><u>100</u></u>

There was no movement in the share capital of the Company during the six months ended 30 June 2014, details of which are set out in Note 14 to the condensed consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2014, none of the directors, chief executive or supervisors of the Company had any interests or short positions in the shares, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions of directors or chief executive which are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules.



OTHER INFORMATION (CONTINUED)

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

As at 30 June 2014, so far as the Directors are aware, the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Domestic shares of RMB1.00 each of the Company

Name of Substantial Shareholders	Number of shares	Capacity	Note	Percentage	Percentage
				of total issued domestic shares	of total issued shares
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	1,924,225,189	Beneficial owner	(1)	74.46(L)	52.22
Chongqing Yufu Assets Management Group Co. Ltd.	232,132,514	Beneficial owner	(1)	8.98(L)	6.30
Chongqing Construction Engineering Group Corporation Limited	232,132,514	Beneficial owner	(2)	8.98(L)	6.30
China Huarong Asset Management Co., Ltd.	195,962,467	Beneficial owner	(3)	7.58(L)	5.32
State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government	2,388,490,217	Interest in controlled corporations	(1)	92.42(L)	64.82
Ministry of Finance of the PRC	195,962,467	Interest in controlled corporations	(3)	7.58(L)	5.32

(L): Long Position



OTHER INFORMATION *(CONTINUED)*

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(CONTINUED)*

H shares of RMB1.00 each of the Company

Name of Substantial Shareholders	Number of shares	Capacity	<i>Note</i>	Percentage of total issued H shares	Percentage of total issued shares
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000(L) 0(P)	Interest of Custodian		7.93 (L) 0 (P)	2.37 (L) 0 (P)
The Bank of New York Mellon Corporation	87,276,000(L) 87,276,000(P)	Interest of Corporation controlled by substantial Shareholder	(4)	7.93 (L) 7.93 (P)	2.37 (L) 2.37(P)
GE Asset Management Incorporated	75,973,334(L)	Investment manager		6.91 (L)	2.06(L)
Templeton Asset Management Limited	66,104,000(L)	Investment manager		6.01(L)	1.79(L)

(L): Long Position

(S): Short Position

(P): Lending Pool



SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES (*CONTINUED*)

H shares of RMB1.00 each of the Company (*Continued*)

Note:

- (1) Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Yufu Asset Management Group Co., Ltd. were wholly owned by State-owned Assets Supervision and Administration Commission of Chongqing Municipal Government which was deemed to be interested in 1,924,225,189 domestic shares and 232,132,514 domestic shares of the Company respectively.
- (2) Chongqing Construction Engineering Group Corporation Limited is held as to 96.18% by State-owned Assets Supervision and Administration Commission of Chongqing Municipal Government through its four wholly-owned subsidiaries and as to 3.82% by the Ministry of Finance of the People's Republic of China through China Huarong Asset Management Co., Ltd., its wholly-owned subsidiary. Therefore, State-owned Assets Supervision and Administration Commission of Chongqing Municipal Government and the Ministry of Finance of the People's Republic of China are deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Engineering Group Corporation Limited.
- (3) China Huarong Asset Management Co., Ltd. * is held as to 98.06% directly by the Ministry of Finance of the People's Republic of China and as to 1.94% indirectly by the Ministry of Finance of the People's Republic of China through China Life Insurance (Group) Company, its wholly-owned subsidiary. Therefore, the Ministry of Finance of the People's Republic of China is deemed to be interested in 195,962,467 domestic shares of the Company held by China Huarong Asset Management Co., Ltd..
- (4) The Bank of New York Mellon Corporation holds 100% interest in The Bank of New York Mellon (formerly known as "The Bank of New York"), which holds 87,276,000 of H shares of the Company. The interest in 87,276,000 H shares relates to the same block of shares in the Company and includes a lending pool of 87,276,000 of H shares of the Company.

Save as disclosed above, the Directors of the Company are not aware of any persons holding any interests or short positions in the shares or underlying shares which were required to be recorded in the register pursuant to section 336 of the SFO as at 30 June 2014.



COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has complied with and adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules as the code for securities transactions by directors of the Company. The Company has obtained the respective confirmations by all its directors that they have strictly complied with the provisions set out in the Model Code for the six months ended 30 June 2014.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the six months ended 30 June 2014, neither the Group nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividends.

AUDIT COMMITTEE

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

THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE

As at the date of this report, the executive Directors of the Company are Mr. Wang Yuxiang, 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. Yang Zhimin.

As at the date of this report, the members of the Supervisory Committee of the Company are Mr. Yang Mingquan, Mr. Wang Pengcheng, Mr. Liu Xing, Mr. Du Chengrong, Mr. Chen Qing and Mr. Zhao Zicheng.

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

The interim results announcement has been published on the websites of the Company (<http://www.chinacqme.com>) and the Stock Exchange. The interim report will also be available at the Company's and the Stock Exchange's websites on or about 29 August 2014 and will be dispatched to shareholders of the Company thereafter by the means of receipt of corporate communication they selected.

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

Chongqing, the PRC
20 August 2014

* *For identification purpose only*

