



重慶機電股份有限公司

CHONGQING MACHINERY & ELECTRIC CO., LTD.*

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

Stock Code: 02722

INTERIM
REPORT 2015



***EQUIP CHINA,
ADVANCE TOWARDS
THE WORLD***

* 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

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. Liu Wei

SUPERVISORS

Mr. Yang Mingquan
 Mr. Wang Pengcheng
 Ms. Wu Yi
 Mr. Huang Hui
 Mr. Chen Qing
 Mr. Zhao Zicheng

LEGAL REPRESENTATIVE

Mr. Wang Yuxiang

COMMITTEES UNDER BOARD OF DIRECTORS

Members of the Audit Committee

Mr. Lo Wah Wai (*Chairman*)
 Mr. Jin Jingyu
 Mr. Liu Wei
 Mr. Deng Yong

Members of the Remuneration Committee

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

Members of the Nomination Committee

Mr. Wang Yuxiang (*Chairman*)
 Mr. Ren Xiaochang
 Mr. Jin Jingyu
 Mr. Liu Wei
 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. Liu Wei

COMPANY SECRETARY

Miss Chiu Hoi Shan (*Practising Solicitor*)

Corporate Information (Continued)

QUALIFIED ACCOUNTANT

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

AUTHORISED REPRESENTATIVES AND CONTACT INFORMATION

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Miss Chiu Hoi Shan
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29 Queen's Road Central
Central, Hong Kong
Tel.: 852-21669738

ALTERNATE AUTHORISED 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

REGISTERED ADDRESS

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

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

INTERNATIONAL AUDITOR

PricewaterhouseCoopers

LEGAL ADVISOR TO THE COMPANY

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 502, 5/F., China Building
29 Queen's Road Central
Central, Hong Kong

COMPANY WEBSITE

www.chinacqme.com

PRINCIPAL BANKER

China Merchants Bank
Chongqing Shangqingsi Sub-branch
1st Floor, Zhong-an International Building
No.162 Zhongshan Fifth 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 2015 amounted to approximately RMB4,350.5 million, representing a decrease of approximately 10.1% from the corresponding period last year.
- Gross profit of the Group for the six months ended 30 June 2015 amounted to approximately RMB512.6 million, representing an increase of approximately 2.2% from the corresponding period last year.
- Profit attributable to the shareholders of the Company for the six months ended 30 June 2015 amounted to approximately RMB185.2 million, representing a decrease of approximately 3.4% from the corresponding period last year.
- Basic earnings per share for the six months ended 30 June 2015 amounted to approximately RMB0.05.

Chairman's Statement

Dear Shareholders,

The board of directors (the "Board") of the Company is pleased to announce the interim results of the Group for the six months ended 30 June 2015 (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 2015 amounted to approximately RMB4,350.5 million, representing a decrease of around 10.1% from approximately RMB4,841.6 million for the corresponding period last year.

Profit attributable to the shareholders of the Company for the six months ended 30 June 2015 amounted to approximately RMB185.2 million, representing a decrease of around 3.4% from approximately RMB191.7 million for the corresponding period last year.

For the six months ended 30 June 2015, earnings per share amounted to approximately RMB0.05 (for the first half of 2014: approximately RMB0.05). Total assets of the Group as at 30 June 2015 amounted to approximately RMB14,476.9 million (as at 31 December 2014: approximately RMB13,634.6 million), while total liabilities amounted to approximately RMB8,189.3 million (as at 31 December 2014: approximately RMB7,383.6 million); total equity was approximately RMB6,287.6 million (as at 31 December 2014: approximately RMB6,251.0 million); net asset value per share was approximately RMB1.71 (as at 31 December 2014: approximately RMB1.70).

In the first half of 2015, the world economy showed a mild recovery, with countries having diverse trends in their economic conditions. The American economy displayed a trend of mild recovery. During that period, the United States pressed ahead with the development strategy of reindustrialisation through the "Advanced Manufacturing Partnership" program, driving the IT industry to advance in tandem with the manufacturing industry and marching towards the intelligent manufacturing industry. Germany also formulated "Industry 4.0", a nationwide strategic scheme for stimulating the manufacturing industry. The European economy, however, was encumbered by the debt crisis in Greece and had an uncertain outlook, with Euro declining amid fluctuation.

Chairman's Statement (Continued)

In the first half of 2015, the economy in China continued with its adjustment amid a diverse economic profile, with some core indicators picking up. Notwithstanding an increase in positive factors and the effect of policies for maintaining a stable growth, the economy's down-trend had yet to reverse. In the face of a slowdown in economic growth and the turbulent capital market, the Chinese government introduced proactive fiscal policies and monetary easing policies in the hope of maintaining stability in the financial market and fostering economic development. In the first half of 2015, GDP grew by 7.0%, representing a moderate yet stable, and stable yet positive trend.

In the face of the complex economic environment both within and outside the country and mounting downtrend pressure, the Group will put more efforts into marketing, seek more orders, strengthen governance, and place emphasis on reforms to meet the annual business targets under the overall philosophy of "seeking development through furthering reforms and improving efficiency through refining management".

DEVELOPMENT STRATEGY

Based on the "Twelfth Five-year Plans" of China and the Company, the Group will continue to leverage the new "321" strategy to chart its overall direction by focusing on "sharpening up existing business, boosting new business and continuous innovation", further its reforms, enhance management, improve quality, raise efficiency and strengthen risk control, so as to promote the sustainable and healthy development of the Company.

Work Priorities in the second half of 2015

(I) Improving the quality of business operation

We will actively expand new businesses and vigorously develop overseas markets in emerging economies; experiment with procurement through e-commerce platforms, further central procurement; enhance logistics management, reduce logistics costs, and explore energy management contract, so as to reduce costs and raise efficiency, enhance product quality control and lower product quality loss.

(II) Furthering reform and restructuring

We will actively promote the reform on creating a diversified shareholding structure for subsidiaries and push forward strategic merger and acquisition within and outside the country at a steady pace, gradually giving up non-core business with little strategic importance.

Chairman's Statement (Continued)

(3) Ensuring the construction progress of key projects

We will ensure that construction of the main works for the relocation of Chongqing Water Turbine Works Company Limited ("Chongqing Water Turbine") and Chongqing Jiangbei Machinery Company Limited ("Chongqing Jiangbei Machinery") for environmental protection and the offshore wind-power project of Chongqing General Industry (Group) Company Limited ("Chongqing General") will be completed, and construction of the plants for the Cummins high-horsepower engine international research centre and production lines will commence.

(4) Accelerating transformation and upgrading

We will step up efforts in innovative technology transformation and upgrade and in the development of new products; and optimize patent structure to gain more patents for invention.

(5) Enhancing human resources management

We will constantly promote reforms on employment, remuneration and distribution under the market-oriented approach; implement overseas study, cultivation and training for the Group's staff; and introduce international talents of high calibre, so as to gradually establish and nurture overseas staff of the Group.

(6) Strengthening financial management and control

We will follow up with and exercise budget management pursuant to the corporate financial budget, so as to reflect and monitor its execution in a timely manner; make arrangements for trial run of the proposal on budget informatisation by enterprises to perfect the comprehensive budget management system; strive to reduce inventories, recover payment for goods, revitalise existing assets; continue to expand financing channels within and outside the country, and promote discounting services for trade receivables.

(7) Strengthening risk prevention and control

We will step up supervision on the special auditing procedures for connected transactions; strengthen assessment of the internal control system; and establish a mechanism for preventing legal risk.

Chairman's Statement (Continued)

BUSINESS REVIEW AND OUTLOOK

Automobile parts and components (gear boxes, steering systems and others)

In the first half of 2015, China's automobile industry experienced a deceleration in growth in general, with a year-on-year marginal growth of 2.64% and 1.43% respectively in output and sales of automobiles in the country. However, large and medium passenger vehicles and heavy-duty trucks, which are closely related to the Group, witnessed a year-on-year reduction in sales of 9% and 31% respectively. At the same time, due to factors such as the rapid development of high-speed rails, bullet trains and urban rail transit, the Group's gear boxes and steering systems business had dropped in output and sales volumes, basically demonstrating the same trend in performance as that of the industry.

For the gear box production base with an annual capacity of 400,000 units for medium and heavy-duty trucks, the 200,000-unit phase 1 project was completed with equipment installed for testing in the first half of 2015. On 4 May 2015, Qijiang Gear Transmission Company Limited ("Qijiang Gear Transmission") signed a joint venture agreement with Chongqing Re-intel Technology Group Company Limited ("Reintel") for establishing a joint venture, under-taking the production of 200,000 sets of medium and heavy-duty vehicle gearboxes of Qi-jiang Gear Transmission. Chongqing QG Reintel Transmission Company Limited ("Joint Venture") is a limited liability company registered in China; the Company holds a shareholding of 10% in the Joint Venture while Qijiang Gear Transmission holds 35%.

Benefitting from the gradual increase in investments in infrastructure by the Chinese government and the faster pace of urbanisation, the Group expects the segment to have better business results in 2015.

In addition, Chongqing Cummins Engine Company Limited ("Chongqing Cummins"), a joint venture of the Group, is engaged in the business of diesel engine production. With a slowing-down in the growth of fixed investments, key markets such as electricity, engineering machinery and shipbuilding witnessed weaker demand and the diesel engine business experienced a decline in operating results. The relevant operating results for the first half of 2015 are set out in the section headed "SHARE OF POST-TAX PROFIT OF A JOINT VENTURE" on page 41 of the Interim Report.

Chairman's Statement (Continued)

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

In the first half of 2015, due to the factors such as the Chinese Government's promotion of clean energy, smart power grid construction and rapid urban development, the market of electrical wires and cables expanded quickly in the past two years and the sales volume of electrical wires and cables slightly increased. In spite of this, the sales figure of the business dropped as a result of decreasing copper prices. The technology of the hydroelectric generators business is highly renowned in overseas markets and the orders experienced an increase. The overall business results remained stable.

In the first half of 2015, construction of the main structure of the joint machining and assembly plant of Chongqing Water Turbine's relocation project for environmental protection was completed. "Ultrahigh-head impact hydroelectric generating sets" (超高水頭衝擊式水輪機組項目) received the second prize of Chongqing Municipal Award for Progress in Science and Technology. Chongqing Pigeon Electric Wires & Cables Company Limited ("Chongqing Pigeon") received the recognition of the Ministry of Industry and Information Technology as one of the "Model Enterprises of Industrial Brand Cultivation". Chongqing Pigeon's 11 products, including independently developed energy-saving wires and U300BP/195-2 bell-shaped suspension electrical insulators, are now on the market for bulk sales.

The Group expects the segment to maintain stable in 2015.

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

In the first half of 2015, the sales in the traditional industrial markets in the segment, for example, iron and steel, metallurgy, petroleum and petrochemicals, coal chemicals, mining and cement, were still weak. However, benefitting from the stable operating results of industrial pumps business in the middle and high-end market and the rapid growth in wind power rotor blades business, the segment achieved relatively fast growth.

Construction of the main structure of the plant of Chongqing Jiangbei Machinery's relocation project for environmental protection was completed in the first half of 2015. The project of "Key equipment technology and integrated equipment for processing food waste and kitchen garbage into resources" (餐廳垃圾資源化處理用關鍵設備技術及一體化設備) of Chongqing Jiangbei Machinery received investment subsidies amounting to RMB15 million from the state. Nuclear power water chilling units of Chongqing General passed the design assessment for major science and technology projects in special topics at the state level. The four new environment-friendly centrifugal ventilators developed by Chongqing General have been selected to be included into the "Energy Efficiency Star" product catalogue of the Ministry of Industry and Information Technology of the country.

Chairman's Statement (Continued)

On 7 April 2015, Chongqing General signed an equity transfer agreement with Carrier Asia Limited, selling 35% equity interest in Chongqing Midea General Refrigeration Equipment Company Limited (Chongqing Midea General) at RMB176,587,500. Following the transaction, Chongqing General still held 10% equity interest in Chongqing Midea General.

The Group expects the segment to see a relatively rapid growth in 2015.

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

In the first half of 2015, due to the constant influence of structural adjustments to the world economy and cyclic adjustments to the industry, investment recession and excess capacity resulted in a decrease in demand for machine tools in China and for the Group's CNC machine tools. Revenue decreased, but operating results experienced a growth benefitting from the gain from land transfer in relation to relocation for environmental protection.

Construction of the main structure of the relocation projects of Chongqing Tool Factory Company Limited and Chongqing Yinhe Forging & Founding Company Limited for environmental protection was completed in the first half of 2015. Chongqing Machine Tools (Group) Company Limited ("Chongqing Machine Tools") successfully filed its application for special projects in intelligent manufacturing for 2015 and obtained subsidies of RMB10 million from the Ministry of Industry and Information Technology.

During the Period, cotton-harvesting machines jointly developed by Chongqing Machine Tools and Xinjiang Huaguan Lvye Agricultural Technology Company Limited passed the municipal-level new product verification in Chongqing and obtained a total of six national patents for invention and utility model.

The Group expects the segment to see an increase in business opportunities because of the faster pace in upgrading CNC machine tools and growing demands for high-end intelligent equipment.

Financial Services

In the first half of 2015, following the adjustments to credit policies of the country and a decrease in interest income, revenue of the financial services of the Group amounted to approximately RMB27.5 million, representing a year-on-year decrease of approximately 45.3%.

Chairman's Statement (Continued)

Trade Business

In the first half of 2015, the bulk commodity central procurement platform of the Group increased the types of procurement, directly reducing procurement cost of the Group by approximately RMB7.0 million, and sales decreased by approximately 17.1% year-on-year.

SUMMARY

In the second half of 2015, it is envisaged that the economy of the United States will pick up, the deleterious effect of the debt crisis in Greece on the European economy will wear off, the emerging economies will gradually attain stability, and the world economy will have a stable and positive development. With effective measures for maintaining stability in growth and finance introduced by the government and the ongoing implementation of national strategies including “One Belt, One Road” and “Yangtze River Economic Belt”, factors including the increasing acceleration of new types of urbanisation will help drive the sustainable and sound development of the Chinese economy in “new normal”. In the second half of the year, along with the implementation of economy-stimulating policies and the drive of strategies including “Made in China 2025”, the equipment manufacturing industry is expected to become stable at its trough and recover mildly. The Group will strictly implement its main tasks for the second half of the year, and it is expected that the Group will maintain a steady development trajectory in 2015.

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

Wang Yuxiang

Executive Director and Chairman

Chongqing, the PRC, 25 August 2015

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 56, 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 2015 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.

Report on Review of Interim Financial Information *(Continued)*

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, 25 August 2015

Unaudited Interim Condensed Consolidated Statement of Comprehensive Income

For the six months ended 30 June 2015

	Note	Unaudited	
		Six months ended 30 June	
		2015	2014
		RMB'000	RMB'000
Revenue	6	4,350,470	4,841,594
Cost of sales		(3,837,877)	(4,339,892)
Gross profit		512,593	501,702
Distribution costs		(117,573)	(131,068)
Administrative expenses		(614,190)	(342,698)
Other gains, net		331,793	4,549
Other income		24,995	34,630
Operating profit	7	137,618	67,115
Finance income		14,823	36,086
Finance costs		(65,998)	(73,998)
Share of post-tax profits of associates	11	15,348	38,560
Share of post-tax profit of a joint venture	12	134,274	169,758
Profit before income tax		236,065	237,521
Income tax expense	8	(31,123)	(25,531)
Profit for the period		204,942	211,990

Unaudited Interim Condensed Consolidated Statement of Comprehensive Income *(Continued)*

For the six months ended 30 June 2015

	Note	Unaudited	
		Six months ended 30 June	
		2015	2014
		RMB'000	RMB'000
Other comprehensive income:			
<u>Items that will not be reclassified subsequently to profit or loss</u>			
Remeasurements of retirement benefit obligations	19	(1,170)	(572)
Income tax relating to remeasurements of retirement benefit obligations		91	28
<u>Items that may be reclassified subsequently to profit or loss</u>			
Currency translation differences		2,307	1,345
Other comprehensive income for the period, net of tax		1,228	801
Total comprehensive income for the period		206,170	212,791
Profit attributable to:			
– Owners of the Company		185,161	191,709
– Non-controlling interests		19,781	20,281
		204,942	211,990
Total comprehensive income attributable to:			
– Owners of the Company		186,389	192,510
– Non-controlling interests		19,781	20,281
		206,170	212,791

Unaudited Interim Condensed Consolidated Statement of Comprehensive Income *(Continued)*

For the six months ended 30 June 2015

	Note	Unaudited	
		Six months ended 30 June	
		2015	2014
		RMB'000	RMB'000
<hr/>			
Earnings per share for profit attributable to owners of the Company (expressed in RMB per share)			
– Basic and diluted	9	<u>0.05</u>	<u>0.05</u>

The notes on pages 25 to 56 are an integral part of this unaudited interim condensed consolidated financial information.

Unaudited Interim Condensed Consolidated Balance Sheet

As at 30 June 2015

	<i>Note</i>	Unaudited 30 June 2015 RMB'000	Audited 31 December 2014 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	10	3,299,734	3,105,368
Investment properties	10	27,547	29,828
Lease prepayments	10	592,850	466,672
Intangible assets	10	286,926	289,469
Investments in associates	11	548,023	540,112
Investments in a joint venture	12	450,443	316,169
Deferred income tax assets		107,539	72,515
Available-for-sale financial assets		8,029	8,029
Other non-current assets		22,808	24,263
Total non-current assets		5,343,899	4,852,425
Current assets			
Inventories		1,909,143	1,700,880
Amounts due from customers for contract work		511,172	498,025
Financial assets at fair value through profit or loss		72,574	194,939
Trade and other receivables	13	4,662,044	4,187,371
Dividend receivable		313,526	313,426
Restricted cash		440,867	684,039
Cash and cash equivalents		1,223,720	1,203,508
Total current assets		9,133,046	8,782,188
Total assets		14,476,945	13,634,613

Unaudited Interim Condensed Consolidated Balance Sheet (Continued)

As at 30 June 2015

	<i>Note</i>	Unaudited 30 June 2015 RMB'000	Audited 31 December 2014 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	14	3,684,640	3,684,640
Other reserves		(722,759)	(723,987)
Retained profits		2,899,493	2,883,825
		5,861,374	5,844,478
Non-controlling interests		426,272	406,491
Total equity		6,287,646	6,250,969
LIABILITIES			
Non-current liabilities			
Trade and other payables	15	30,000	30,000
Borrowings	17	1,695,351	1,421,986
Deferred income		390,714	410,617
Deferred income tax liabilities	18	96,055	50,279
Long-term employee benefit obligations	19	230,683	50,451
Total non-current liabilities		2,442,803	1,963,333

Unaudited Interim Condensed Consolidated Balance Sheet *(Continued)*

As at 30 June 2015

	<i>Note</i>	Unaudited 30 June 2015 RMB'000	Audited 31 December 2014 RMB'000
Current liabilities			
Trade and other payables	15	4,418,004	4,200,117
Dividends payable		185,021	27,175
Amounts due to customers for contract work		5,618	15,239
Current income tax liabilities		56,065	44,599
Borrowings	17	993,805	1,072,975
Deferred income		31,113	32,206
Current portion of long-term employee benefit obligations	19	40,054	11,605
Provision for warranty	16	16,816	16,395
Total current liabilities		5,746,496	5,420,311
Total liabilities		8,189,299	7,383,644
Total equity and liabilities		14,476,945	13,634,613
Net current assets		3,386,550	3,361,877
Total assets less current liabilities		8,730,449	8,214,302

The notes on pages 25 to 56 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 2015

	Unaudited						
	Note	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	
Balance at 1 January 2015		<u>3,684,640</u>	<u>(723,987)</u>	<u>2,883,825</u>	<u>5,844,478</u>	<u>406,491</u>	<u>6,250,969</u>
Comprehensive income							
Profit for the period		-	-	185,161	185,161	19,781	204,942
Other comprehensive income							
Remeasurements of retirement benefit obligations, net of tax		-	(1,079)	-	(1,079)	-	(1,079)
Currency translation differences		-	2,307	-	2,307	-	2,307
Total other comprehensive income		-	1,228	-	1,228	-	1,228
Total comprehensive income for the period ended 30 June 2015		-	1,228	185,161	186,389	19,781	206,170
Total contributions by and distributions to owners of the Company recognised directly in equity							
Dividends relating to 2014	20	-	-	(169,493)	(169,493)	-	(169,493)
Total transactions with owners		-	-	(169,493)	(169,493)	-	(169,493)
Balance at 30 June 2015		<u>3,684,640</u>	<u>(722,759)</u>	<u>2,899,493</u>	<u>5,861,374</u>	<u>426,272</u>	<u>6,287,646</u>

Unaudited Interim Condensed Consolidated Statement of Changes In Equity (Continued)

For the six months ended 30 June 2015

	Unaudited						
	Note	Attributable to owners of the Company			Total	Non-controlling interests	Total equity
		Share capital	Other reserves	Retained profits			
		RMB'000	RMB'000	RMB'000			
Balance at 1 January 2014		3,684,640	(752,910)	2,587,115	5,518,845	367,420	5,886,265
Comprehensive income							
Profit for the period		–	–	191,709	191,709	20,281	211,990
Other comprehensive income							
Remeasurements of retirement benefit obligations, net of tax		–	(544)	–	(544)	–	(544)
Currency translation differences		–	1,345	–	1,345	–	1,345
Total other comprehensive income		–	801	–	801	–	801
Total comprehensive income for the period ended 30 June 2014		–	801	191,709	192,510	20,281	212,791
Total contributions by and distributions to owners of the Company recognised directly in equity							
Dividends relating to 2013	20	–	–	(184,232)	(184,232)	–	(184,232)

Unaudited Interim Condensed Consolidated Statement of Changes In Equity (Continued)

For the six months ended 30 June 2015

	Unaudited						
	Note	Attributable to owners of the Company			Total	Non-controlling interests	Total equity
		Share capital	Other reserves	Retained profits			
		RMB'000	RMB'000	RMB'000			
Total contributions by and distributions to owners of the Company							
Transfer to reserves	-	5,390	(5,390)	-	-	-	
Total transactions with owners	-	5,390	(189,622)	(184,232)	-	(184,232)	
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>	

The notes on pages 25 to 56 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 2015

	Unaudited	
	Six months ended 30 June	
	2015	2014
	RMB'000	<i>RMB'000</i>
Cash flows from operating activities		
Cash used in operations	(51,145)	(44,468)
Income tax paid	(31,277)	(66,979)
Interest paid	(47,943)	(51,826)
	<hr/>	<hr/>
Cash flows from operating activities - net	(130,365)	(163,273)
	<hr/>	<hr/>
Cash flows from investing activities		
Purchase of financial assets at fair value through profit or loss	(70,000)	(45,991)
Proceeds from the disposal of financial assets at fair value through profit or loss	196,463	48,129
Proceeds from government grants related to assets	3,837	29,309
Purchases of property, plant and equipment	(340,655)	(433,265)
Proceeds on disposal of property, plant and equipment and lease prepayment	200,037	43,640
Purchase of intangible assets	(11,189)	(15,126)
Increase in lease prepayments	(38,363)	(40,503)
Dividends received	7,337	37,147
Interest received	13,236	37,403
	<hr/>	<hr/>
Cash flows from investing activities - net	(39,297)	(339,257)
	<hr/>	<hr/>

Unaudited Interim Condensed Consolidated Statement of Cash Flows (Continued)

For the six months ended 30 June 2015

	Unaudited	
	Six months ended 30 June	
	2015	2014
	RMB'000	<i>RMB'000</i>
Cash flows from financing activities		
Proceeds from borrowings	949,371	1,479,127
Repayments of borrowings	(899,198)	(1,325,931)
Proceeds from finance lease obligations	150,000	–
Payments of finance lease obligations	(903)	(1,292)
Dividends paid to non-controlling interests	(11,648)	(4,484)
Cash flows from financing activities - net	187,622	147,420
Net increase/(decrease) in cash and cash equivalents	17,960	(355,110)
Cash and cash equivalents at the beginning of the period	1,203,508	1,792,359
Exchange gains	2,252	1,660
Cash and cash equivalents at end of the period	1,223,720	1,438,909

The notes on pages 25 to 56 are an integral part of this unaudited interim condensed consolidated financial information.

Notes to Unaudited Interim Condensed Consolidated Financial Information

For the six months ended 30 June 2015

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 interim condensed consolidated financial information is presented in Chinese Renminbi (“RMB”), unless otherwise stated and was approved for issue on 25 August 2015.

This interim condensed consolidated financial information has not been audited.

2. BASIS OF PREPARATION

This interim condensed consolidated financial information for the six months ended 30 June 2015 has been prepared in accordance with HKAS 34, “Interim financial reporting”. The interim condensed consolidated financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2014, which have been prepared in accordance with HKFRSs.

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

3. ACCOUNTING POLICIES

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2014, as described in those annual financial statements.

Amendments to HKFRSs effective for the financial year ending 31 December 2015 do not 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.

4. ESTIMATES

The preparation of interim financial information requires management to make judgments, 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 interim condensed consolidated financial information, the significant judgments 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 2014.

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 2014.

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

Notes to Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2015

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 2015							
Trade and other payables (i)	3,252,452	1,001	30,570	-	-	3,284,023	3,281,209
Borrowings (excluding finance leases)	418,309	583,952	50,063	294,719	397,011	1,744,054	1,546,272
Corporate bonds	65,900	-	1,065,900	-	-	1,131,800	998,177
Finance lease liabilities	5,390	19,764	62,022	102,213	-	189,389	144,707
Total financial liabilities	3,742,051	604,717	1,208,555	396,932	397,011	6,349,266	5,970,365
At 31 December 2014							
Trade and other payables (i)	3,217,146	760	31,159	-	-	3,249,065	3,218,711
Borrowings (excluding finance leases)	674,409	437,678	175,644	298,196	-	1,585,927	1,496,094
Corporate bonds	-	65,900	1,065,900	-	-	1,131,800	997,431
Finance lease liabilities	903	544	72	-	-	1,519	1,436
Total financial liabilities	3,892,458	504,882	1,272,775	298,196	-	5,968,311	5,713,672

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 Information *(Continued)*

For the six months ended 30 June 2015

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 2015.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Financial assets at fair value through profit or loss				
– Forward foreign exchange contracts	–	821	–	821
– Investments in bond securities	–	–	71,752	71,752
Available-for-sale financial assets				
– Equity securities	5,029	–	–	5,029
Total assets	5,029	821	71,752	77,602

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

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 2014.

	Level 1	Level 2	Level 3	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Assets				
Financial assets at fair value through profit or loss				
– Forward foreign exchange contracts	–	131	–	131
– Investments in bond securities	–	–	194,808	194,808
Available-for-sale financial assets				
– Equity securities	5,029	–	–	5,029
Total assets	5,029	131	194,808	199,968

During the six months ended 30 June 2015, 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 Information *(Continued)*

For the six months ended 30 June 2015

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

5.4 Valuation techniques used to derive Level 2 fair values

The fair value of forward exchange contracts in Level 2 is determined by discounting the contractual forward price and deducting the current spot rate. The discount rate used is derived from the relevant government yield curve as at the end of the reporting period plus an adequate constant credit spread.

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

	30 June 2015 RMB'000	30 June 2014 RMB'000
Opening balance at 1 January	194,808	–
Acquisition	70,000	–
Disposal	(194,808)	–
Gains or losses recognised	1,752	–
Closing balance at 30 June	<u>71,752</u>	<u>–</u>

5.6 Group's valuation processes

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

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

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

5. FINANCIAL RISK MANAGEMENT (CONTINUED)**5.7 Fair value of financial assets and liabilities measured at amortised cost**

The fair value of borrowings are as follows:

	30 June 2015	31 December 2014
	RMB'000	<i>RMB'000</i>
Non-current	1,712,299	1,461,025
Current	993,272	1,071,580
	<u>2,705,571</u>	<u>2,532,605</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 Information *(Continued)*

For the six months ended 30 June 2015

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 Information (Continued)

For the six months ended 30 June 2015

6. SEGMENT INFORMATION (CONTINUED)

The segment results for the six months ended 30 June 2015 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	-	252,439	195,355	1,342,136	700,709	55,206	394,481	-	1,469,256	441,022	4,850,604
Inter-segment revenue	-	(15)	-	(584)	-	(27,668)	(18,130)	-	(453,737)	-	(500,134)
Revenue from external customers	-	252,424	195,355	1,341,552	700,709	27,538	376,351	-	1,015,519	441,022	4,350,470
Operating (loss)/profit	-	(271,396)	5,685	43,167	45,022	15,346	303,842	-	676	(4,724)	137,618
Finance income	-	15	840	818	3,283	-	8,568	-	36	1,263	14,823
Finance costs	-	-	-	(9,507)	(9,180)	-	(35,946)	-	(1,286)	(10,079)	(65,998)
Share of post-tax profits of associates and a joint venture	134,274	121	-	-	3,674	1,277	-	2,042	-	8,234	149,622
Profit before income tax											236,065
Income tax expense	-	27,181	(459)	(166)	(603)	(9,804)	(47,141)	-	-	(131)	(31,123)
Profit for the period											204,942
Other items											
Depreciation on property, plant and equipment and investment properties	-	13,307	4,744	9,285	29,560	252	27,276	-	31	16,488	100,943
Amortisation of lease prepayments and intangible assets	-	1,891	661	655	2,668	114	5,539	-	-	1,707	13,235
Write down of inventories	-	-	-	-	-	-	1,078	-	-	135	1,213
Provision for/(reversal of) impairment on trade and other receivables	-	733	2,753	(596)	-	1,665	(15)	-	579	414	5,533
Additions to non-current assets (other than financial instruments and deferred tax assets)	-	81,448	118,821	3,516	133,189	10	116,629	-	-	37,384	490,997

Notes to Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2015

6. SEGMENT INFORMATION (CONTINUED)

The segment results for the six months ended 30 June 2014 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	-	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)	-	(583,361)	-	(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 (loss)/profit	-	(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 a joint venture	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											<u>211,990</u>
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 back)/write down 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 Information (Continued)

For the six months ended 30 June 2015

6. SEGMENT INFORMATION (CONTINUED)

The segment assets as at 30 June 2015 and 31 December 2014 are as follows:

Total assets	Engines RMB'000	Hydroelectric	Electrical	General machinery RMB'000	Financial services RMB'000	Machinery tools RMB'000	High-	Material sales RMB'000	All other segments RMB'000	Total Group RMB'000	
		Gear boxes RMB'000	generation wires and cables RMB'000				voltage transformers RMB'000				
30 June 2015	<u>450,443</u>	<u>1,389,623</u>	<u>1,285,219</u>	<u>937,259</u>	<u>2,385,889</u>	<u>1,656,105</u>	<u>3,096,300</u>	<u>161,300</u>	<u>343,179</u>	<u>2,771,628</u>	<u>14,476,945</u>
Total assets include: Investments in associates and a joint venture	<u>450,443</u>	<u>7,025</u>	<u>11,481</u>	<u>-</u>	<u>70,614</u>	<u>103,332</u>	<u>10,252</u>	<u>161,301</u>	<u>-</u>	<u>184,018</u>	<u>998,466</u>
31 December 2014	<u>316,169</u>	<u>1,351,741</u>	<u>1,154,868</u>	<u>905,604</u>	<u>2,115,648</u>	<u>1,592,228</u>	<u>2,848,870</u>	<u>159,259</u>	<u>390,382</u>	<u>2,799,844</u>	<u>13,634,613</u>
Total assets include: Investments in associates and a joint venture	<u>316,169</u>	<u>6,621</u>	<u>11,339</u>	<u>-</u>	<u>72,080</u>	<u>102,055</u>	<u>6,994</u>	<u>159,259</u>	<u>-</u>	<u>181,764</u>	<u>856,281</u>

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

7. OPERATING PROFIT

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

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Inventories write down/(write back)	1,213	(5,377)
Provision for impairment on trade and other receivables	5,533	840
Gains on financial assets at fair value through profit or loss	(5,647)	(2,137)
Gains on disposal of property, plant and equipment and lease prepayment	(324,779)	(763)
Expense arising from the termination benefit obligations (<i>Note 19</i>)	234,140	–

8. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Current income tax	20,280	25,978
Deferred income tax	10,843	(447)
	31,123	25,531

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

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	
	2015	2014
Profit attributable to owners of the Company (RMB'000)	185,161	191,709
Weighted average number of ordinary shares in issue (thousand)	3,684,640	3,684,640
Basic and diluted earnings per share (RMB per share)	0.05	0.05

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

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

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 <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Lease prepayments <i>RMB'000</i>	Other intangible assets <i>RMB'000</i>	Goodwill <i>RMB'000</i>
Six months ended 30 June 2015					
Net book value					
Opening net book amount at					
1 January 2015	3,105,368	29,828	466,672	146,451	143,018
Additions	332,063	-	154,150	4,784	-
Disposals	(39,035)	-	(22,044)	(20)	-
Depreciation and amortisation	(98,662)	(2,281)	(5,928)	(7,307)	-
Closing amount at 30 June 2015	3,299,734	27,547	592,850	143,908	143,018
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

Note:

- (a) As at 30 June 2015, bank borrowings amounting to approximately RMB594,500,000 (31 December 2014: RMB371,508,000) were secured by certain of the Group's property, plant and equipment, investment properties and land use rights with an aggregate carrying value of approximately RMB45,313,000, RMB32,621,000 and RMB158,364,000, respectively (31 December 2014: RMB51,984,000, RMB12,663,000 and RMB167,225,000, respectively).

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

11. INVESTMENTS IN ASSOCIATES

	Six months ended 30 June 2015
	<i>RMB'000</i>
Beginning of the period	540,112
Share of post-tax profits of associates	15,348
Dividend declared	<u>(7,437)</u>
End of the period	<u><u>548,023</u></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 2015
	<i>RMB'000</i>
Assets	953,495
Liabilities	405,472
Revenue	495,719
Share of post-tax profits	<u><u>15,348</u></u>

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

12. INVESTMENTS IN A JOINT VENTURE

Six months ended

30 June 2015

RMB'000

Beginning of the period	316,169
Share of post-tax profit of a joint venture	134,274
End of the period	<u>450,443</u>

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

Six months ended

30 June 2015

RMB'000

Assets	1,117,701
Liabilities	667,258
Revenue	626,016
Share of post-tax profit	<u>134,274</u>

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

13. TRADE AND OTHER RECEIVABLES

	30 June 2015 RMB'000	31 December 2014 RMB'000
Trade and bills receivable	3,194,111	3,436,583
Less: provision for impairment of trade receivables	(241,799)	(263,281)
Trade and bills receivable – net	2,952,312	3,173,302
Other receivables	1,227,581	610,148
Less: provision for impairment of other receivables	(35,274)	(34,139)
Other receivables – net	1,192,307	576,009
Loans	522,652	442,485
Less: provision for impairment of loans	(5,227)	(4,425)
Loans – net	517,425	438,060
	4,662,044	4,187,371

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

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

13. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

The general credit period granted to customers is up to 90 days. As at 30 June 2015 and 31 December 2014, the ageing analysis of the trade and bills receivable were as follows:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Trade and bills receivable		
Less than 30 days	597,558	440,468
31 days to 90 days	665,400	924,431
91 days to 1 year	1,244,550	1,376,832
1 year to 2 years	322,641	335,534
2 years to 3 years	116,176	114,351
Over 3 years	247,786	244,967
	<u>3,194,111</u>	<u>3,436,583</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 2015 and 1 January 2015 (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 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>

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

Notes to Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2015

15. TRADE AND OTHER PAYABLES

	30 June 2015 RMB'000	31 December 2014 RMB'000
Non-current		
Deposit taking	30,000	30,000
Current		
Trade and bills payable	2,542,928	2,392,201
Deposit taking	541,570	607,579
Other taxes payables	84,251	94,256
Other payables	166,711	188,931
Interest payables	60,431	27,221
Accrued payroll and welfare	71,490	71,663
Advances from customers	950,623	818,266
	4,418,004	4,200,117
	4,448,004	4,230,117

As at 30 June 2015 and 31 December 2014, the ageing analysis of the trade and bills payable were as follows:

	30 June 2015 RMB'000	31 December 2014 RMB'000
Trade and bills payable		
Less than 30 days	780,119	583,177
31 days than 90 days	782,324	565,432
91 days to 1 year	822,550	1,085,117
1 year to 2 years	68,524	63,155
2 years to 3 years	25,509	32,521
Over 3 years	63,902	62,799
	2,542,928	2,392,201

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

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 2015	
Opening net book amount at 1 January 2015	16,395
Additional provisions	10,290
Utilised during the period	(9,869)
Closing net book amount at 30 June 2015	16,816
Six months ended 30 June 2014	
Opening net book amount at 1 January 2014	20,861
Additional provisions	10,291
Utilised during the period	(13,160)
Closing net book amount at 30 June 2014	17,992

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

17. BORROWINGS

	30 June	31 December
	2015	2014
	RMB'000	<i>RMB'000</i>
Non-current		
Long-term bank borrowings	553,000	424,514
Corporate bonds	998,177	997,431
Finance lease liabilities	144,174	41
	<hr/>	<hr/>
Total non-current borrowings	1,695,351	1,421,986
	<hr/>	<hr/>
Current		
Short-term bank borrowings	990,172	1,068,480
Due to independent third parties	3,100	3,100
Finance lease liabilities	533	1,395
	<hr/>	<hr/>
Total current borrowings	993,805	1,072,975
	<hr/>	<hr/>
Total borrowings	2,689,156	2,494,961
	<hr/> <hr/>	<hr/> <hr/>

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

17. BORROWINGS *(CONTINUED)*

Movements in borrowings are analysed as follows:

	<i>RMB'000</i>
Six months ended 30 June 2015	
Opening amount as at 1 January 2015	2,494,961
Additions	1,100,152
Repayments	<u>(905,957)</u>
Closing amount as at 30 June 2015	<u>2,689,156</u>
Six months ended 30 June 2014	
Opening amount as at 1 January 2014	2,486,139
Additions	1,479,826
Repayments	<u>(1,327,222)</u>
Closing amount as at 30 June 2014	<u>2,638,743</u>

Interest expense on borrowings for the six months ended 30 June 2015 is approximately RMB81,900,000 (2014: approximately RMB100,553,000).

The Group had the following undrawn borrowing facilities:

	30 June 2015 <i>RMB'000</i>	31 December 2014 <i>RMB'000</i>
Fixed rate		
– expiring within 1 year	1,415,796	799,228
– expiring beyond 1 year	<u>331,441</u>	<u>1,197,492</u>
	<u>1,747,237</u>	<u>1,996,720</u>

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

18. DEFERRED INCOME TAX LIABILITIES

	Six months ended 30 June	
	2015	2014
	RMB'000	<i>RMB'000</i>
Opening balance at 1 January	50,279	21,786
Recognised in profit or loss	45,776	(1,622)
Closing balance at 30 June	96,055	20,164

19. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

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

	30 June	31 December
	2015	2014
	RMB'000	<i>RMB'000</i>
Present value of defined benefits obligations	270,737	62,056
Liability in the balance sheet	270,737	62,056
Less: current portion	(40,054)	(11,605)
	230,683	50,451

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

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

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

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
At beginning of the period	62,056	46,319
For the period		
– Interest costs	1,021	911
– Actuarial losses	128	1,374
– Additions on termination benefit obligations	234,140	–
– Remeasurement effects recognized in other comprehensive income	1,170	572
– Payment	(27,778)	(4,985)
At end of the period	270,737	44,191

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

20. DIVIDENDS

A dividend of approximately RMB169,493,000 (RMB0.046 per share) that relates to the year ended 31 December 2014 was approved at the Annual General Meeting on 18 June 2015 and was recorded as a liability as at 30 June 2015 in this interim condensed consolidated financial information.

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 interim condensed consolidated financial information.

The Company's Board of Directors did not recommend the payment of an interim dividend for the six months ended 30 June 2015 (2014: Nil).

Notes to Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2015

21. CONTINGENCIES

The Group has certain legal claims arising in the ordinary course of business as at 30 June 2015. 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.

22. COMMITMENTS**(a) Capital commitments**

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

	30 June 2015 RMB'000	31 December 2014 RMB'000
Property, plant and equipment	421,224	485,109
Intangible assets	859	5,481
	422,083	490,590

(b) Operating lease commitments

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

	30 June 2015 RMB'000	31 December 2014 RMB'000
No later than 1 year	16,732	33,052
Later than 1 year and no later than 5 years	15,638	6,789
Later than 5 year	18,764	–
	51,134	39,841

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.

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 2014 and 2015, respectively.

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

23. RELATED-PARTY TRANSACTIONS (CONTINUED)**(a) Significant related party transactions**

	Six months ended 30 June	
	2015	2014
	RMB'000	<i>RMB'000</i>
Transactions with the parent company, fellow subsidiaries and associates		
Revenue		
– Revenue from sales of goods	43,039	64,383
– Revenue from provision of service	4,460	2,211
– Revenue from loans service	10,191	12,835
Expenses		
– Purchase of materials	25,699	37,487
– Services	5,432	9,239
– Expenses for deposit taking service	2,283	1,404
– Other expenses	18,091	16,423
Transactions with associates		
Revenue		
– Revenue from sales of goods	5,118	770
Expenses		
– Purchase of materials	12,180	13,169

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

23. RELATED-PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties

	30 June 2015 RMB'000	31 December 2014 RMB'000
Trade and other receivables		
Trade receivables due from		
– Fellow subsidiaries and associates	51,263	66,200
– Associates	3,340	1,603
Other receivables due from		
– CQMEHG	7,016	180
– Fellow subsidiaries	13,698	7,296
– Associates	1,207	1,209
Prepayments due from		
– Fellow subsidiaries	–	7
– Associates	–	85
Loans to		
– Fellow subsidiaries and associates	522,652	442,485
	599,176	519,065

Notes to Unaudited Interim Condensed Consolidated Financial Information (Continued)

For the six months ended 30 June 2015

23. RELATED-PARTY TRANSACTIONS (CONTINUED)**(b) Balances with related parties (continued)**

	30 June	31 December
	2015	2014
	RMB'000	<i>RMB'000</i>
Trade and other payables		
Trade payables due to		
– Fellow subsidiaries and associates	16,750	23,309
– Associates	2,985	2,807
Other payables due to		
– CQMEHG	16,045	2,017
– Associates	412	518
– Fellow subsidiaries	11,242	22,377
Deposit taking from		
– CQMEHG	174,574	156,823
– Fellow subsidiaries and associates	359,618	467,573
– Associates	37,378	13,183
	619,004	688,607

(c) Financial guarantee contracts

	30 June	31 December
	2015	2014
	RMB'000	<i>RMB'000</i>
Financial guarantee contracts		
– Fellow subsidiaries	102,600	82,900

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

23. RELATED-PARTY TRANSACTIONS *(CONTINUED)*

(d) Key management compensation

	Six months ended 30 June	
	2015	2014
	RMB'000	RMB'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	1,341	1,018
Contributions to pension plans	256	496
Discretionary bonuses	3,080	838
	<u>4,677</u>	<u>2,352</u>

(e) Transactions with government-related entities in PRC

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

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

Notes to Unaudited Interim Condensed Consolidated Financial Information *(Continued)*

For the six months ended 30 June 2015

24. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

Chongqing General Industry (Group) Co., Ltd. ("Chongqing General"), a wholly-owned subsidiary of the Group, and Carrier Asia Limited ("Carrier Asia") entered into an equity transfer agreement on 7 April 2015. Pursuant to the agreement, Chongqing General agreed to sell its 35% equity interest in Chongqing Midea General Refrigeration Equipment Co., Ltd. to Carrier Asia at a consideration of RMB176,587,500. After the equity transfer, the Group's interest in Chongqing Media General Refrigeration Equipment Co., Ltd will change from 45% to 10%, and will not be accounted as an associate of the Group.

As at the report issue date, the equity transfer is still under the approval process of the relevant authorities.

Management's Discussion and Analysis

RESULTS OVERVIEW

SALES

For the six months ended 30 June 2015, the Group's total revenue amounted to approximately RMB4,350.5 million, a decrease of approximately 10.1% as compared with approximately RMB4,841.6 million for the same period last year.

Overall, revenue of the vehicle parts and components segment was approximately RMB410.7 million (accounting for approximately 9.4% of the total revenue), a decrease of approximately 21.6%; revenue of the power equipment segment was approximately RMB1,538.2 million (accounting for approximately 35.4% of the total revenue), a decrease of approximately 20.5%; revenue of the general machinery segment was approximately RMB982.2 million (accounting for approximately 22.6% of the total revenue), an increase of approximately 41.9%; and revenue of the CNC machine tools segment was approximately RMB376.4 million (accounting for approximately 8.7% of the total revenue), a decrease of approximately 9.4%; revenue of financial services was approximately RMB27.5 million (accounting for approximately 0.6% of the total revenue), a decrease of approximately 45.3%; and revenue of the trade business was approximately RMB1,015.5 million (accounting for approximately 23.3% of the total revenue), a decrease of approximately 17.1%.

Despite the faster growth achieved in sales revenue from the general machinery segment during the Period, the overall sales revenue of the Group declined due to the decreased market demand in the vehicle parts and components segment and power equipment 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 2015 since the publication of the Group's annual report for the year ended 31 December 2014.

Management's Discussion and Analysis (Continued)

GROSS PROFIT

The gross profit for the six months ended 30 June 2015 was approximately RMB512.6 million, an increase of approximately RMB10.9 million or approximately 2.2% as compared with approximately RMB501.7 million for the same period last year; gross profit margin was approximately 11.8%, a slight increase of approximately 1.4 percentage point as compared with approximately 10.4% for the same period last year. Eliminating trade business and financial services, the gross profit margin was approximately 14.7%, an increase of approximately 2.1 percentage points as compared with approximately 12.6% 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 2015.

OTHER INCOME AND GAINS

Other income and gains for the six months ended 30 June 2015 were approximately RMB356.8 million, a significant increase of approximately RMB317.6 million or approximately 810.0% as compared with approximately RMB39.2 million for the same period last year. Such increase was mainly attributable to the proceeds of approximately RMB324.4 million from the sale of land by Chongqing Machine Tool. In contrast, government subsidies and subsidies for technological development decreased by approximately RMB9.6 million.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for the six months ended 30 June 2015 were approximately RMB731.8 million, a significant increase of approximately RMB258.0 million or approximately 54.5% as compared with approximately RMB473.8 million for the same period last year. The selling and administrative expenses accounted for approximately 16.8% of sales, an increase as compared with approximately 9.8% for the same period last year, mainly attributable to a year-on-year sharp increase of approximately RMB271.5 million in administrative expenses and one-off increase of approximately RMB234.3 million of long-term employee benefit obligations of Qijiang Gear Transmission. Impairment of assets increased by approximately RMB5.5 million and research and development expenses increased by approximately RMB21.0 million. In contrast, market promotion expenses and sales commissions decreased by approximately RMB13.5 million year-on-year.

Management's Discussion and Analysis (Continued)

OPERATING PROFIT

The operating profit for the six months ended 30 June 2015 was approximately RMB137.6 million, an increase of approximately RMB70.5 million or approximately 105.1% as compared with approximately RMB67.1 million for the same period last year.

NET FINANCE COSTS

The net interest expense for the six months ended 30 June 2015 was approximately RMB51.2 million, a significant increase of approximately RMB13.3 million or approximately 35.1% as compared with approximately RMB37.9 million for the same period last year. This was mainly due to a decrease of approximately RMB21.3 million in interest income and a decrease of approximately RMB10.3 million in financial expenses capitalised.

SHARE OF PROFITS OF ASSOCIATES

The Group's share of profits of associates for the six months ended 30 June 2015 was approximately RMB15.3 million, a significant decrease of approximately RMB23.3 million or approximately 60.4% as compared with approximately RMB38.6 million for the same period last year. This was attributable to the decrease of approximately RMB2.5 million in results of Chongqing Hongyan Fangda Automobile Suspension Co., Ltd., the decrease of approximately RMB12.7 million in results of Chongqing ABB Power Transformer Co., Ltd. and the decrease of approximately RMB8.0 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). In contrast, results of Chongqing Midea General Refrigeration Equipment Co., Ltd. (重慶美的通用製冷設備有限公司) increased by approximately RMB1.5 million.

SHARE OF PROFIT OF A JOINT VENTURE

The Group's share of profit of a joint venture for the six months ended 30 June 2015 was approximately RMB134.3 million, a decrease of approximately RMB35.5 million or approximately 20.9% as compared with approximately RMB169.8 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.

Management's Discussion and Analysis (Continued)

INCOME TAX EXPENSES

The corporate income tax expenses for the six months ended 30 June 2015 were approximately RMB31.1 million, an increase of approximately RMB5.6 million, or approximately 22.0% as compared with approximately RMB25.5 million for the same period last year, mainly due to 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 RMB185.2 million, a decrease of approximately RMB6.5 million or approximately 3.4% as compared with approximately RMB191.7 million for the same period last year. Earnings per share maintained at approximately RMB0.05, which was same as the same period last year.

Management's Discussion and Analysis (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:

	Revenue		Gross Profit		Segment Results	
	Period ended		Period ended		Period ended	
	30 June		30 June		30 June	
	2015	2014	2015	2014	2015	2014
<i>(RMB in millions, except for percentage)</i>						
Vehicle parts and components						
Domestic						
Gear boxes	252.4	330.1	26.9	41.5	(271.4)	(22.6)
Other products	158.3	193.8	21.4	24.8	2.7	1.7
Total	<u>410.7</u>	<u>523.9</u>	<u>48.3</u>	<u>66.3</u>	<u>(268.7)</u>	<u>(20.9)</u>
% of total	9.4%	10.8%	9.4%	13.2%	(195.3%)	(31.1%)
Power equipment						
Domestic						
Hydroelectric generation equipment	195.3	190.2	43.5	44.8	5.7	8.0
Electrical wires and cables	1,341.6	1,521.7	83.4	94.7	43.2	52.2
Other products	1.3	222.7	0.8	5.0	(4.5)	(7.3)
Total	<u>1,538.2</u>	<u>1,934.6</u>	<u>127.7</u>	<u>144.5</u>	<u>44.4</u>	<u>52.9</u>
% of total	35.4%	40.0%	24.9%	28.8%	32.3%	78.8%
General machinery						
Domestic						
Total	<u>982.2</u>	<u>692.3</u>	<u>226.7</u>	<u>158.9</u>	<u>56.1</u>	<u>25.5</u>
% of total	22.6%	14.3%	44.2%	31.7%	40.8%	38.0%

Management's Discussion and Analysis (Continued)

	Revenue		Gross Profit		Segment Results	
	Period ended		Period ended		Period ended	
	30 June		30 June		30 June	
	2015	2014	2015	2014	2015	2014
<i>(RMB in millions, except for percentage)</i>						
CNC machine tools						
Domestic	212.9	336.6	46.2	70.8	300.9	11.5
Overseas	163.5	78.8	38.1	10.5	2.9	(28.8)
Total	<u>376.4</u>	<u>415.4</u>	<u>84.3</u>	<u>81.3</u>	<u>303.8</u>	<u>(17.3)</u>
% of total	8.7%	8.6%	16.5%	16.2%	220.8%	(25.8%)
Financial services						
Domestic	27.5	50.3	22.7	46.5	15.4	40.8
Total	<u>27.5</u>	<u>50.3</u>	<u>22.7</u>	<u>46.5</u>	<u>15.4</u>	<u>40.8</u>
% of total	0.6%	1.0%	4.4%	9.3%	11.2%	60.8%
Trade business						
Domestic	1,015.5	1,225.1	2.9	4.2	0.7	1.6
Total	<u>1,015.5</u>	<u>1,225.1</u>	<u>2.9</u>	<u>4.2</u>	<u>0.7</u>	<u>1.6</u>
% of total	23.3%	25.3%	0.6%	0.8%	0.5%	2.4%
Headquarters						
Total	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(14.1)</u>	<u>(15.5)</u>
% of total	-%	-%	-%	-%	(10.3%)	(23.1%)
Total	<u>4,350.5</u>	<u>4,841.6</u>	<u>512.6</u>	<u>501.7</u>	<u>137.6</u>	<u>67.1</u>

Management's Discussion and Analysis (Continued)

VEHICLE PARTS AND COMPONENTS

Revenue from the vehicle parts and components segment for the six months ended 30 June 2015 was approximately RMB410.7 million, a decrease of approximately RMB113.2 million or approximately 21.6% as compared with approximately RMB523.9 million for the six months ended 30 June 2014. As compared with the figures for the same period last year, revenue from the gear box business decreased by approximately RMB77.7 million or approximately 23.5%, while revenue from other products also decreased by approximately RMB35.5 million or approximately 18.3%, primarily due to the impact of falling demand in the 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 RMB48.3 million, a decrease of approximately RMB18.0 million or approximately 27.1% as compared with approximately RMB66.3 million for the six months ended 30 June 2014, which was primarily due to the changes in sales structure of products and increase in unit prices. Its gross profit margin declined by 0.9 percentage point year-on-year.

The results for the vehicle parts and components segment for the six months ended 30 June 2015 recorded a loss of approximately RMB268.7 million, an increase of approximately RMB247.8 million or about 1,190.0% as compared with a loss of approximately RMB20.9 million for the six months ended 30 June 2014, primarily due to the one-off increase of approximately RMB234.3 million in long-term employee benefit obligations of Qijiang Gear Transmission.

POWER EQUIPMENT

Revenue from the power equipment segment for the six months ended 30 June 2015 was approximately RMB1,538.2 million, a decrease of approximately RMB396.4 million or approximately 20.5% as compared with approximately RMB1,934.6 million for the six months ended 30 June 2014, primarily due to a decline in copper product prices, leading to a decrease of approximately RMB180.1 million or about 11.8% in revenue from electrical wires and cables business.

Management's Discussion and Analysis (Continued)

During the Period, gross profit for the power equipment segment was approximately RMB127.7 million, a decrease of approximately RMB16.8 million or approximately 11.6% as compared with approximately RMB144.5 million for the six months ended 30 June 2014, primarily due to the decrease in the revenue of the electrical wires and cables business which had a high proportion, resulting in the decrease in gross profit. However, pushed by the high profit margin of other products, overall gross profit margin increased to 8.3% for the six months ended 30 June 2015 from 7.5% for the six months ended 30 June 2014.

Overall, for the six months ended 30 June 2015, the results for the power equipment segment amounted to approximately RMB44.4 million, a decrease of approximately RMB8.5 million or approximately 16.1% as compared with approximately RMB52.9 million for the six months ended 30 June 2014.

GENERAL MACHINERY

Revenue from the general machinery segment for the six months ended 30 June 2015 was approximately RMB982.2 million, an increase of approximately RMB289.9 million or approximately 41.9% as compared with approximately RMB692.3 million for the six months ended 30 June 2014, mainly due to the rapid growth in wind power rotor blades business.

During the Period, gross profit for the general machinery segment was approximately RMB226.7 million, an increase of approximately RMB67.8 million or approximately 42.7% as compared with approximately RMB158.9 million for the six months ended 30 June 2014. Gross profit margin slightly increased to approximately 23.1% for the six months ended 30 June 2015 from approximately 23.0% for the six months ended 30 June 2014.

Overall, for the six months ended 30 June 2015, the results for the general machinery segment amounted to approximately RMB56.1 million, an increase of approximately RMB30.6 million or approximately 120.0% as compared with approximately RMB25.5 million for the six months ended 30 June 2014.

Management's Discussion and Analysis (Continued)

CNC MACHINE TOOLS

Revenue from the CNC machine tools segment for the six months ended 30 June 2015 was approximately RMB376.4 million, a decrease of approximately RMB39.0 million or approximately 9.4% as compared with approximately RMB415.4 million for the six months ended 30 June 2014, mainly due to the decrease in market demand for CNC machine tools in China. Meanwhile, revenue from our British subsidiary, the PTG, for the Period was approximately RMB163.5 million, an increase of approximately RMB84.7 million or approximately 107.5% as compared with approximately RMB78.8 million for the six months ended 30 June 2014.

During the Period, gross profit for the CNC machine tools segment was approximately RMB84.3 million, an increase of approximately RMB3.0 million or approximately 3.7% as compared with approximately RMB81.3 million for the six months ended 30 June 2014. Gross profit margin rose to approximately 22.4% for the six months ended 30 June 2015 from approximately 19.6% for the six months ended 30 June 2014, mainly due to the fact that the gross margin of our British subsidiary PTG increased to approximately 23.3% for the six months ended 30 June 2015 from approximately 13.3% for the six months ended 30 June 2014.

Overall, for the six months ended 30 June 2015, the results for the CNC machine tools segment amounted to approximately RMB303.8 million, an increase of approximately RMB321.1 million as compared with the loss of approximately RMB17.3 million for the six months ended 30 June 2014, mainly attributable to the gain from land disposal.

FINANCIAL BUSINESS

Revenue from the financial business segment for the six months ended 30 June 2015 was approximately RMB27.5 million, a decrease of approximately RMB22.8 million or approximately 45.3% as compared with approximately RMB50.3 million for the six months ended 30 June 2014, mainly attributable to lower interest income due to adjustments of credit policies in China.

During the Period, the gross profit of financial business was approximately RMB22.7 million, a decrease of approximately RMB23.8 million or approximately 51.2% as compared with approximately RMB46.5 million for the six months ended 30 June 2014.

Management's Discussion and Analysis (Continued)

Overall, for the six months ended 30 June 2015, the results of the financial services segment amounted to approximately RMB15.4 million, a decrease of approximately RMB25.4 million or approximately 62.3% as compared with approximately RMB40.8 million for the six months ended 30 June 2014.

TRADE BUSINESS

Revenue from the trade business segment for the six months ended 30 June 2015 was approximately RMB1,015.5 million, a decrease of approximately RMB209.6 million or approximately 17.1% as compared with approximately RMB1,225.1 million for the six months ended 30 June 2014.

During the Period, gross profit for the trade business segment was approximately RMB2.9 million, a decrease of approximately RMB1.3 million or approximately 31.0% as compared with approximately RMB4.2 million for the six months ended 30 June 2014. Gross profit was maintained at 0.3% with no change year-on-year.

Overall, for the six months ended 30 June 2015, the results for the trade business segment amounted to approximately RMB0.7 million, a decrease of approximately RMB0.9 million or approximately 56.3% as compared with approximately RMB1.6 million for the six months ended 30 June 2014.

CASH FLOW

The Group's cash and bank deposits (including restricted cash) aggregated to approximately RMB1,664.6 million as at 30 June 2015 (31 December 2014: approximately RMB1,887.5 million), a decrease of approximately RMB222.9 million or approximately 11.8%, mainly due to the significant increase in capital expenditure arising from enterprise relocation for environmental protection.

During the Period, the Group had a net cash outflow from operating activities of approximately RMB130.4 million (for the six months ended 30 June 2014: a net cash outflow of approximately RMB163.3 million), a net cash outflow from investing activities of approximately RMB39.3 million (for the six months ended 30 June 2014: a net cash outflow of approximately RMB339.3 million), and a net cash inflow from financing activities of approximately RMB187.6 million (for the six months ended 30 June 2014: a net cash inflow of approximately RMB147.4 million).

Management's Discussion and Analysis (Continued)

TRADE AND OTHER RECEIVABLES

As at 30 June 2015, the Group's total trade and other receivables amounted to approximately RMB4,662.0 million, an increase of approximately RMB474.6 million as compared with approximately RMB4,187.4 million as at 31 December 2014, primarily due to an increase of approximately RMB347.2 million in other receivables attributable to the revenue from the land transfer due to relocation of the CNC machine tool business for environmental protection and an increase in extended loans of approximately RMB80.2 million from the financial business. Please refer to note 13 to the interim condensed consolidated financial information for detailed ageing analysis of the trade and bills receivables.

TRADE AND OTHER PAYABLES

As at 30 June 2015, the total trade payables and other payables of the Group amounted to approximately RMB4,448.0 million, an increase of approximately RMB217.9 million as compared with approximately RMB4,230.1 million as at 31 December 2014, primarily due to an increase in the trade payable of approximately RMB164.7 million as a result of the rapid growth in the wind power rotor blades business. Please refer to note 15 to the condensed consolidated financial information for detailed ageing analysis of the trade and bills payables.

ASSETS AND LIABILITIES

As at 30 June 2015, the total assets of the Group amounted to approximately RMB14,476.9 million, an increase of approximately RMB842.3 million as compared with approximately RMB13,634.6 million as at 31 December 2014. The total current assets amounted to approximately RMB9,133.0 million, an increase of approximately RMB350.8 million as compared with approximately RMB8,782.2 million as at 31 December 2014, accounting for approximately 63.1% of the total assets (31 December 2014: approximately 64.4%). Meanwhile, the total non-current assets amounted to approximately RMB5,343.9 million, an increase of approximately RMB491.5 million as compared with approximately RMB4,852.4 million as at 31 December 2014, and accounting for approximately 36.9% of the total assets (31 December 2014: approximately 35.6%).

Management's Discussion and Analysis (Continued)

As at 30 June 2015, the total liabilities of the Group amounted to approximately RMB8,189.3 million, an increase of approximately RMB805.7 million as compared with approximately RMB7,383.6 million as at 31 December 2014. The total current liabilities amounted to approximately RMB5,746.5 million, an increase of approximately RMB326.2 million as compared with approximately RMB5,420.3 million as at 31 December 2014, accounting for approximately 70.2% of the total liabilities (31 December 2014: approximately 73.4%). Meanwhile, the total non-current liabilities amounted to approximately RMB2,442.8 million, an increase of approximately RMB479.5 million as compared with approximately RMB1,963.3 million as at 31 December 2014, and accounting for approximately 29.8% of the total liabilities (31 December 2014: approximately 26.6%).

As at 30 June 2015, the net current assets of the Group amounted to approximately RMB3,386.6 million, an increase of approximately RMB24.7 million as compared with approximately RMB3,361.9 million as at 31 December 2014.

CURRENT RATIO

As at 30 June 2015, the current ratio (the ratio of current assets over current liabilities) of the Group was 1.59:1 (31 December 2014: 1.62:1).

GEARING RATIO

As at 30 June 2015, by dividing borrowings by total capital, the gearing ratio of the Group was 30.0% (31 December 2014: 28.5%).

INDEBTEDNESS

As at 30 June 2015, the Group had an aggregate bank and other borrowings of approximately RMB2,689.2 million, an increase of approximately RMB194.2 million as compared with approximately RMB2,495.0 million as at 31 December 2014.

Borrowings repayable by the Group within one year amounted to approximately RMB993.8 million, a decrease of approximately RMB79.2 million as compared with approximately RMB1,073.0 million as at 31 December 2014. Borrowings repayable after one year amounted to approximately RMB1,695.4 million, an increase of approximately RMB273.4 million as compared with approximately RMB1,422.0 million as at 31 December 2014.

Management's Discussion and Analysis (Continued)

SIGNIFICANT EVENTS

EVENTS IN THE PERIOD

- (1) On 7 April 2015, the Board of the Company resolved that approval be given for Chongqing General to enter into an equity transfer agreement with Carrier Asia for a disposal of 35% equity interest in Chongqing Midea General at a consideration of RMB176,587,500. Upon completion of the transaction, Chongqing General still held 10% equity interest in Chongqing Midea General. For details, please refer to the announcement of the Board of the Company published on the website of the Company on 7 April 2015.
- (2) On 4 May 2015, the Board of the Company resolved that approval be given for Qijiang Gear Transmission and Reintel to establish a joint venture in the name of Chongqing QG Reintel Transmission Company Limited. The registered capital of the joint venture will be RMB200 million, with the Company contributing RMB20 million, representing 10% of the equity interests, Qijiang Gear Transmission contributing RMB70 million, representing 35% of the equity interests, and Reintel contributing RMB110 million, representing 55% of the equity interests. For details, please refer to the announcement of the Board of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 4 May 2015.

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

CONTINGENT LIABILITIES

As at 30 June 2015, the Group had no significant contingent liabilities.

CAPITAL EXPENDITURE

During the Period, the total capital expenditure of the Group was approximately RMB491.0 million, which was principally used for plant expansion, production technology improvement, equipment and productivity upgrade (for the six months ended 30 June 2014: approximately RMB260.7 million).

Management's Discussion and Analysis (Continued)

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 management system of foreign exchange hedges, requiring all subsidiaries of the Group to manage the relevant foreign exchange risk of their functional currency and adopt foreign exchange tools recognised by the Group.

EMPLOYEES

As at 30 June 2015, the Group had a total of 13,173 employees (30 June 2014: 13,759 employees). The Group will continue the upgrade of its technical talent base, foster and recruit technical and management personnel with extensive technical and management experience, enhance the distribution system that links remunerations with 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 shares	Approximate percentage of issued share capital (%)
Domestic Shares	2,584,452,684	70.14
H Shares	1,100,187,470	29.86
Total	<u>3,684,640,154</u>	<u>100</u>

There was no movement in the share capital of the Company during the six months ended 30 June 2015, details of which are set out in Note 14 to the condensed consolidated financial information.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE IN SHARES AND UNDERLYING SHARES

As at 30 June 2015, 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 the directors or chief executive which are deemed or taken 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 of the Stock Exchange.

Other Information (Continued)

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

As at 30 June 2015, so far as the Directors are aware, the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under Section 336 of the SFO:

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

Name of shareholder	Number of shares	Capacity	Note	Percentage of total issued domestic shares	Percentage 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)

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

Name of shareholder	Number of shares	Capacity	Note	Percentage of total issued H shares	Percentage of total issued shares
Templeton Asset Management Ltd.	121,831,300(L)	Investment manager		11.07(L)	3.31(L)
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000(L) 0(P)	Custodian		7.93(L) 0(P)	2.37(L) 0(P)
The Bank of New York Mellon Corporation	87,276,000(L) 87,276,000(P)	Interest of corporation controlled by substantial 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)

(L) Long Position

(S) Short Position

(P) Lending Pool

Notes:

- (1) As Chongqing Machinery and Electronics Holding (Group) Co., Ltd. and Chongqing Yufu Assets Management Group Co., Ltd. are wholly owned by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government, State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government is deemed to be interested in 1,924,225,189 domestic shares and 232,132,514 domestic shares of the Company held by the two companies respectively.
- (2) Chongqing Construction Engineering Group Corporation Limited is held as to 92.46% by State-owned Assets Supervision and Administration Commission of Chongqing Municipal Government through its three wholly-owned subsidiaries and as to 3.68% 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.

Other Information (Continued)

- (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 Re-public of China through China Life Insurance (Group) Company, its wholly-owned subsidiary. Therefore, the Ministry of Finance of the People's Republic of China is deemed to be interested in 195,962,467 do-mestic shares of the Company held by China Huarong Asset Management Co., Ltd.
- (4) The Bank of New York Mellon Corporation holds 100% interest in The Bank of New York Mellon (formerly known as "The Bank of New York"), which holds 87,276,000 H shares of the Company. The interest in 87,276,000 H shares relates to the same block of shares in the Company and includes a lending pool of 87,276,000 H shares of the Company.

Save as disclosed above, the Directors of the Company are not aware of any persons holding any interests or short positions in the shares or underlying shares which were required to be recorded in the register pursuant to Section 336 of the SFO as at 30 June 2015.

COMPLIANCE WITH CORPORATE GOVERNANCE CODE

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

THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has complied with and adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code for securities transactions by directors of the Company. The Company has obtained the respective confirmations by all of its directors that they have strictly complied with the provisions set out in the Model Code for the six months ended 30 June 2015.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the six months ended 30 June 2015, neither the Group nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Other Information (Continued)

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividends.

AUDIT COMMITTEE

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

THE BOARD OF DIRECTORS AND THE SUPERVISORY COMMITTEE

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

As at the date of this report, the members of the Supervisory Committee of the Company are Mr. Yang Mingquan, Mr. Wang Pengcheng, Ms. Wu Yi, Mr. Huang Hui, Mr. Chen Qing and Mr. Zhao Zicheng.

Other Information (Continued)

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

The interim results announcement has been published on the websites of the Company (<http://www.chinacqme.com>) and the Stock Exchange. The interim report will also be available on the websites of the Company and the Stock Exchange on or around 7 September 2015 and will be dispatched to the shareholders of the Company thereafter by the means of receipt of corporate communications they selected.

By Order of the Board

Chongqing Machinery & Electric Co., Ltd.*

Mr. Wang Yuxiang

Executive Director and Chairman

Chongqing, the PRC

25 August 2015

* *For identification purposes only*