重慶機電股份有限公司
CHONGQING MACHINERY & ELECTRIC CO., LTD.*

CQME

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

Stock Code: 02722

2008 Annual Report

* For identification purposes only

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Sun Nengyi *(Chairman)*
Mr. He Yong
Mr. Liao Shaohua
Mr. Chen Xianzheng

Non-executive Directors

Mr. Huang Yong
Mr. Yu Gang
Mr. Yang Jingpu
Mr. Wu Jian

Independent Non-executive Directors

Mr. Lo Wah Wai
Mr. Ren Xiaochang
Mr. Kong Weiliang

COMMITTEES UNDER THE BOARD OF DIRECTORS

Members of the Audit Committee

Mr. Lo Wah Wai *(Chairman)*
Mr. Kong Weiliang
Mr. Wu Jian

Members of the Remuneration Committee

Mr. Ren Xiaochang *(Chairman)*
Mr. Yu Gang
Mr. Lo Wah Wai

Members of the Nomination Committee

Mr. Kong Weiliang *(Chairman)*
Mr. Ren Xiaochang
Mr. Huang Yong

CORPORATE INFORMATION

SUPERVISORS

Mr. Duan Rongsheng
Mr. Ye Zusheng
Ms. Wang Rongxue
Ms. He Xiaoping
Mr. Wang Xuqi
Mr. Wu Chongjiang

COMPANY SECRETARY

Mr. Wang Xiaojun
(Practising Hong Kong lawyer)

AUTHORIZED REPRESENTATIVES

Mr. Chen Xianzheng
Mr. Wang Xiaojun

ALTERNATE AUTHORIZED REPRESENTATIVE

Mr. Lo Wah Wai

LEGAL REPRESENTATIVE

Mr. Sun Nengyi

QUALIFIED ACCOUNTANT

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

INTERNATIONAL AUDITORS

PricewaterhouseCoopers

LEGAL ADVISORS TO THE COMPANY

X. J. Wang & Co. *(As to Hong Kong Laws)*
Beijing Kaiwen Law Firm Chongqing Branch
(As to PRC Laws)

COMPLIANCE ADVISOR

Evolution Watterson Securities Limited

CORPORATE INFORMATION

REGISTERED ADDRESS

No. 155 Zhongshan Third Road
Yuzhong District, Chongqing City, the PRC
Postal code: 400015

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2208, 22nd Floor, Jardine House,
No. 1 Connaught Place, Central, Hong Kong

WEBSITE

www.chinacqme.com

PRINCIPAL BANKERS

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

HONG KONG SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor
Services Limited
17th Floor, Hopewell Centre
No. 183 Queen's Road East
Wanchai, Hong Kong

SHARE INFORMATION

Listing Place

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

Stock Code

02722

FINANCIAL YEAR END

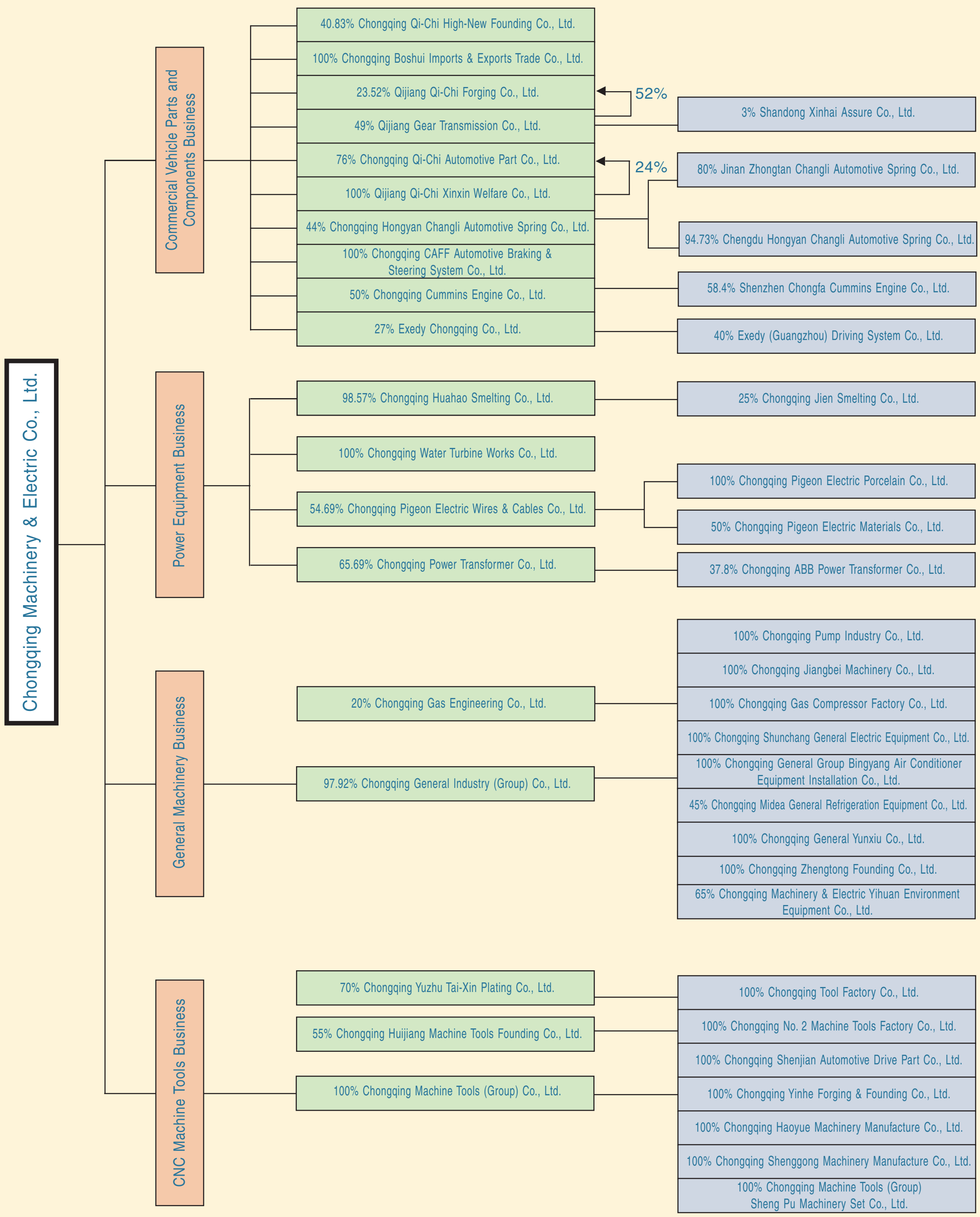
31 December

FINANCIAL HIGHLIGHTS

(RMB'000)	2005	2006	2007	**2008**
Revenue and profit				
Revenue	3,089,947	4,284,255	5,485,500	**5,949,655**
Profit before taxation	462,975	389,362	519,729	**602,557**
Taxation	(50,167)	(48,094)	(45,906)	**(78,676)**
Profit for the year	412,808	341,268	473,823	**523,881**
Attributable to				
Equity holders of the Company	381,024	302,027	450,015	**503,531**
Minority interests	31,784	39,241	23,808	**20,350**
Dividends — Proposed final dividends	—	—	—	**—**
Earnings per share attributable to equity holders of the Company — Basic *(RMB)*	0.19	0.15	0.20	**0.16**
Assets and liabilities				
Non-current assets	1,512,238	1,176,133	2,006,776	**2,254,156**
Current assets	2,330,038	2,630,077	3,618,614	**5,271,690**
Current liabilities	2,332,258	2,548,269	3,199,885	**3,543,477**
Net current assets/(liabilities)	(2,220)	81,808	418,729	**1,728,213**
Total assets less current liabilities	1,510,018	1,797,941	2,425,505	**3,982,369**
Non-current liabilities	937,584	348,625	513,230	**511,530**
Net assets	572,434	1,449,316	1,912,275	**3,470,839**
Equity attributable to equity holders of the Company	514,538	1,246,565	1,865,733	**3,418,345**
Minority interests	57,896	202,751	46,542	**52,494**

GROUP STRUCTURE

STRUCTURE OF CHONGQING MACHINERY & ELECTRIC CO., LTD.



RESULTS HIGHLIGHTS

Results highlights of Chongqing Machinery & Electric Co., Ltd. (the “Company” or “Chongqing Machinery & Electric”) and its subsidiaries (collectively the “Group”).

The revenue of the Group for the year ended 31 December 2008 amounted to approximately RMB5,949.7 million, representing an increase of approximately 8.5% as compared with approximately RMB5,485.5 million for last year.

Profit attributable to the equity holders of the Company for the year ended 31 December 2008 was approximately RMB503.5 million, representing an increase of approximately 11.89% as compared with approximately RMB450 million for last year.

Basic earnings per share for the year ended 31 December 2008 was approximately RMB0.16 (2007: RMB0.20).

The Board of Directors (the “Board”) decided not to declare a final dividend for the year ended 31 December 2008, as the Company plans to retain profit to cope with further impacts from the global economic crisis, develop new products, adjust structure and seek opportunities for acquisition and restructuring.

The Group is expected to continually benefit from the “Strategic Development of Western China”, RMB4 trillion stimulus package launched by the PRC government for boosting economy and enhancing infrastructure construction in the coming two years, as well as the preferential policies issued by the State Council on promoting the balanced reform and development between the urban and rural areas in Chongqing. These favourable factors will facilitate the Group to maintain sustainable business growth, and focus on the development and technical improvements of its core businesses, including commercial vehicle parts and components business, power equipment business, general machinery business and CNC machine tools business. The Group will also develop products with high growth potentials and expand production capacity to fully meet the market demand.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of the Company, I'm pleased to announce the annual results of the Group for the year ended 31 December 2008 (the "Period"). The Group's annual results have been audited by the Company's auditor, PricewaterhouseCoopers. It is my pleasure to share our annual results for last year as well as sustainable development strategy, prospects and outlooks for this year with shareholders of the Company.

RESULTS REVIEW

In 2008, under the dual impacts from natural disaster and global financial crisis, like many peers in China, the Group had encountered unprecedented difficulties and challenges. Especially in the fourth quarter, certain businesses sustained tremendous impact, afflicting the operating revenue growth of the Group to certain extent. Facing such conditions, the Company took flexible and effective measures according to the environment to enhance control, focus on operation quality and risk control, especially on investment risks. Amid the adversity of global financial crisis, operation of the Company basically kept stable momentum in 2008. Revenue from operations and total profit recorded growth. Four major business segments showed the pattern of "two rise, one stable, one fall", which means rapid growth in commercial vehicle parts and components segment and general machinery segment, stable growth in CNC machine tools segment, and negative growth in power equipment segment due to steep drop of raw material price. Besides, investment income from our associated companies increased remarkably.

Revenue of the Group for the year ended 31 December 2008 was approximately RMB5,949.7 million (2007: RMB5,485.5 million), representing an increase of approximately RMB464.2 million or approximately 8.5%. Profit attributable to shareholders of the Company amounted to approximately RMB503.5 million (2007: RMB450 million), representing an increase of approximately RMB53.5 million or approximately 11.89% over last year.

CHAIRMAN'S STATEMENT

Basic earnings per share for the year ended 31 December 2008 was approximately RMB0.16 (2007: RMB0.20). Total assets amounted to approximately RMB7,525.8 million (2007: RMB5,625.4 million), while total liabilities amounted to approximately RMB4,055 million (2007: RMB3,713.1 million). Total equity attributable to the equity holders was approximately RMB3,418.3 million (2007: RMB1,865.7 million). Net asset value per share was approximately RMB0.94 (2007: RMB0.71).

DEVELOPMENT STRATEGY

To achieve the Group's sustainable development, the Group developed and implemented the following development strategies in 2009:

(I) Accelerate industry restructuring to optimize product structure

1. Develop high profitable industrial products with high growth potentials

The Company being an enterprise to manufacture originality industrial equipments and machinery products, the Company is to make full use of its advanced technology, excellent brand, energetic service and strength in sub-markets to accelerate industry restructure, focus on the development of profitable industrial products with high growth potentials, optimize product mix, increase portion of high profit margin products, and improve overall profitability, seizing opportunities in different industries and sectors resulting from increasing demand in different sectors. Our diversified product mix and optimization will be the shield against market risk.

2. Explore new industry, new sector and new market to adjust market structure

We will extend business to key sectors supported by the State to expand market share by industry restructuring and product upgrading. By consolidating traditional customers, deepening understandings and cooperation, and building up our credit to clients, we will gain firmer grip on the mature market. At the same time, we will strengthen our marketing team, improve sale performance incentive mechanism between new and traditional markets, and step up market exploration to discover new market and industries. With our edges in technology and brand, we will enforce the import substitute strategy to stabilize and explore new overseas market and expand export, which will reward us with more risk resistance.

(II) Speed up capital restructuring to optimize asset structure

Leveraging on the multiple measures launched by the State for expanding investment, stimulating consumption, boosting domestic demand and preserving growth, as well as Strategic Development of Western China, and the preferential policies issued by the State Council on promoting the balanced reform and development between the urban and rural areas in Chongqing, we will capitalize our advantages in technology, brand, market and capital to strengthen our control over joint ventures. To secure rapid growth of the Group and develop core business of the Company, we will actively seek to cooperate or establish joint ventures with world renowned enterprises to enhance our overall strength by selecting automobile and light rail related industries to uplift our operation, technology and brand.

(III) Expedite corporate management restructuring to optimize management and control

1. Strengthen management to reduce operation cost and improve operation efficiency

We will further promote the implementation of "Toyota Production System" . Meanwhile, we are to improve internal control system, adopt strict budget and final accounting management that condense three major expenses: operating expenses, administrative expenses and financial expenses, save cost expenditures, reduce accounts receivables, cut procurement, ancillaries and production costs, explore potentials and reduce consumption, develop recycle economy, put efforts in comprehensive resource utilization, as well as save energy and reduce discharge, thus lowering operation cost and improving operation and profitability of the Group.

2. Expand synergy effects and concentrate procurement to reduce cost

The Company has over 4,700 suppliers, covering commercial vehicle parts and components, power equipment, general machinery and CNC machine tools segment. Since our listing, we concentrated raw material procurement, shifting from large procurement through wholesalers to direct purchase from steel and copper producers. Purchase price and production cost were effectively controlled, thus achieving higher operating profit margin.

3. Enhance supervision

The Company will regularly conduct financial review, condition analysis, target analysis, economic movement analysis and risk assessment to ensure sustainable and smooth development.

(IV) Promote organization restructuring to optimize talent team

1. The Company will continue to preserve and attract talents with abundant technique and experience. Performance related incentive plans are designed for the management and employees, as well as promotion opportunity and professional training for major employees to uplift expertise for the management and technicians.

2. By timely promoting internal integration, easing the Company's control, concentrating assets to advanced enterprises, focusing talents to key businesses, we strive to improve our operation performance.

DETAILED ANALYSIS OF THE FOUR MAJOR BUSINESSES

Commercial Vehicle Parts and Components

Under the downward trend of international automobile market, China's automobile industry, whose production had exceeded 20% for two consecutive years, failed to maintain its rapid growth momentum in 2008. However, in the revival plan for ten sectors launched by PRC government, automobile industry ranked highest in the list. Benefiting from the RMB4 trillion package for infrastructure, railway construction and disaster stricken area reconstruction, the business of the Company's commercial vehicle parts and components segment has been increasing, as at February 2009. At the same time, diesel engine segment was supported by power, shipping and construction machinery industries and remained stable rising orders. Steady growth is expected for this segment in 2009.

On 5 February 2009, the Company entered into an agreement with Shanghai Electric (Group) Corporation to further acquire 102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear Transmission Co., Ltd ("Qijiang Gear") and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Qi-Chi Forging Co. Ltd ("Qijiang Forging") at a total consideration of RMB256.96 million. Upon completion of the transaction, the Company held 100% equity interest in Qijiang Gear and 48% equity interest in Qijiang Forging directly. Qijiang Gear became a wholly owned subsidiary of the Company. The Company through Qijiang Gear held the remaining 52% equity interest in Qijiang Forging, and Qijiang Forging also became a wholly-owned subsidiary of the Company. The complete acquisition of the two companies would help the Company to implement its independent development strategy for commercial vehicle parts and components business or introduce world-renowned companies with more advanced technology for restructuring and growth.

In 2009, the Company will continue to expand investment for independent R&D, put more efforts in new product development and proactively develop high efficiency diesel engine. The successful trial production of QSK high powered diesel engine will open up new market demand. The Company will accelerate the quality upgrade and import substitution by developing proprietary gear transmission system, breaking system and steering system.

Power Equipment

With the support of positive policies including PRC government spending more on transportation, energy, power and other infrastructures and post disaster reconstruction, China's power demand increased gradually with huge projects for national power grid expansion and upgrading. Together with the designation by NDRC as its production base for impact-type hydroelectric turbine generators with high hydraulic heads and the independent R&D tech advantage, our power transmission/transformation and hydroelectric turbine generators businesses are expected to grow steadily in 2009.

With the turning back of real estate market, wire and cable business is hopeful of revitaling. In 2009, wire and cable sales volume is to keep growing but sales value will decrease due to raw material copper price plunge. Non-ferrous metal powders business is recovering as auto market recovers. It is anticipated in 2009, though wire and cable revenue is to decrease, operating profit will remain stable.

To be inline with the stable development of the industry, we are to promote a series commercial operations of major new product projects in 2009. Main projects include commercialization impact-type wheel CNC machine-shaping technology, 800KV or above ultra-high voltage transformer and high-voltage electrical ceramics. Through technology innovation, the Company's core competitiveness and industry position are to be enhanced.

General machinery

The general machinery segment has more streamlined structure: downstream industries belongs to high growth sectors and advantages in sub-markets are obvious. The financial crisis has minor and delayed impact on the segment. Its products include high-end industrial pumps and refrigeration equipments widely used in nuclear industry. The sector has 19 registered patent technologies. The Company believes that general machinery segment will benefit from stable demand in oil and natural gas production, environment protection, aviation, nuclear power and wind power industries. The Company will continue to explore different markets to consolidate its leading position, win recognition for its brand from various industries and substitute the market position of imported products. In 2009, general machinery segment is expected to maintain stable operating revenue and profit growth.

We will further increase investment in this business segment for its technical innovation and step up to promote new product development and industrialization in 2009. Meanwhile, we are to accelerate the development of the new generation of aeration fan and our wind power rotor blade is at multiple location operation test, and obtain the safety certification of pump products for nuclear power station. To raise the technology level and market share of Mother-son CNG Station and flat auto discharge centrifuges.

CHAIRMAN'S STATEMENT

CNC Machine Tools

CNC machine tools segment maintained a high growth rate for the last six years. However, the unexpected downturn in 2008, especially from the closely related automobile industry, has caused the demand for machine tools to drop steeply. With equipment manufacturing part of the ten sector's revival plan being implemented, machine tools sector will be improved as economy recovers. Especially gear-producing machines backed by automobile industry and wind power industry, may grow against adverse economic conditions. As aluminum ingots sector shrinks, operation scale of CNC machine tools in 2009 may decrease moderately, but gross profit margin is to expected to increase.

Meanwhile, CNC machine tools business adapted to market demand changes by timely adjusting product mix, and directed its product development on large CNC machine tools and cutting tools that is urgently needed by wind power and heavy chemical industry. With its brand advantages, the segment obtained multiple orders for key projects in China. The segment fully utilized integration advantages and marketing information platform to expand market share for CNC machine tools, CNC lathes and machine centre and complex precision metal-cutting tools.

In order to seize the opportunities from rapidly developing wind power industry and strong demand for large high precision CNC machine tools, we will further increase investment in technical innovation and step up new product development. Especially, the successful development and sale of large and high-end CNC gear-producing machines like YD31125CNC6 will provide opportunities for new market expansion. At the same time, we will strengthen mid and high-end lathe development, facilitate product structure upgrade, accelerate R&D for large module gear hobbing cutter, large module hard alloy mobile facer and large module gear shaping cutter, and strive for early mass production.

The Company will rely on the advanced technology, R&D capacity, brand popularity and market share in order to penetrate into high-end market and gradually substituting imported products market position.

On behalf of the Board, I would like to express our heartfelt gratitude to all of our shareholders, clients and suppliers for their long-term support. On behalf of the Group, my heartfelt appreciation also goes to the entire staff for their contribution to the Company's achievements.

Executive Director, Chairman
Sun Nengyi

Chongqing, the PRC, 17 April 2009

OUTLOOK AND PROSPECT

Affected by the financial crisis, principal businesses spiraling up

In 2008, the global real economy was heavily hit. Certain businesses of the Company were inevitably impacted to a certain extent by the US sub-prime crisis and credit crisis at the beginning of the year and global financial tsunami in September. Nonetheless, based on current operations, we believe that our businesses have basically demonstrated signs of revitaling bottomed out and spiralled up since February 2009, as driven by the stimulus package launched by the PRC government at the end of 2008 for expanding investment and stimulating consumption, the Strategic Development of Western China and the preferential policies issued by the State Council on promoting the balanced reform and development between the urban and rural areas in Chongqing.

Principal Business Orders

As at the end of February 2009, our principal business orders had reached 60% of the scheduled production quantity target for 2009. Especially, diesel engines, industrial pumps, hydroelectric generators and high-voltage transformers had covered their scheduled product quantity target for 2009, namely, 18,000 diesel engines, 900MW hydroelectric generator units and industrial pumps of RMB400 million, which created favourable conditions for the achievement of the annual sales target for 2009.

Benefiting from Lower Raw Material Prices

The prices of steel and copper, our major industrial raw materials for manufacturing industrial equipments and machinery products, have respectively decreased by 30% and 53% since the fourth quarter of 2008. Although the Company may cut product prices in certain businesses amid the possible economic slowdown and fiercer price competition in China in 2009, we are still of the view that the lower raw materials price will be condusive to long-term cost control of the Company. It is expected that the decline in raw material prices in 2009 will enable the Company to keep a stable or slightly higher gross profit margin.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(INCLUDING FINANCIAL REVIEW)

RESULTS OVERVIEW

Operating Analysis

Commercial vehicle parts and components

During the reporting period, the commercial vehicle parts and components segment maintained its growth. In the first half of year, it was lifted by the rapidly increasing demand from the PRC automobile industry and the market due to the implementation of National III emission standards. However, in the second half of 2008, the growth momentum of China's automobile production declined amid domestic economic conditions impacted by international financial tsunami. Due to the rapidly rising demand for diesel engine from building construction, industry, transportation infrastructure and shipping sectors, commercial vehicle parts and components industry kept a steady sales growth. Revenue for the year amounted to approximately RMB1,674.5 million, an increase of approximately RMB254.5 million or approximately 17.9% as compared with approximately RMB1,420 million for 2007.

During 2008, the Company accelerated the implementation of its investment projects, including Automobiles Air Suspension Technology Innovation Project (Phase I) and arrange procedures for acquisition of Qijiang Gear. On 5 February 2009, the Company entered into an agreement with Shanghai Electric (Group) Corporation to further acquire 102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Forging at a total consideration of RMB256.96 million. The complete acquisition of the equity interest in the two companies would help the Company to implement its independent development strategy for commercial vehicle parts and components business or attract world-renowned companies with more advanced technology for restructuring and growth.

Power equipment

During the reporting period, sales of the power equipment segment slightly declined as nonferrous metal powder and wires & cables businesses were impacted by the significant decrease in raw material (copper) prices. Revenue for the year amounted to approximately RMB1,896.6 million, a decrease of approximately RMB115.4 million or approximately 5.7% as compared with approximately RMB2,012 million for 2007.

During 2008, the Company actively carried out investment projects including Commercialization Technical Innovation Project of Hydroelectric Equipment Complete Systems (Phase I), Relocation and Technical Innovation (Phase I) of Chongqing Pigeon Electric-porcelain Company Limited (重慶鴿牌電瓷有限公司) and Production Technology Innovation Project for Copper and Copper Based Powder (Phase I).

General machinery

During the reporting period, more quality high-end products had been produced in 2008 leading to a robust demand from various industries. The revenue of general machinery business for the year amounted to approximately RMB1,212.1 million, an increase of approximately RMB203.8 million or 20.2% as compared with approximately RMB1,008.3 million for 2007. The robust growth in the business was mainly attributable to the market expansion arising from product mix adjustment and new product development.

During the reporting period, the Company initiated and expedited implementation of investment projects such as Industrialisation Technical Innovation Project (Phase I) for Key Components including Rotor Blades for Large Wind Power Generators, Relocation and Major Installation of Local Technical Innovation Project (Phase I) of the Pump Company, and Technical Innovation Project (Phase I) of Complete Systems for High Volume Main and Sub Station and High Pressure Compressors. The implementation of these investment projects increased the production capacity of our products and improved our profitability, laying a sound foundation for our long-term growth.

CNC machine tools

During the reporting period, the CNC machine tools business growth pace slowed down, mainly due to the decline in automobile industry. With weaker market demands, the revenue for the year was approximately RMB1,166.5 million, an increase of approximately RMB121.3 million or approximately 11.6% as compared with approximately RMB1,045.2 million for 2007.

The Company has sped up the execution of investment projects including Production Technical Innovation Project (I) for Large Precise High-speed CNC Gear-Producing Machine, Technical Innovation Project (Phase I) for Modern High-Precision, High-Efficiency and Special-Purpose Tool, R&D Manufacturing Technology Innovation Project (Phase I) for φ300～φ500 Serial Medium CNC Lathe and Turning and Milling Machining Centers. The implementation of the Company's development plan provides a good foundation for the optimisation of production.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(INCLUDING FINANCIAL REVIEW)

Promoting Management Innovation and Improving Management Standards

During the reporting period, the Company operated in a prudent and standard manner, improved the fund management system and strengthened the centralised management of funds in strict compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Meanwhile, it enhanced investment projects monitoring; strengthened its remuneration and performance assessment system and promoted the TVA performance assessment method; perfected and improved the information-based management system. Through these effective management measures, the Company reduced operating risks and assured its healthy and stable growth.

Focusing on Technical Advance and Improving Self-Discretion Innovation Ability

During 2008, the Company took initiatives to bolster technical advance and product innovation, strengthened technical innovation and new product development of its business units, and implemented guide and management to new product development by adopting the new product output value ratio and key new products quantity as assessment indexes to subsidiaries. Meanwhile, it signed letters of responsibility outlining new product development goals with heads of its subsidiaries setting up development guide and management strategy for new products. During the reporting period, all enterprises under the Company persisted in the idea of structural adjustment and product innovation to carry out key new product development plan for 2008 despite difficulties faced during its production and operation. During the year, the Company researched, developed and manufactured 109 kinds of new products, with its new product output value ratio amounting to approximately 43%, about 4 percentage points higher than that in 2007. Outstanding major new product projects include:

- commercial vehicle parts and components segment: enhanced Steyr series spiral bevel gears with big torque, and MTTA11-G3 and MTA11-G2 engines for power generation unit;
- power equipment segment: special rubber flexible power cables for wind power;
- general machinery segment: KLDALH-C multistage centrifugal compressor for coal chemical designed by Shanxi Lu'an coal liquifaction pilot project; various high end new pump products developed for nuclear power, petroleum and medicine; M-40/42 air compressor and DF-0.36/(30-76)-250 compressor for natural gas sub-station;
- CNC machine tools segment: A series of large high-speed automatic equipments for the large gear processing of engineering machinery and wind power industry, including Y31125CNC6 six-axle CNC gear hobbing machine, YA31200H large gear hobbing machine, YS3118CNC5 five-axle CNC gear hobbing machine.

SALES

For the year ended 31 December 2008, the Group's revenue amounted to approximately RMB5,949.7 million, an increase of approximately RMB464.2 million or approximately 8.5 % as compared with approximately RMB5,485.5 million for 2007.

Overall, sales of power equipments were approximately RMB1,896.6 million (accounting for approximately 31.9% of total revenue), a decrease of approximately 5.7% from last year, but the sales of commercial vehicle parts and components were approximately RMB1,674.5 million (accounting for approximately 28.1% of total revenue), an increase of approximately 17.9%; sales of general machinery were approximately RMB1,212.1 million (accounting for approximately 20.4% of total revenue), an increase of approximately 20.2%; sales of CNC machine tools were approximately RMB1,166.5 million (accounting for 19.6% of total revenue), an increase of approximately 11.6%. Accordingly, the total revenue of the Group was driven up.

GROSS PROFIT

The gross profit for 2008 was approximately RMB1,175.4 million, increased by approximately RMB207.8 million or approximately 21.5%, as compared with approximately RMB967.6 million for last year, accounting for approximately 19.8% of the total sales.

The increase in gross profit as compared with last year was mainly due to higher gross profit margin for the larger portion of general machinery and commercial vehicle parts and components. Their gross profit margin increased from 27% and 23% to 31% and 25% respectively, which drove the overall gross profit margin up. Although the gross profit margin of power equipment and CNC machine tools decreased slightly, the overall gross profit margin for the year still rose from 17.6% to 19.8%, representing an increase of approximately 2.2%.

The Group proactively improved gross profit, accommodate market demand and adjusted the product mix so as to improve production of quality high-end products and meet the robust demand in various industries.

In addition, the Group adopted multi-measures to integrate operations to create synergies across business segments which consist of consolidating procurement to increase our bargaining power and lower our procurement cost. Meanwhile, by implementing "Toyota Production System", the Group effectively controlled production costs, which was helpful in maintaining and expanding total purchase volume and operating profit margin.

On information system integration, market and customer information were shared, promoting cross-sales among our business lines within each division and gradually integrating sales and marketing teams with each division where appropriate.

OTHER INCOME AND GAINS

The other income and gains for 2008 were approximately RMB48.6 million, a decrease of approximately RMB21.2 million or approximately 30.4%, as compared with approximately RMB69.8 million for last year, mainly resulting from the decrease in disposal gains of financial assets available-for-sale.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for 2008 were approximately RMB760.1 million, an increase of approximately RMB158.2 million or approximately 26.2%, as compared with approximately RMB601.9 million for last year. The selling and administrative expenses represented approximately 12.8% of the total revenue, an increase of approximately 1.8% as compared with 11% for last year.

During the year, our selling and distribution costs which primarily consist of transportation expenses, costs for the sales staff and various marketing expenses increased by approximately RMB37.8 million over last year. Administrative expenses increased by approximately RMB120.4 million over last year, primarily owing to an increase of approximately RMB66.6 million in R&D expenses as compared with last year, and certain listing expenses of approximately RMB24.7 million included in the current administrative expenses due to our successful listing in Hong Kong in 2008, and an increase of approximately RMB21.2 million in staff cost and assets depreciation.

OPERATING PROFIT

The operating profit for 2008 was approximately RMB463.9 million, an increase of approximately RMB28.5 million or approximately 6.5%, as compared with approximately RMB435.4 million for last year. Not counting the effect of one off gains included in other income and gains, operating profit increased by approximately RMB49.6 million, or approximately 13.6%, over last year.

NET FINANCE COSTS

Interest expenses for 2008 were approximately RMB86.6 million, an increase of approximately RMB31.1 million or approximately 56.0%, as compared with approximately RMB55.5 million for last year, due to the increase in bank interest lending rate as well as loan amount for the first half of the year.

SHARE OF PROFITS OF ASSOCIATED COMPANIES

The Company's share of profits of associated companies for the year ended 31 December 2008 was approximately RMB181.3 million, an increase of approximately RMB64.1 million or approximately 54.7%, as compared with approximately RMB117.2 million for last year.

CORPORATE INCOME TAX EXPENSES

The corporate income tax expenses for the year ended 31 December 2008 were approximately RMB78.7 million, an increase of approximately RMB32.8 million, or approximately 71.5%, as compared with approximately RMB45.9 million for last year, mainly resulted from the increase in assessable income as well as movement of deferred tax.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year ended 31 December 2008 was approximately RMB503.5 million, an increase of approximately RMB53.5 million or approximately 11.9% as compared with approximately RMB450 million for last year. Earnings per share decreased from approximately RMB0.2 last year to approximately RMB0.16. For details, please refer to Notes 35 to the Consolidated Financial Statements in this annual report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

(INCLUDING FINANCIAL REVIEW)

BUSINESS PERFORMANCE

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

	Revenue		Gross Profit		Segment Results	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2008	2007	**2008**	2007	**2008**	2007
	(RMB in millions, except for percentage)					
Commercial vehicle parts and components	**1,674.5**	1,420.0	**415.2**	325.0	**257.8**	217.4
% of total	**28.1**	25.9	**35.3**	33.6	**55.6**	49.9
Power equipment	**1,896.6**	2,012.0	**159.1**	161.0	**90.9**	84.9
% of total	**31.9**	36.7	**13.5**	16.6	**19.6**	19.5
General machinery	**1,212.1**	1,008.3	**379.6**	274.8	**92.7**	63.4
% of total	**20.4**	18.4	**32.3**	28.4	**20.0**	14.6
CNC machine tools	**1,166.5**	1,045.2	**221.5**	206.8	**77.5**	76.0
% of total	**19.6**	19.0	**18.9**	21.4	**16.7**	17.5
Headquarters	**—**	—	**—**	—	**(55.0)**	(6.3)
% of total	**—**	—	**—**	—	**(11.9)**	(1.5)
Total	**5,949.7**	5,485.5	**1,175.4**	967.6	**463.9**	435.4

Commercial vehicle parts and components

Revenue from the commercial vehicle parts and components segment for the year ended 31 December 2008 was approximately RMB1,674.5 million, an increase of approximately RMB254.5 million or approximately 17.9%, as compared with approximately RMB1,420 million for same period last year, primarily due to an increase in revenue of approximately RMB253.6 million, or approximately 27%, from the diesel engines business.

During the Period, gross profit for the commercial vehicle parts and components segment was approximately RMB415.2 million, an increase of approximately RMB90.2 million or approximately 27.8%, as compared with approximately RMB325 million in the same period last year. Gross profit margin increased to approximately 24.8% for 2008 from 22.9% for 2007, primarily due to an increase in gross profit margin for the diesel engines business. The increase in gross profit margin for the diesel engines business was primarily attributable to its technological advantage and the larger portion of high margin revenue derived from the sale of power generation diesel engines.

Overall, the result for the commercial vehicle parts and components segment for the year ended 31 December 2008 was approximately RMB257.8 million, an increase of approximately RMB40.4 million or approximately 18.6%, as compared with approximately RMB217.4 million for the same period last year.

Power equipment

Revenue from the power equipment segment for the year ended 31 December 2008 was approximately RMB1,896.6 million, a decrease of approximately RMB115.4 million or approximately 5.7%, as compared with approximately RMB2,012 million for the same period last year, primarily due to a decrease in revenue of approximately RMB122 million, or approximately 27%, from non-ferrous metal materials powder business.

During the Period, gross profit for the power equipment segment was approximately RMB159.1 million, a decrease of approximately RMB1.9 million or approximately 1.2%, as compared with approximately RMB161 million for the same period last year, primarily due to a decrease in gross profit of non-ferrous metal materials powder as a result of collapse in raw material prices and lower demand, a decrease in production and higher per unit cost in the second half of 2008.

Gross profit margin slightly increased to 8.4% for 2008 from 8% for 2007, primarily due to a decrease in average cost caused by lower raw material prices in the second half of 2008.

Overall, the result for the power equipment segment for the year ended 31 December 2008 was approximately RMB90.9 million, an increase of approximately RMB6 million or approximately 7%, as compared with approximately RMB84.9 million for the same period last year.

General Machinery

Revenue from the general machinery segment for the year ended 31 December 2008 was approximately RMB1,212.1 million, an increase of approximately RMB203.8 million or approximately 20.2% as compared with approximately RMB1,008.3 million for the same period last year, primarily due to an increase in revenue of approximately RMB91.5 million or approximately 40.6% from the industrial fans business, an increase in revenue of approximately RMB119.7 million or approximately 30% from the industrial pumps business, and an increase in revenue of approximately RMB31.2 million or approximately 20% from the separation machines business.

During the Period, gross profit for the general machinery segment was approximately RMB379.6 million, an increase of approximately RMB104.8 million or approximately 38.1% as compared with approximately RMB274.8 million in the same period last year. Gross profit margin increased to 31.3% for 2008 from 27.3% for 2007. The increase in the gross profit margin was due to larger proportion of products with high gross profit in industrial fans business and industrial pumps business after product mix adjustment.

Overall, the result for the general machinery segment for the year ended 31 December 2008 was approximately RMB92.7 million, an increase of approximately RMB29.3 million or approximately 46.2%, as compared with approximately RMB63.4 million for the same period last year.

CNC machine tools

Revenue from the CNC machine tools segment for the year ended 31 December 2008 was approximately RMB1,166.5 million, an increase of approximately RMB121.3 million or approximately 11.6%, as compared with approximately RMB1,045.2 million for the same period last year, primarily due to an increase in revenue of approximately RMB68.3 million or approximately 17% from the gear-producing machines business and an increase in revenue of approximately RMB42.4 million or approximately 10% from sales division.

During the Period, gross profit for the CNC machine tools segment was approximately RMB221.5 million, an increase of approximately RMB14.7 million or approximately 7.1%, as compared with approximately RMB206.8 million in the same period last year. Gross profit margin decreased to 19% for 2008 from 19.8% for the same period of 2007, primarily due to the increase in trading business that commands a lower margin and an increase in price of raw materials (particularly steel) resulting in lower gross profit margin in the complex precision metal cutting tools business and CNC machine tools segment.

Overall, the result for the CNC machine tools segment for the year ended 31 December 2008 was approximately RMB77.5 million, an increase of approximately RMB1.5 million or approximately 2%, as compared with approximately RMB76 million for the same period last year.

CASH FLOW

The Group's cash and bank deposits (including restricted cash) amounted to approximately RMB2,622.6 million as at 31 December 2008 (31 December 2007: RMB1,265.9 million), a significant increase of approximately RMB1,356.7 million or approximately 107.2% as compared with last year, attributable to cash flow generated from operating activities and approximately RMB1,008.8 million of net proceeds raised from the issuance of new shares by the Group through listing on the Stock Exchange on 13 June 2008.

During the Period, the Group had a net cash inflow from operating activities of approximately RMB444.4 million (31 December 2007: RMB476.9 million), a net cash outflow from investing activities of approximately RMB335.4 million (31 December 2007: RMB222.1 million), and a net cash inflow from financing activities of approximately RMB1,165.2 million (31 December 2007: RMB264.3 million).

ASSETS AND LIABILITIES

As at 31 December 2008, the Group had total assets of approximately RMB7,525.8 million, an increase of approximately RMB1,900.4 million, as compared with approximately RMB5,625.4 million as at 31 December 2007. Total current assets amounted to approximately RMB5,271.7 million, increased by approximately RMB1,653.1 million as compared with approximately RMB3,618.6 million as at 31 December 2007, accounting for approximately 70% of total assets. Total non-current assets was approximately RMB2,254.1 million, an increase of approximately RMB247.3 million as compared with approximately RMB2,006.8 million as at 31 December 2007, accounting for approximately 30% of total assets.

As at 31 December 2008, total liabilities of the Group amounted to approximately RMB4,055 million, an increase of approximately RMB341.9 million, as compared with approximately RMB3,713.1 million as at 31 December 2007. Total current liabilities were approximately RMB3,543.5 million, an increase of approximately RMB343.5 million as compared with approximately RMB3,200 million as at 31 December 2007, accounting for approximately 87.4% of total liabilities. Total non-current liabilities were approximately RMB511.5 million, a decrease of approximately RMB1.7 million as compared with approximately RMB513.2 million as at 31 December 2007, accounting for approximately 12.6% of total liabilities.

As at 31 December 2008, net current assets of the Group were approximately RMB1,728.2 million, an increase of approximately RMB1,309.5 million, as compared with approximately RMB418.7 million as at 31 December 2007.

CURRENT RATIO

As at 31 December 2008, current ratio (the ratio of current assets over current liabilities) of the Group, increased from 1.13:1 for 2007 to 1.49 : 1 for 2008.

GEARING RATIO

As at 31 December 2008, due to the proceeds raised from the issuance of new shares and listed on the Stock Exchange and profit for 2008, by comparing the borrowing and the total capital, the Group's gearing ratio was 22% (31 December 2007: 30%).

INDEBTEDNESS

As at 31 December 2008, the Group had an aggregate bank and other borrowings of approximately RMB974.8 million, representing an increase of approximately RMB156 million as compared with approximately RMB818.8 million as at 31 December 2007.

Borrowings repayable by the Group within one year were approximately RMB700.8 million, representing an increase of approximately RMB156.5 million as compared with approximately RMB544.3 million as at 31 December 2007. Borrowings repayable after one year were approximately RMB274 million.

PLEDGES OF ASSETS

As at 31 December 2008, approximately RMB314.2 million was deposited with the banks with security or restricted for use (31 December 2007: RMB229.8 million). In addition, certain bank loans of the Group were secured by certain land use rights, plants and machineries and inventories of the Group, which had an aggregate net book value of approximately RMB305.3 million as at 31 December 2008 (31 December 2007: RMB261.8 million).

CONTINGENT LIABILITIES

As at 31 December 2008, the Group had no significant contingent liabilities.

SIGNIFICANT EVENTS

On 5 February 2009, the Company entered into an agreement with Shanghai Electric (Group) Corporation to further acquire 102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Forging at a total consideration of RMB256.96 million. Save as disclosed above, the Group did not have any other significant disclosable events during the year.

CAPITAL EXPENDITURE

As at 31 December 2008, the total capital expenditure of the Group was approximately RMB344.9 million, which was principally invested in plant expansion, production technology improvement, equipment upgrade and the expansion of production capacity (31 December 2007: RMB347 million).

CAPITAL COMMITMENT

As at 31 December 2008, the Group had capital commitments of approximately RMB186.8 million (31 December 2007: approximately RMB312.4 million) in respect of fixed assets.

RISK OF FOREIGN EXCHANGE

The Group uses Renminbi as the reporting currency. During the Period, pressure on Renminbi appreciation was eased due to global economic recession in the second half of 2008. A slowdown in Renminbi appreciation will strengthen the competitiveness of our export products, but it may bring negative impacts on the import of materials and equipments by the Group from overseas. In addition, as the proceeds from listing is settled by HK dollars, the Group is exposed to risks concerning foreign exchange when converting the proceeds to Renminbi.

As at 31 December 2008, the Group's bank deposits comprise approximately HK$798 million and approximately US$1.29 million. Save as the above, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

EMPLOYEES

As at 31 December 2008, the Group had 14,819 employees (31 December 2007: 15,444 employees). The Group intends to continuously improve incentive schemes that link with the performance reviews of our management and employees and to invest in education and training programs for our management personnel and manufacturing staff. It is believed that these measures will help us to attract and retain talents for our businesses.

USE OF PROCEEDS

The aggregate proceeds from the Company's Global Offering on the Stock Exchange on 13 June 2008 amounted to approximately HK$1,306 million (equivalent to approximately RMB1,154.1 million). After deducting related issuance expenses, the net proceeds amounted to approximately RMB1,008.8 million. For the year ended 31 December 2008, approximately RMB363.7 million of net proceeds had been applied in accordance with the proposed applications set out in the Company's prospectus as follows:

- approximately HK$18.98 million (equivalent to approximately RMB16.72 million) was used for technological improvements and capacity expansion for the vehicle suspension systems business, with emphasis on air suspensions.

- approximately HK$56.92 million (equivalent to approximately RMB50 million) was used for technological improvements and capacity expansion for the hydroelectric generation equipment business, with emphasis on the construction of facility for complete system production.

- approximately HK$20.47 million (equivalent to approximately RMB18.05 million) was used for technological improvements and capacity expansion for the electrical wires, cables and materials business, with emphasis on specialized cables with environmentally-friendly features and high-voltage ceramics.

- approximately HK$25.12 million (equivalent to approximately RMB22 million) was used for technological improvements and capacity expansion for the non-ferrous metal materials business, with emphasis on copper-based powders and copper material extension products.

- approximately HK$74.41 million (equivalent to approximately RMB65.49 million) was used for product expansion and construction of a production base for wind power turbine blades and a production base for specialized refrigeration machines, industrial pumps and industrial fans used by nuclear power stations.

- approximately HK$44.13 million (equivalent to approximately RMB38.84 million) was used for technological improvements and capacity expansion for the industrial pumps business.

- approximately HK$23.36 million (equivalent to approximately RMB20.56 million) was used for technological improvements and capacity expansion for the gas compressors business, with emphasis on complete systems for high capacity first class and second class stations and high pressure compressors.

- approximately HK$96.93 million (equivalent to approximately RMB85.3 million) was used for technological improvements and capacity expansion for the gear producing machines business, with emphasis on high speed, precision CNC machines.

- approximately HK$8.66 million (equivalent to approximately RMB7.62 million) was used for technological improvements and capacity expansion for the complex precision metal-cutting tools business, with emphasis on specialized tools.

- approximately HK$34.09 million (equivalent to approximately RMB30 million) was used for technological improvements and capacity expansion for the CNC lathes and machine centers business, with emphasis on a production facility for lathe production technology and large-scale CNC lathes.

- approximately HK$10.36 million (equivalent to approximately RMB9.12 million) was used for working capital and general corporate purposes.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets out information regarding our Directors :

Name	Age	Position
Sun Nengyi	60	Executive Director, Chairman
He Yong	45	Executive Director
Liao Shaohua	45	Executive Director
Chen Xianzheng	54	Executive Director
Huang Yong	46	Non-executive Director
Yu Gang	44	Non-executive Director
Yang Jingpu	53	Non-executive Director
Wu Jian	45	Non-executive Director
Lo Wah Wai	45	Independent Non-executive Director
Ren Xiaochang	52	Independent Non-executive Director
Kong Weiliang	62	Independent Non-executive Director

EXECUTIVE DIRECTORS

Mr. Sun Nengyi, aged 60, joined the Parent Group in July 1968 and the Group in 2004. Since July 2007, he has been an executive Director and the chairman of our Company. He is in charge of matters relating to the Board. Mr. Sun has nearly 40 years of experience in business management in the manufacturing industry. Since October 2003, Mr. Sun has been the chairman of the Parent Group in charge of the board and overseeing the development strategy and capital operations. From 2000 to 2003, Mr. Sun was the director and president of the Parent Group in charge of operations and management matters. Between January 2005 and November 2007, Mr. Sun was the chairman of Chongqing Power Transformer, and he was the plant manager of the state-managed Jianan Machinery Factory from 1994 to 2000 in charge of the production of electronic and mechanical goods and the deputy plant manager of the Xinan Computer Industry Co. Ltd. from 1989 to 1994 in charge of the production of electronic and mechanical goods, technical management and planning. Mr. Sun is a senior economist who graduated from Sichuan Broadcasting and Television University with a college degree in business management in 1986.

Mr. He Yong, aged 45, joined the Parent Group in 1984 and the Group in December 2002. Since July 2007, he has been an executive Director and the president of our Company. He is responsible for the overall management of our Company. Mr. He has over 20 years of experience in the automobile industry. He has been the general manager of Chongqing Heavy Vehicle Group and the chairman and general manager of Chongqing Hongyan Motor Co. Ltd. since 2005 in charge of the companies' operations, planning, human resources, heavy vehicles manufacturing and sales. Mr. He had been involved in the management of Chongqing Heavy Vehicle Group and Chongqing Hongyan Motor Co. Ltd. as a deputy manager since 2000 and 2003, respectively, in charge of infrastructure, technological improvements, logistics and management of retired staff. Between 1998 and 2000, he was the deputy manager of Sichuan Truck Plant, the predecessor of Chongqing Heavy Vehicle Group. He is a senior engineer who graduated from Hunan University with a bachelor's degree in civil engineering in 1984 and received a master's degree in business administration from Chongqing University in 2006.

Mr. Liao Shaohua, aged 45, joined the Parent Group and the Group in May 1988. Since July 2007, he has been an executive Director and a vice president of our Company. Mr. Liao is responsible for supervising the production and logistics operations of our Company. Mr. Liao has over 20 years of experience in the machine tools industry. Mr. Liao has been the chairman and general manager of Chongqing Machine Tools since December 2005 in charge of board matters, production of machine tools, general management, legal and audit matters. He was also a director of the Parent Group from 2002 to 2007, taking part in major decisions of the board, and was the plant manager of Chongqing Machine Tools Plant Co., Ltd. (the predecessor of Chongqing Machine Tools) from 1998 to 2005 in charge of production of machine tools, general management, legal and audit matters. Mr. Liao is a professor-level senior engineer. He graduated from Chongqing University with a bachelor's degree in automobile manufacture in 1985 and a master's degree in mechanics in 1988. He also obtained his PRC machinery industry senior professional manager qualification in 2005.

Mr. Chen Xianzheng, aged 54, joined the Parent Group in August 1976 and joined the Group in December 2001. Since July 2007, he has been an executive Director of our Company and the secretary to the Board responsible for handling all matters relating to the Board. Mr. Chen has over 20 years of experience in business management. From July 2006 to July 2007, he was the head of the securities department of the Parent Group, in charge of the Listing. Mr. Chen was the department chief of the asset management department and the enterprise reform department of the Parent Company from 2000 to July 2006 in charge of asset management, reorganization and merger, and general management matters. He worked for the state-managed Jianan Machinery Factory from 1976 to 2000 and was the deputy plant manager from 1995 to 2000 in charge of operations, research and development, restructuring, management and legal matters. Mr. Chen is a senior economist who graduated from the Party School of Chengdu Municipal Commission with a college degree in 1986.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Huang Yong, aged 46, joined the Parent Group in July 1984 and the Group in 2004. Since July 2007, he has been a non-executive Director of our Company. Mr. Huang has over 20 years of experience in the automobile industry. Mr. Huang has been a director and the president of the Parent Group since 2004 in charge of operations, automobile financing business and investments. Mr. Huang was the vice chairman and general manager of Chongqing Hongyan Motor Co. Ltd. from 2003 to 2004 in charge of marketing, technology development and management. Since 2000, Mr. Huang has been involved in the management of Chongqing Heavy Vehicle Group and was the general manager and thereafter the chairman of Chongqing Heavy Vehicle Group in charge of technology development, qualitative management and planning. From 1996 to 2000, Mr. Huang was the deputy plant manager of Sichuan Automobile Manufacturing Plant, and from 1984 to 1996, he worked in Sichuan Automobile Manufacturing Plant. Mr. Huang is a senior engineer who graduated from Hunan University with a bachelor's degree in automobile manufacturing in 1984. He obtained his master's degree in engineering from Chongqing University in 2000.

Mr. Yu Gang, aged 44, joined the Parent Group in October 2003 and the Group in July 2007. Since July 2007, he has been a non-executive Director of our Company. Mr. Yu has been a director and the managing vice president of the Parent Group since 2003. Mr. Yu has over 20 years of experience in the government service and the management of large enterprises. Prior to joining the Company, Mr. Yu was the deputy mayor of Jiangjin Municipal Government from 2001 to 2003 in charge of industrial development of the municipality, the assistant to the mayor of Jiangjin Municipal Government and the section chief of Economic Committee and the minister of the Industry and Transportation Department from 1997 to 2001 in charge of the industrial and economic development of the municipality. Between 1989 and 1997, he was an officer in the Chongqing Municipality Industrial Transportation Department and a committee member of the Industry, Transport and Political Bureau of Chongqing in charge of human resources management, and an officer in the Chongqing Machinery School from 1984 to 1989. Mr. Yu is a senior engineer who graduated from Chongqing Machinery Manufacturing School with a professional degree in machinery engineering in 1984 and from Chongqing Party School in 1997. He also graduated from Southwest Normal School with a master's degree in business management in 2002.

Mr. Yang Jingpu, aged 53, joined the Company in August 2007 and has been a non-executive Director of our Company since then. Mr. Yang is currently the chairman and general manager of Jiangong Group in charge of board matters, strategic planning and investment. Mr. Yang has over 15 years of experience in managing large enterprises. Mr. Yang was the general manager of Chongqing Coal Group from 2004 to 2007 responsible for general management and was the deputy director of Chongqing City Coal Industrial Bureau from 2001 to 2004 in charge of restructuring and reformation, operational and administrative management. From 1992 to 2001, Mr. Yang was the deputy director and thereafter, director of Chongqing City Songzao Mining Bureau in charge of coal production, safety, sales and finance. Mr. Yang is a senior economist and a senior engineer. He graduated from Jiaozuo Coal Academy with a bachelor's degree in industrial management engineering in 1988 and a master's degree in mining engineering from Chinese University of Mining and Technology in 2001.

Mr. Wu Jian, aged 45, joined our Company in July 2007 and has been a non-executive Director of the Company since then. Mr. Wu has over 10 years of experience in management of investment banks and securities supervision. He became an arbitrator of Chongqing Arbitration Commission in 2008. From 2006 to 2008, Mr. Wu was a director of Chongqing Dongyuan Industry Development Co., Ltd. in charge of matters relating to the board and was the deputy general manager of Yufu Company in charge of investment banking business in December 2005. Mr. Wu was the vice director of the investigation department, and subsequently, the director of the listing department of Chongqing Securities Office (Bureau) of the China Securities Regulatory Commission in charge of investigating illegal securities dealings and listed company matters in Chongqing from 1997 to 2005. Mr. Wu graduated from Shanxi Finance University with a bachelor's degree in economics in 1985 and obtained a master's degree in business administration from Chongqing University in 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Wah Wai, aged 45, joined our Company in January 2008 and has been an independent non-executive Director of our Company and the chairman of our Company's audit committee since January 2008. He had more than eight years of experience in auditing and business consulting services in an international accounting firm, two years of which were spent in the U.S. Mr. Lo was an independent non-executive director of Far East Pharmaceutical Technology Limited in September 2004, a company listed on the Main Board of the Stock Exchange whose subsidiaries are principally engaged in the manufacturing and distribution of pharmaceutical products. A petition was filed on September 15, 2004 to wind up Far East Pharmaceutical Technology Limited in respect of the default of a syndicated bank loan and since then, liquidators have been appointed. Mr. Lo was not involved in the arrangement of the syndicated bank loan and his appointment was made after the said default had occurred. Mr. Lo is also an independent non-executive director of Sino-Tech International Holdings Limited (formerly known as Semtech International Holdings Limited), a company listed on the Main Board of the Stock Exchange since September 2004 and engaged in the manufacture and sale of electronic and electrical parts and components and cigarette lighters. He is a practising member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lo graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration in 1986 and New Jersey Institute of Technology, the U.S. with a master's degree in science in 1992.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Ren Xiaochang, aged 52, joined our Company in July 2007 and has been an independent non-executive Director of the Company since then. Mr. Ren has over 20 years of experience in the automobile industry. Mr. Ren has been with Chongqing Research Institute of Automobile since 1982 and is currently the superintendent and a researcher of Chongqing Research Institute of Automobile in charge of operational management, strategic planning, human resources and asset management. Mr. Ren is also currently an independent director of Chengdu Yinhe Power Co., Ltd. in charge of matters relating to the board. Mr. Ren graduated from Hunan University with a bachelor's degree in engineering studies in 1982 and the Management School of Wuhan University of Technology with a master's degree in business administration in 2004.

Mr. Kong Weiliang, aged 62, joined the Company in July 2007 and has been an independent non-executive Director of our Company since then. Mr. Kong has nearly 40 years of experience in the sensors industry. Mr. Kong was the chairman of China Silian Sensors Group Corporation Limited from 2001 to March 2007 in charge of matters relating to the board. From 1997 to 2000, Mr. Kong was the vice chairman and the general manager of China Silian Sensors Group Corporation Limited in charge of operations. Prior to that, Mr. Kong was the Deputy Secretary of the Party Committee and Secretary of the Communist Party's Disciplinary Committee of China Silian Sensors Group Corporation Limited from 1993 to 1996 in charge of party matters, human resources and labor relations. Before joining China Silian Sensors Group Corporation Limited, Mr. Kong worked in the Sichuan Sensors Head Factory from 1990 to 1993 as assistant to the factory manager, in charge of human resources and in the Sichuan Sensors Fourteenth Factory from 1967 to 1983 and from 1985 to 1990. Mr. Kong is a senior economist with a college degree in business management from Hefei University of Technology in 1985.

SUPERVISORS

The following table sets out information regarding our Supervisory Committee:

Name	Age	Position
Duan Rongsheng	57	Supervisor and Chairman of Supervisory Committee
Ye Zusheng	58	Supervisor
Wang Rongxue	63	Independent Supervisor
He Xiaoping	57	Independent Supervisor
Wang Xuqi	56	Supervisor
Wu Chongjiang	59	Supervisor

Mr. Duan Rongsheng, aged 57, joined the Parent Group in June 1984 and the Company in July 2007. Since then, he has been a Supervisor of our Company and the chairman of our Supervisory Committee. Mr. Duan is currently a deputy chairman in Chongqing Wanli Storage Batteries Co., Ltd. and has been a director and deputy party committee secretary of the Parent Group since 2000 in charge of the Parent Group's party matters, disciplinary supervision and enterprise culture. From 1988 to 2000, Mr. Duan was the deputy department chief and thereafter the department chief of the human resources department of Chongqing Machinery and Industrial Management Bureau. Mr. Duan is a senior economist who graduated from the Central Party School with a bachelor's degree in business management in 1988 and from Southwest Normal School with a master's degree in business management in 2000.

Mr. Ye Zusheng, aged 58, joined the Company in July 2007 and has been a Supervisor of our Company since then. He is currently the deputy general manager of the Chongqing Office of Huarong Company in charge of debt and equity management and legal matters. Mr. Ye is currently a director of Chongqing International Enterprise Investment Co., Ltd. in charge of matters relating to the board. Mr. Ye was a vice director, and thereafter a director of the People's Bank of China and of Industrial and Commercial Bank of China from 1980 to 2000 and from 1972 to 1980 respectively, in charge of industry and commerce, capital flow, technology reforms and loan management. Mr. Ye is a senior economist who graduated from Chongqing Commercial School in 1990 with a college degree in urban finance.

Ms. Wang Rongxue, aged 63, joined the Company in July 2007 and has been an independent Supervisor of our Company since then. Prior to her retirement, Ms. Wang was chairman to the state-owned enterprise supervisory board of the Chongqing Municipal People's Government and the assistant inspector of the Chongqing City Economic Committee of the Chongqing Bureau of Metallurgical Industry. From 2000 to 2007, she was responsible for supervising Chongqing Jiangong Group, Chongqing Gongcheng Jianshe Co., Ltd, Chongqing Chengshi Jianshe Investment Co., Ltd., Chongqing Ranqi Group, Chongqing Zhaobiao Group, Chongqing Huayi Group and Chongqing Liangyou Group. Ms. Wang joined the Chongqing Bureau of Metallurgical Industry in 1978 and was responsible for the education of industry participants and was the section chief of the cadre administration department from 1990 to 2000 in charge of human resources. Ms. Wang graduated from Chongqing University with a college degree in metallurgy in 1970.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Ms. He Xiaoping, aged 57, joined the Parent Group in May 1975 and the Company in July 2007. Since then, she has been an independent Supervisor of our Company. Ms. He has over 30 years of experience in the automobile industry. Prior to her retirement, Ms. He has been the senior specialist of Chongqing Hongyan Changli in charge of product development, sales and finance. From 1997 to 2007, Ms. He was the deputy general manager of Chongqing Heavy Vehicle Group Hongyan Automobile Spring Co., Ltd. and the deputy general manager of Chongqing Hongyan Changli in charge of operational management, supply, sales and finance. From 1975 to 2001, Ms. He worked in various departments of Chongqing Hongyan Automobile Spring Factory and was a section chief, assistant to the plant manager and deputy plant manager, in charge of production, planning, statistics, sales and operational management. Ms. He is an economist who graduated from the Central Party School with a bachelor's degree in business management in 1996.

Mr. Wang Xuqi, aged 56, joined the Parent Group and the Group in December 1976. Since July 2007, he has been a Supervisor of the Company. Mr. Wang has 30 years of experience in non-ferrous metal refining. Since 2002, Mr. Wang has also been the chairman and general manager of Huahao Smelting in charge of matters relating to the board, operational management, administrative matters, finance and marketing. Mr. Wang is a director of the Parent Group and has been the chairman and general manager of Chongqing Smelter (Group) Corporation Limited since 1998 in charge of matters relating to the board, operational management, administrative matters, finance and marketing. He has been the deputy general manager of Chongqing Smelter Factory since 1993 in charge of human resources and enterprise management. Mr. Wang has been involved in the management of Chongqing Smelter Factory since 1987. Mr. Wang graduated from Chongqing Normal School with a bachelor's degree in Chinese language in 1987 and from Asia International Open University in Macau with a master's degree in business management in 2004.

Mr. Wu Chongjiang, aged 59, joined the Parent Group and the Group in September 1969. Since July 2007, he has been a Supervisor of our Company. Mr. Wu has 30 years of experience in the manufacturing of gas compressors. Since 2002, Mr. Wu has been an executive director and general manager of Chongqing Gas Compressor in charge of operational management, human resources, finance and administrative matters. Mr. Wu was the plant manager of Chongqing Gas Compressor Factory (the predecessor of Chongqing Gas Compressor) from 1996 to 2002 in charge of production, human resources, finance and administrative matters and the deputy plant manager of Chongqing Gas Compressor Factory, from 1990 to 1996, in charge of production and sales. Mr. Wu graduated from Chongqing Industrial School with a college degree in die-casting in 1969.

SENIOR MANAGEMENT

The following table sets out information regarding our senior management officers:

Name	Age	Position
He Yong	45	President
Liao Shaohua	45	Vice President
Zhang Ke	56	Vice President
Wang Nongcheng	56	Vice President
Miao Xiaoping	53	Financial Controller
Kam Chun Ying, Francis	42	Qualified Accountant

Mr. He Yong, aged 45, is an executive Director and the president of our Company. For details regarding Mr. He's experience, please refer to the subsection entitled "Executive Directors" above.

Mr. Liao Shaohua, aged 45, is an executive Director and a vice president of our Company. For details regarding Mr. Liao's experience, please refer to the subsection entitled "Executive Directors" above.

Mr. Zhang Ke, aged 56, joined the Parent Group and the Group in November 1971. Since July 2007, he has been a vice president of the Company in charge of securities and audit. Mr. Zhang has over 20 years of experience in hydroelectric equipment manufacturing. Mr. Zhang has been the chairman and the general manager of Chongqing Water Turbine (the predecessor of Chongqing Water Turbine Works Co., Ltd.) since February 1998 in charge of matters of the board, operational management, turbine sales, capital flow, cost management and human resources and was the deputy plant manager of Chongqing Water Turbine Plant from 1991 to 1998 in charge of party matters including disciplinary matters, infrastructure, technological improvements, and labour relations. Since 1988, he participated in the management of Chongqing Water Turbine and was responsible for labour relations. Mr. Zhang graduated from Sichuan College of Education with a bachelor's degree in political education in 1986.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Mr. Wang Nongcheng, aged 56, joined the Parent Group in December 1987 and joined the Group in July 2007. Since July 2007, he has been a vice president of the Company. Mr. Wang is responsible for the strategic planning and capital management of the Company. Mr. Wang has over 20 years of experience in the general machinery industry. From 2000 to 2007, Mr. Wang was the chief engineer of the Parent Group and the head of planning and development department and the industry development department in charge of strategic research, planning and development and securities. From 1991 to 2000, Mr. Wang was the deputy department chief of Chongqing Bureau of Machinery Industry in charge of technological development, product development and informational marketing. Mr. Wang is a senior engineer who graduated from Chongqing University with a bachelor's degree in machinery in 1983.

Ms. Miao Xiaoping, aged 53, joined the Parent Group in February 1979 and joined the Group in December 2001. Since July 2007, she has been the financial controller of the Company. Ms. Miao has been the deputy department chief of the assets and finance department of our Group since 2000 in charge of accounts, finance and asset management. In 2000, Ms. Miao was an investigator and deputy department chief of the finance department of Chongqing Machinery and Industry Management Bureau in charge of accounts, finance and asset management. Ms. Miao is a senior accountant who graduated from Shanghai Machinery School with a college degree in price management in 1986 and from Southwest Teacher's School with a master's degree in economic management studies in 2000.

Mr. Kam Chun Ying, **Francis**, aged 42, joined the Company in February 2008. Since then, he has been the qualified accountant of our Company. Prior to joining our Company, Mr. Kam was the financial controller of TFH Management Limited, and was responsible for finance operations and corporate compliance in both the private and listed companies within that group. Between August 1986 and April 1989, Mr. Kam worked for Deloitte Touche Tohmatsu, previously known as Deloitte Haskins Sells, as a senior account assistant and has over 20 years of experience in corporate and finance management. He has been a member of the Hong Kong Institute of Certified Public Accountants since June 1996 and a fellow of the Chartered Association of Certified Accountants since June 2001. Mr. Kam graduated from Heriot-Watt University in the United Kingdom in November 2004 with a master's degree in business administration.

DIRECTORS' REPORT

The Board of the Company is pleased to present the annual report and the audited financial statements of the Company for the year ended 31 December 2008.

PRINCIPAL BUSINESS

The Company is principally engaged in designing, manufacturing and sales of commercial vehicle parts and components, power equipment, general machinery and machinery tools. The principal businesses of its subsidiaries are set out in Note 40 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2008 are set out in the consolidated income statements in this annual report on pages 69 to 70.

FINAL DIVIDENDS

The Board recommends not to declare final dividends.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31 December 2008, share capital attributable to the shareholders of the Group amounted to approximately RMB3,418.3 million (31 December 2007: approximately RMB1,865.7 million). The Group working capital is financed out of internal cash flow and the proceeds from the IPO in Hong Kong on 13 June 2008 amounting to approximately HK$1,306 million. As at 31 December 2008, the Group's gearing ratio by calculating the percentage of borrowing divided by the total capital (total equity plus borrowings) was approximately 22% (31 December 2007: 30%) total capital is calculated as equity as shown in the consolidation balance sheets, plus borrowings. The Group's current ratio (being the current assets divided by current liabilities) in 2008 was increased to 1.49:1 (2007: 1.13:1).

As at 31 December 2008, cash, bank balances and time deposits (including restricted cash) were approximately RMB2,622.6 million, indicating a healthy financial position.

FINANCIAL HIGHLIGHTS

Summary of the Group's results, assets, liabilities and minority interests for the latest four financial years is set out in the on page 5 in this annual report, which is not included in the auditors' report.

INVESTMENT PROPERTIES, BUILDING, PLANT AND EQUIPMENT

During the Period, the Group invested approximately RMB340.9 million in acquisition of properties, plants and equipment for business expansion. Details of the changes in investment properties, plants and equipment of the Group and the Company are set out in Note 7 and Note 8 to the consolidated financial statements respectively.

SHARE CAPITAL

Share capital structure	Number of shares	Approximate percentage in total issued shares *(%)*
Domestic Shares	2,584,452,684	70.14
H shares *(Note)*	1,100,187,470	29.86
Total	3,684,640,154	100

Note:

On 13 June 2008, the Company issued 1,004,900,000 H shares of RMB1 each to Hong Kong investors by way of global offering, at an issuance price of HK$1.30 per H share.

Pursuant to the Administrative Method on Reduction of State-owned Shares to Raise Social Security Fund (the "Method"), 95,287,000 domestic shares were converted to H shares ("Converted H Shares") by promoters and were held by the National Council for Social Security Fund of the PRC ("NSSF").According to the Method, the Company's state-owned shareholders shall transfer domestic shares at a number equivalent to approximately 10% of total H shares to be issued to the NSSF.The Converted H Shares rank pari passu with the newly issued H shares.

Details of movement to share capital of the Company during the year ended 31 December 2008 are set out in Note 19 to the consolidated financial statements.

RESERVES

Details of changes in reserves of the Company during the review period are set out in Note 20 to the consolidated financial statements.

CHARITY DONATIONS

During the period, the Group's charity donation amounted to approximately RMB2.71 million.

MAJOR CUSTOMERS AND SUPPLIERS

Percentages of revenue from products sales and service provision to major customers in the Group's total revenue during the reporting period are as follows:

Cummins (China) Investment Co., Ltd.	3.39%
Shanwei Yinpeng Development Co., Ltd.	2.54%
Yi Chong Ji Tuan Da Lian Guo Ji Ke Ji Mao Yi Co., Ltd. (一重集團大連國際科技貿易有限公司)	1.37%
Shantui Construction Machinery Co., Ltd.	1.34%
Wuxi Xinzhongtou Industrial Co., Ltd.	1.16%
Total amount of the top five customers	9.80%

None of the top five customers are connected persons of the Group except Cummins (China) Investment Co., Ltd., which is a shareholder of Chongqing Cummins Engine Co., Ltd.

Percentages of expenses for products and service purchase from major suppliers in the Group's total sales cost during the reporting period are as follows:

Chongqing Xinchao Industrial Co., Ltd.	9.14%
Chongqing Dianyun Copper Co., Ltd.	7.40%
Chongqing Port Logistic Economic and Trade Co., Ltd.	5.94%
Chongqing General Commerce Import and Export Co., Ltd. (重慶商社進出口貿易有限公司)	4.12%
Chongqing Dong Sheng Iv Ye Gu Fen Co., Ltd. (重慶東升鋁業股份有限公司)	2.43%
Total amount of the top five suppliers	29.03%

None of the top five suppliers are connected persons of the Group.

Save as disclosed above, none of our Directors or their respective associates, or our existing substantial Shareholders who, to the knowledge of our Directors, own more than 5% of our issued share capital, has any beneficial interest in any of our top five customers and suppliers.

COMPETING INTEREST

The Company's shareholder, Chongqing Machinery and Electronic Holding (Group) Co., Ltd., and the Company have entered into a non-competition agreement with the Company as beneficiary. Please refer to the Prospectus for details.

On 18 January 2008, the Company received non-competition agreement signed by Chongqing Machinery and Electronic Holding (Group) Co., Ltd.

DIRECTORS AND SUPERVISORS

During the year and as at the date hereof, the Directors and Supervisors are as follows:

Executive Directors	**Appointment Date**
Sun Nengyi *(Chairman)*	27 July 2007
He Yong	27 July 2007
Liao Shaohua	27 July 2007
Chen Xianzheng	27 July 2007
Non-executive Directors	
Huang Yong	27 July 2007
Yu Gang	27 July 2007
Yang Jingpu	9 August 2007
Wu Jian	27 July 2007

Independent Non-executive Directors

Lo Wah Wai	10 January 2008
Ren Xiaochang	27 July 2007
Kong Weiliang	27 July 2007

Supervisors

Duan Rongsheng	27 July 2007
Ye Zusheng	27 July 2007
Wang Rongxue	27 July 2007
He Xiaoping	27 July 2007
Wang Xuqi	27 July 2007
Wu Chongjiang	27 July 2007

CONFIRMATION OF INDEPENDENCY OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Independent non-executive directors have submitted to the Company the annual written confirmation of their independency as required by Rule 3.13 of the Listing Rules. The Company is of opinion that all three independent non-executive directors are independent.

DIRECTORS' SERVICE CONTRACTS

Chairman and other Executive Directors of the Company all entered into service contracts with the Company on 8 March 2008. According such service contracts and the Articles of Association, each Executive Director assumes his office since appointment date with a term of 3 years. Upon expiry, such contracts can be renewed under the relevant provisions of the Articles of Association and the Listing Rules, and Directors may offer themselves for re-election at general meetings. The contract may be terminated by not less than three months' notice in writing served by either party on the other, or according to terms thereof.

Save as mentioned above, none of the Directors has entered into service contract which could not be terminated without compensation (other than statutory compensation) within 1 year.

OFFICE TERM OF NON-EXECUTIVE DIRECTORS AND INDEPENDENT NON-EXECUTIVE DIRECTORS

Office term of Non-executive Directors and Independent Non-executive Directors is 3 years. Upon expiry of the office term, each Director (including directors appointed with specific term) may offer himself for re-election at general meetings.

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of Directors, Supervisors and senior management of the Company are set out on pages 30 to 38 of this annual report.

DIRECTORS' REMUNERATION

The directors' fees are proposed by the Remuneration Committee, considered by the Board and approved by the AGM. Other remunerations are determined by the Remuneration Committee based on the position, responsibility and performance of each Director and the operating results of the Group.

INTERESTS OF DIRECTORS AND SUPERVISORS IN THE CONTRACTS AND CONNECTED TRANSACTIONS

During the year, none of Directors or Supervisors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the year ended 31 December 2008, none of the Company and its subsidiaries purchased, sold or redeemed any listed securities of the Company.

INTERESTS OF THE DIRECTORS AND CHIEF EXECUTIVES IN THE SHARES AND UNDERLYING SHARES

As at 31 December 2008, 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 which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND BONDS

During the year, none of Directors or their spouse or juvenile children was granted the right to make profit by acquiring the shares or bonds of the Group; none of the Company, its holding company, or any of its subsidiaries or fellow subsidiaries was a party to any arrangement which enables the directors to make such profit through any other body corporation.

SIGNIFICANT EVENTS

On the 5 February 2009, the Company and Shanghai Electric (Group) Corporation entered into the an agreement for acquisition of 102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Forging at a total consideration of RMB256.96 million. Save as disclosed above, the Company do not have any other discloseable significant events during the year.

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

As at 31 December 2008, 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 position in domestic shares of RMB1.00 each of the Company

Name of Shareholders	Class of shares	Number of shares	Capacity	Note	Percentage in total issued domestic shares *(%)*	Percentage in the total issued shares *(%)*
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	Domestic Shares	1,924,225,189	Beneficial owner	(1)	74.45 (L)	52.22
Chongqing Yufu Assets Management Co., Ltd.	Domestic Shares	232,132,514	Beneficial owner	(1)	8.98 (L)	6.30
Chongqing Jiangong Group Co., Ltd.	Domestic Shares	232,132,514	Beneficial owner	(1)	8.98 (L)	6.30
China Huarong Asset Management Co., Ltd.	Domestic Shares	195,962,467	Beneficial owner	(2)	7.59 (L)	5.32
		2,584,452,684			100	70.14

(L): Long Position

Long position in H shares of RMB1.00 each of the Company

Name of Shareholders	Class of shares	Number of shares	Capacity	Note	Percentage in total issued domestic shares (%)	Percentage in the total issued shares (%)
Chongqing International (Holding) Ltd. for Econo & Tech. Cooperation	H Shares	180,000,000	Interest a controlled in corporation	(1)	6.96 (L)	4.89
Credit Suisse	H Shares	150,735,000	Interest in a controlled corporation	(3)	5.83 (L)	4.09
Fortis Investment Management SA	H Shares	99,442,000	Interest in a controlled corporation	(4)	3.85 (L)	2.70
National Council for Social Security Fund of the PRC	HShares	95,287,470	Beneficial owner		3.69 (L)	2.59
The Bank of New York Mellon (formerly known as "The Bank of New York")	H Shares	87,276,000	Custodian	(5)	3.38 (L)	2.37
The Bank of New York Mellon Corporation	H Shares	87,276,000	Interest in a controlled corporation	(5)	3.38 (L) 3.38 (P)	2.37

(L): Long Position

(P): Lending Pool

Notes:

1. Chongqing Machinery and Electronic Holding (Group) Co., Ltd., Chongqing Yufu Assets Management Co., Ltd, Chongqing Jiangong Group Co., Ltd. and Chongqing International (Holding) Ltd. for Econo & Tech. Cooperation were wholly owned by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government and their interests in 1,924,225,189 shares, 232,132,514 shares, 232,132,514 shares and 180,000,000 shares respectively were deemed to be the interests of State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government.

2. China Huarong Asset Management Co., Ltd was wholly owned by the People's Republic of China Ministry of Finance and the interest in 195,962,467 shares was deemed to be interests of the People's Republic of China of Finance.

3. Credit Suisse was interested in 150,735,000 of H shares of the Company by virtue of its 100% shareholding in Credit Suisse (International) Holding AG. Credit Suisse (International) Holding AG was in turn interested in 100% of the issued share capital of Credit Suisse (Hong Kong) Limited, which held a direct interest in the Company. The interest in 150,735,000 of H shares relates to the same block of shares in the Company.

4. Fortis Investment Management SA was interested in 99,442,000 of H shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	**Percentage of ownership in controlled Corporation** *(%)*	**Number of Shares**
ABN AMRO Asset Management Holding N.V.	100	90,842,000
ABN AMRO Asset Management (Asia) Limited	100	90,066,000
ABN AMRO Asset Management (India) Limited	100	776,000
Fortis Investment Management Japan Limited	100	8,600,000

5. The Bank of New York Mellon Corporation holds 100% interest in The Bank of New York which is holding 87,276,000 of H shares of the Company. The interest in 87,276,000 H shares relates to the same block of shares in the Company and includes a lending pool of 87,276,000 of H shares of the Company.

Save as disclosed above, the directors are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were require to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2008.

CONTINUING CONNECTED TRANSACTIONS

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

Continuing connected transactions

Master Sales Agreement

On 16 May 2008, we entered into a master sales agreement (the "Master Sales Agreement") with Chongqing Machinery and Electronic Holding (Group) Co., Ltd. (the "Parent Company") pursuant to which our Group has agreed to sell certain products such as the control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables (the "Products") to the Parent Company and its associates.

Additionally, in case where there is a material fluctuation in the prices of any or all of the Products, the parties will re-negotiate the terms of the Master Sales Agreement in good faith by way of supplemental agreements or enter into a new master agreement. The Master Sales Agreement is valid for a period of three years from the date of the agreement and renewable for another three years by either party giving at least three months' written notice prior to the expiry of the initial term. Both parties agree to set the annual caps of sales amounts for the three years ending 31 December 2010 at RMB62 million, RMB68 million and RMB75 million respectively.

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

- price set by the PRC Government; if no such price, or
- not lower than the maximum of the guide prices set by the PRC Government for such Products; if there is no set price and no guide prices, or
- market price as reference; if there is no market price for certain products as reference, or
- the actual or reasonable costs of producing such Products together with a reasonable profit. A "reasonable profit" is a profit that is agreed between the parties as being no more than 10% of the actual cost or reasonable cost incurred for the provision of the Products.

For the year ended 31 December 2008, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB60.9 million.

Master Supplies Agreement

On 16 May 2008, the Company entered into a master supplies agreement with the Parent Company (the "Master Supplies Agreement") pursuant to which the Parent Company and its associates have agreed to supply the Company with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper (the "Supplies").

Additionally, in case where there is a material fluctuation in the price of any or all of the Supplies, the parties will re-negotiate the terms of the Master Supplies Agreement in good faith by way of supplemental agreements or enter into a new master agreement. The Master Supplies Agreement is valid for a period of three years from the date of the agreement and renewable for another three years by the Company giving at least three months' written notice prior to the expiry of the initial term. Both parties agree to set the annual caps of supplies amounts for the three years ending 31 December 2010 at RMB32 million, RMB35 million and RMB35 million respectively.

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

- Price set by the PRC Government; if no such price, or
- not lower than the maximum of the guide prices set by the PRC Government for such Products; if there is no set price and no guide prices, or
- market price as reference; if there is no market price for certain products as reference, or
- the actual or reasonable costs of producing such Products together with a reasonable profit. A "reasonable profit" is a profit that is agreed between the parties as being no more than 10% of the actual cost or reasonable cost incurred for the provision of the Products.

For the year ended 31 December 2008, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB56.9 million.

Master Leasing Agreement

On 16 May 2008, we entered into a master leasing agreement (the "Master Leasing Agreement") with the Parent Company for the leasing of land and buildings from the Parent Company and its associates to our Group as offices, production facilities, workshops and staff quarters.

According to agreement, the Parent Group leased a total of 176,274 sq.m. and 18,236 sq.m. of land and buildings respectively to the Company. The Master Leasing Agreement is valid for a period of three years and renewable by the Company giving three months' written notice prior to the expiry of the initial term.Both parties agree to set the annual caps of leasing amounts for the three years ending 31 December 2010 at RMB10 million, RMB11 million and RMB15 million respectively.

For the year ended 31 December 2008, the rent payable by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB8.8 million.

Master Integrated Service Agreement

On 1 January 2008, we entered into a master integrated service agreement with the Parent Company (the "Master Integrated Service Agreement") on normal commercial terms pursuant to which the Parent Company and its associates provide a number of services necessary for the normal business operations and production ("Services") to the Company. Such services include (but are not limited to):

1. Property management services which include (but are not limited to) the provision of security, greenery and cleaning services;

2. Welfare and facility support services which include (but are not limited to) medical facilities, staff canteens and nurseries;

3. Vehicle maintenance, logistics and transportation services and waste management;

4. Processing services which include (but are not limited to) the customization of parts and the creation of parts from raw materials;

5. Provision of general maintenance services for certain equipment of the Company.

The Master Integrated Service Agreement is valid for a period of three years and is renewable for another three years by the Company giving three months' written notice prior to the expiry of the initial term.

For the year ended 31 December 2008, the services fee payable by the Company to the Parent Company and its associate under the Master Integrated Service Agreement was approximately RMB0.3 million.

Equipment Leasing Agreements

A subsidiary of the Company, Chongqing Huahao Smelting Co., Ltd. ("Huahao Smelting"), entered into a lease agreement on 8 May 2007 to lease the Equipment from the Parent Company and its associates for use in three of their five production lines. Of these three production lines, two are used for the production of electrolytic copper powder and one is used for the production of copper wires, and the Equipment comprises approximately 655 sets of individual machines which cater for different stages of the smelting process.

As agreed by both parties, the rent payable by Huahao Smelting for each of the three years ending 31 December 2010 was RMB0.28 million.

Relevant details of the above transactions are set out in Note 39 to the consolidated financial statements prepared under HKFRSs.

The independent non-executive directors of the Company, namely Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang, have reviewed the abovementioned continuing connected transactions and confirmed that such are:

(1) entered into by the Company in the ordinary and usual course of its business;

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

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

Under Rule14A.38 of the Listing Rules, the Company's auditor PricewaterhouseCoopers has performed certain agreed procedures for these continuing connected transactions ("Transactions") in accordance with Hong Kong Standard on Related Services 4400, " Engagement to Perform Agreed-Upon Procedures Regarding Financial Information" issued by Hong Kong Institute of Certified Public Accountants, and provided a letter reporting that:

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

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

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

(4) the amounts of the Transactions have not exceeded the annual caps, except for the transactions under the Master Supplies Agreement.

MATERIAL LITIGATION AND ARBITRATION

During the year, the Group was not involved in any material litigation or arbitration.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Articles of Association or the PRC laws which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

COMMITTEES UNDER THE BOARD

The Company has established Audit Committee and Remuneration Committee. Biographical details of committees under the Board are set out in the section of Corporate Governance on pages 59 to 60 of this annual report.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2008, the Group had a total of approximately 14,819 employees (31 December 2007: 15,444 employees).Their salaries are determined based on the market trends and their performance, and welfare includes insurance and pension schemes.

Remuneration of the Directors is determined by the Remuneration Committee, taking the operating results of the Company, their individual performance and comparable market statistics into consideration.

The Company's policies relating to remunerations of Non-executive Director are to ensure that they can be fully compensated for the effort made and time spend by them on the Company, and policies relating to remunerations of employees (including Executive Directors and senior management) are to ensure that remuneration is offered in line with their duties and market practice. Remuneration policies are formulated to ensure the competitiveness of remuneration, and to effectively attract, retain and motivate employees. Directors or any of its associates and the management are not allowed to participate in the determination of their own remuneration.

PUBLIC FLOAT

During the year ended 31 December 2008, the Company had 1,100,187,470 H shares in its total share capital of 3,684,640,154 shares. Therefore, public shareholding was 29.86%, indicating a sufficient public float through the year.

AUDITORS

The Company has appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company respectively as international and domestic auditors for the year ended 31 December 2008. PricewaterhouseCoopers has performed audit on the Group's consolidated financial statements prepared in accordance with Hong Kong Financial Reporting Standards. At the annual general meeting of the Company, the Company will proposed a resolution in respect of re-appointing PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company respectively as international and domestic auditors for the year ended 31 December 2009.

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

The annual results announcement is published on the Company's website (http://www.chinacqme.com) and the Stock Exchange's website (http://www.hkex.com.hk).The annual report will also be available at the Company's and the Stock Exchange's websites on or about 17 April 2009 and will be dispatched to shareholders of the Company thereafter.

By Order of the Board
Executive Director, Chairman
Sun Nengyi

Chongqing, the PRC, 17 April 2009

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the reporting period, the Supervisory Committee of Chongqing Machinery & Electric Co., Ltd. held two Supervisory Committee meetings in accordance with relevant provisions of the Company Law of the PRC, Securities Law of the PRC, Articles of Association of the Company and the Listing Rules, and has supervised all operating and management activities of the Company in a legal, timely and effective manner, practically protected the interests of our shareholders and the Company.

During the reporting period, the Supervisory Committee reviewed the interim results, financial accounts, financial budgets and profit distribution of the Company, as well as participated in the review of the auditor's report and proposed constructive advice to Board meetings through attending four general meetings and seven Board meetings, conducting on-the- spot inspections for relevant matters and convening meetings of the Supervisory Committee.

With respect to annual progress of the Company in 2008, the Supervisory Committee has the following views:

- The Supervisory Committee has supervised the operating activities of the Company. It believes that the Company has established a relatively mature internal control system and an internal control management structure, and has made great efforts to improve and execute the system and structure, which mitigated various operating risks of the Company.

- The Supervisory Committee has examined details of the implementation of financial management system and financial reports of the Company. It confirms that the budget report, annual report and interim report are true and reliable and the auditing opinions presented by the auditors engaged by the Company produced objective and fair opinions.

- The Supervisory Committee has examined the use of proceeds raised in IPO of the Company. It confirms that the use of proceeds of the Company is in concert with those disclosed in the listing prospectus of the Company and being applied in accordance with the market status and the budget.

REPORT OF THE SUPERVISORY COMMITTEE

- The Supervisory Committee has inspected the connected transactions of the Company. It believes that the significant connected transactions arising from the Company's operation during the reporting period are fair and impartial without damaging the interests of other shareholders and the Company.

- The Supervisory Committee has supervised duty fulfillment of the directors and management of the Company. It confirms that the directors, chief executive officer and other senior management have exercised every rights granted by shareholders and discharged every duties in strict compliance with the principle of diligence and good faith. The Committee is not aware of any abuse of authority which impairs our shareholders' interests and the legitimate rights of our employees as of the date of this report.

Based on supervision and inspection in 2008, the Supervisory Committee is of the opinion that the members of the Board, General Manager and other senior management members strictly complied with the principle of honesty, diligence, and good faith, acted truthfully in the best interest of the Company and performed their duties according to the Company's Articles of Association. The Company is operated rationally and the internal control is improving gradually. Transactions between the Company and its connected parties were conducted in the interests of the Company and the shareholders as a whole and on a fair and reasonable basis. As at the date hereof, none of the Directors, General Manager and other senior management was found abusing authority to impair the interests of Company and shareholders and the legitimate rights of its employees, or acting in contradiction with the laws, regulations and the Articles of Association of the Company.

The Supervisory Committee is satisfied with business activities and results of the Company for 2008, and is confident in the prospect of the Company.

The Supervisory Committee has duly reviewed and approved the directors' report, audited financial report and other proposal to be proposed at the 2008 annual general meeting of the Company.

By Order of the Supervisory Committee
Chairman of the Supervisory Committee
Duan Rongsheng

Chongqing, the PRC, 17 April 2009

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICE

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

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not for any part of the period for the year ended 31 December 2008 in compliance with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted procedures governing directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Specific confirmation has been obtained from all directors to confirm compliance with the Model Code during the year ended 31 December 2008.

THE BOARD

The Board is responsible for formulating the Company's management system, overseeing the Company's business, finance, strategic decisions and results, and reporting to the general meetings. The management was delegated the authority and responsibility by the Board for the management of the Group. In addition, the Board has also delegated various responsibilities to the Audit Committee, Nomination Committee and Remuneration Committee. Details of the abovementioned committees are set out in this annual report.

According to Provision A2.1 of Code on Corporate Governance Practices, the Chairman and General Manager should be assumed by different members of the Board with distinct roles and responsibility. The Board appointed Mr. Sun Nengyi (an executive director) as the Chairman, who is responsible for the Group's overall strategic planning and provides leadership to the Board so that the Board operates effectively and timely discusses all significant matters. The General Manager, Mr. He Yong, is an executive director and is responsible for the Group's daily operation and business directions. The management is responsible for the daily operation and management.

Notice of meetings shall be delivered to each Director at least 14 days prior to the date of the Board meeting. The Company has made proper arrangements to ensure matters proposed by Directors to be included into the agenda for board meeting. Upon conclusion of a meeting, the finalized minutes will be timely delivered to all directors for their review and preservation.

The minutes of Board meetings shall be prepared by the Secretary to the Board and shall be signed by Directors present at the meeting for the archives purpose. Minutes for each meeting are available to Directors for their inspection.

The Board consisted of 11 Directors, including 4 executive Directors, 4 non-executive Directors and 3 independent non-executive Directors.

The Board has received from each independent non-executive Director a written confirmation of their independence and has satisfied itself of such independence up to the approval date of this report in accordance with the Listing Rules.

From 1 January 2008 to 31 December 2008, the Board held 12 meetings.

Attendance of Directors to the Board meetings is as follows:

Name of Director	Position	Meetings attended/held
Sun Nengyi	Executive Director, Chairman	12/12
He Yong	Executive Director	12/12
Liao Shaohua	Executive Director	12/12
Chen Xianzheng	Executive Director	12/12
Huang Yong	Non-executive Director	12/12
Yu Gang	Non-executive Director	12/12
Yang Jingpu	Non-executive Director	10/12
Wu Jian	Non-executive Director	11/12
Lo Wah Wai	Independent Non-executive Director	6/12
Ren Xiaochang	Independent Non-executive Director	11/12
Kong Weiliang	Independent Non-executive Director	12/12

Biographical details of Directors are set out on pages 30 to 36 of this annual report.

THE TERM OF OFFICE OF INDEPENDENT NON-EXECUTIVE DIRECTOR

All current independent non-executive Directors of the Company were appointed, for a term of 3 years, and renewable upon re-election at the annual general meeting of the Company upon expiry of their term of office.

REMUNERATION COMMITTEE

The Remuneration Committee has written terms of reference in accordance with the Code on Corporate Governance Practices. The Remuneration Committee consists of 2 independent non-executive Directors and 1 non-executive Director. The primarily duties of the Remuneration Committee are to formulate the Company's policies for remuneration of the Directors, Supervisors and senior management, and evaluate the performance of executive Directors and the terms of their service contracts. Executive Directors shall not participate in the preparation of resolutions related to their own remuneration. In accordance with the Articles of Association, remuneration packages of Directors and Supervisor are subject to the approval at the general meeting.

During the year, the Remuneration Committee was responsible for reviewing the performance of the senior management and fixing their remunerations.

The Remuneration Committee convened 3 meetings during the year, attendance of which is as follows:

Name of Director	Position	Meetings attended/held
Ren Xiaochang *(Chairman)*	Independent Non-executive Director	3/3
Lo Wah Wai	Independent Non-executive Director	3/3
Yu Gang	Non-executive Director	3/3

NOMINATION COMMITTEE

The Nomination Committee consists of 2 independent non-executive Directors and 1 non-executive Director. The Nomination Committee is responsible for the identification and evaluation of candidates for appointment or reappointment as directors, as well as the development and maintenance of the Company's overall corporate governance policies and practices.

The Nomination Committee follows a formal, fair and transparent procedure for the new appointment of directors to the Board. The committee will first consider necessary changes in respect of the structure, size and composition of the Board, identify suitably qualified candidates by considering their professional knowledge and industry experience, personal ethics, integrity and personal skills and time commitments, and makes recommendation to the Board for decision. In accordance with the Articles of Association of the Company, every newly appointed director is subject to re-election at the following annual general meeting. The independency of the independent non-executive Directors shall be examined.

The Nomination Committee convened 1 meeting after the listing of the Company, attendance of which is as follows:

Name of Director	Position	Meetings attended/held
Kong Weiliang *(Chairman)*	Independent Non-executive Director	1/1
Ren Xiaochang	Independent Non-executive Director	1/1
Huang Yong	Non-executive Director	1/1

AUDIT COMMITTEE

The Board has established the Audit Committee in accordance with the Code on Corporate Governance Practices. The major responsibilities of Audit Committee are to supervise the relationship with external auditors, review the Group's the interim and annual financial reports as reviewed and audited, supervise the Company's compliance with relevant laws and regulations, and review the scope, depth and effectiveness of the Group's internal control.

At the moment, the Audit Committee consists of 2 independent non-executive Directors and 1 non-executive Director. The Remuneration Committee convened 1 meeting during the year, attendance of which are as follows:

Name of Director	Position	Meetings attended/held
Lo Wah Wai *(Chairman)*	Independent Non-executive Director	1/1
Kong Weiliang	Independent Non-executive Director	1/1
Wu Jian	Non-executive Director	1/1

During the year, the Audit Committee approved at the meeting, the 2008 Condensed Consolidated Interim Financial Statements as reviewed by PricewaterhouseCoopers, considered and discussed the accounting policies as set out in the financial report and the Company's financial position and internal control with external auditors, qualified accountant and the management.

SUPERVISORY COMMITTEE

The Supervisory Committee comprises 6 members, 2 of whom are independent Supervisors. The Supervisory Committee is responsible for supervising the Board and its members as well as the senior management, so as to safeguard the interests of the Shareholders. In 2008, the Supervisory Committee has examined the financial position and the legal compliance of the operations of the Company and conducted the due diligence review of the senior management through convening Supervisory Committee's meetings and attending the Board meetings, and general meetings of the Company, as well as undertaking its duties in a proactive and diligent manner under the principles of due care.

INTERNAL CONTROL

During the year, the Board has conducted a review of the effectiveness of the system of internal control of the Company and its subsidiaries. The Company highly emphasized on its internal control and continued to adopt a number of initiatives to control and monitor and prevent potential risks, the particulars of which are as follows:

Financial control

The Group continued to strictly comply with each financial system. The preparation and implementation of these systems have further strengthened our financial management and lifted its standard.

The internal auditing staff of the Company monitors the daily financial management of the Group in accordance with their responsibilities, and advises the financial management department and the Financial Controller and makes recommendations on the improvement of the financial management.

The audit committee of the Company had held three meetings to liaise and discuss with the auditors of the Company and the department of financial management on financial management, financial statements and auditing.

Operational control

The management of the Company and all departments undertake their respective work and faithfully perform their functions and discharge their duties in accordance with the Articles of Association and systems of the Company in order to ensure the safe operation of the Company's businesses.

CORPORATE GOVERNANCE REPORT

The Company has been carrying out statistics compilation and analysis on its production operations on a monthly basis, in order for the management to have a better grasp of the position and to make judgments and decisions. Material events of the Company are submitted to the Board and general meetings for consideration and voting in accordance with the Articles of Association of the Company. The Supervisors supervise the exercise of powers by the management and the Board in the management of affairs of the Company, give advices and make recommendations.

Compliance control

In the course of the Company's external expansion of operations, the relevant laws and regulations are complied with so as to strengthen the systems of the Company. The management staff and departments of the Company had entered into contracts and taken part in tendering processes in accordance with the administration requirements of the Company. The Company has in place a designated team of professionals for legal matters, which advises on the lawfulness and compliance of material operational decisions. The Company has established its information disclosure mechanism pursuant to the "Information Disclosure System of Chongqing Machinery & Electric Co., Ltd." to ensure that the Company can report matters of significance timely and ensure the accuracy and timeliness of regular reports and provisional reports of the Company.

The Company conducts regular statistics compilations of connected transactions which occur in various subsidiaries and departments pursuant to the Listing Rules so as to ensure that the performing and procedures of connected transactions and the disclosure of information are in compliance with the requirements of the Listing Rules.

Risk management

The Company has adopted the appropriate measures for the management of investment, guarantee, litigations and material projects of the Company, thereby standardizing its operations and minimizing its risks.

ACCOUNTABILITY AND AUDITORS

Directors are responsible for overseeing the management's preparation of accounts for each financial period and making appropriate publication in accordance with Listing Rules to disclose to shareholders all information necessary for their evaluation of the Company's financial position and other matters. They are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

The Company has appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the international and PRC auditors of the Company respectively. The fee for the services provided by the above auditors to the Group for the year ended 31 December 2008 amounted to approximately RMB9.27 million.

GENERAL MEETINGS

The general meeting holds the highest authority of the Company. The Company highly values the functions of the general meetings, and therefore encourages all shareholders to attend the general meetings, which serve as a direct and effective communication channel between the Board and the investors of the Company. The Articles of Association of the Company expressly provides for the rights of the Shareholders, including the rights to attend, to receive notices to, and to vote in general meetings.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

In respect of any disclosable and significant event, the Company will make accurate and complete disclosure in a timely manner in the newspapers and websites as specified by the relevant supervisory authorities for information disclosure pursuant to the disclosure requirements under the Listing Rules. This is to ensure the right to information and participation of the Shareholders.

The Company has established a department to be responsible for investor relations and places strong emphasis on its communications with investors, and considers that maintaining an on-going and open communications with investors can promote investors' understanding and confidence in the Company. During the year, the Company has participated in a number of roadshows, investors' conferences, telephone interviews and attended one-on-one meetings with over 60 different institutional investors in order to enhance the Group's relationship with the investor community and its understanding of the Group's operations and developments.

INDEPENDENT AUDITOR'S REPORT

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

To the shareholders of Chongqing Machinery & Electric Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Chongqing Machinery & Electric Co., Ltd (the "Company") and its subsidiaries (together, the "Group") set out on pages 66 to 208, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 17 April 2009

BALANCE SHEETS

(All amounts in RMB unless otherwise stated)

		Group		Company	
		As at 31 December		As at 31 December	
		2008	2007	**2008**	2007
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	7	**1,182,845**	997,436	**2,208**	1,229
Investment properties	8	**26,498**	28,888	**—**	—
Lease prepayments	9	**279,223**	378,387	**—**	—
Intangible assets	10	**47,555**	49,358	**—**	—
Investments in associates	11	**641,597**	474,291	**383,149**	366,429
Investments in subsidiaries	12	**—**	—	**1,219,554**	908,413
Investments in jointly controlled entities	13	**—**	—	**200,929**	200,929
Trade and other receivables	15	**—**	—	**193,957**	—
Deferred income tax assets	24	**72,951**	67,137	**—**	—
Available-for-sale financial assets		**3,318**	9,761	**—**	—
Other non-current assets		**169**	1,518	**—**	—
		2,254,156	2,006,776	**1,999,797**	1,477,000
Current assets					
Inventories	14	**1,232,120**	1,002,102	**—**	—
Trade and other receivables	15	**1,230,764**	1,183,504	**62,694**	31,882
Amount due from customers for contract work	16	**181,162**	167,134	**—**	—
Held-to-maturity financial assets		**5,000**	—	**—**	—
Restricted cash	17	**314,190**	229,795	**—**	—
Cash and cash equivalents	18	**2,308,454**	1,036,079	**1,053,287**	267,455
		5,271,690	3,618,614	**1,115,981**	299,337
Total assets		**7,525,846**	5,625,390	**3,115,778**	1,776,337

BALANCE SHEETS

(All amounts in RMB unless otherwise stated)

		Group		Company	
		As at 31 December		As at 31 December	
		2008	2007	**2008**	2007
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	19	**3,684,640**	2,679,740	**3,684,640**	2,679,740
Reserves	20	**(952,715)**	(1,032,248)	**(933,489)**	(1,018,498)
Retained earnings/ (accumulated deficit)	20	**686,420**	218,241	**16,864**	(10,611)
		3,418,345	1,865,733	**2,768,015**	1,650,631
Minority interests		**52,494**	46,542	**—**	—
Total equity		**3,470,839**	1,912,275	**2,768,015**	1,650,631
LIABILITIES					
Non-current liabilities					
Borrowings	22	**273,995**	274,466	**194,000**	—
Deferred income	23	**105,312**	105,655	**—**	—
Deferred income tax liabilities	24	**393**	1,359	**—**	—
Long-term employee benefit obligations	25	**131,830**	131,750	**—**	—
		511,530	513,230	**194,000**	—

BALANCE SHEETS

(All amounts in RMB unless otherwise stated)

		Group		Company	
		As at 31 December		As at 31 December	
		2008	2007	**2008**	2007
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Current liabilities					
Trade and other payables	26	**2,727,724**	2,569,070	**147,763**	125,706
Amount due to customers for contract work	16	**11,906**	—	**—**	—
Current income tax liabilities		**71,279**	60,812	**—**	—
Borrowings	22	**700,790**	544,288	**6,000**	—
Current portion of long-term employee benefit obligations	25	**8,160**	6,550	**—**	—
Provisions for warranty	27	**23,618**	19,165	**—**	—
		3,543,477	3,199,885	**153,763**	125,706
Total liabilities		**4,055,007**	3,713,115	**347,763**	125,706
Total equity and liabilities		**7,525,846**	5,625,390	**3,115,778**	1,776,337
Net current assets		**1,728,213**	418,729	**962,218**	173,631
Total assets less current liabilities		**3,982,369**	2,425,505	**2,962,015**	1,650,631

Director *Director*

The notes on pages 75 to 208 are an integral part of these financial statements.

CONSOLIDATED INCOME STATEMENT

(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2008	2007
	Note	***RMB'000***	*RMB'000*
Revenue	6	**5,949,655**	5,485,500
Cost of sales	28	**(4,774,237)**	(4,517,929)
Gross profit		**1,175,418**	967,571
Selling and marketing expenses	28	**(213,005)**	(175,215)
Administrative expenses	28	**(547,126)**	(426,730)
Other gains, net	30	**13,486**	37,412
Other income	31	**35,160**	32,397
Operating profit		**463,933**	435,435
Finance income		**43,904**	22,556
Finance costs		**(86,586)**	(55,499)
Finance costs, net	32	**(42,682)**	(32,943)
Share of profit of associates	11	**181,306**	117,237
Profit before income tax		**602,557**	519,729
Income tax expense	33	**(78,676)**	(45,906)
Profit for the year		**523,881**	473,823

CONSOLIDATED INCOME STATEMENT

(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2008	2007
	Note	***RMB'000***	*RMB'000*
Attributable to:			
Equity holders of the Company		**503,531**	450,015
Minority interests		**20,350**	23,808
		523,881	473,823
Earning per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic and diluted	35	**0.16**	0.20

The notes on pages 75 to 208 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in RMB unless otherwise stated)

		Attributable to equity holders of the Company					
	Note	Share capital *RMB'000*	Other reserves *RMB'000* *Note 20*	(Accumulated deficit)/ retained earnings *RMB'000* *Note 20*	Total *RMB'000*	Minority interests *RMB'000*	Total equity *RMB'000*
Balance at 1 January 2007		1,999,195	(717,202)	(35,428)	1,246,565	202,751	1,449,316
Profit for the year		—	—	450,015	450,015	23,808	473,823
Dividends		—	—	(86,776)	(86,776)	(863)	(87,639)
Changes in fair value of available-for-sales financial assets, net of deferred tax		—	5,512	—	5,512	—	5,512
Disposal of available-for-sale financial assets		—	(4,503)	—	(4,503)	(1,481)	(5,984)
Extinguishment of debts by CQMEHG		—	47,958	—	47,958	—	47,958
Expenses related to proposed issue of shares charged to other reserves		—	(21,050)	—	(21,050)	—	(21,050)
Transfer to reserves		—	12,371	(12,371)	—	—	—
Incorporation of the Company							
— issue of new shares for acquisition of Chongqing General Industry from an equity holder of the Company		198,192	(20,519)	—	177,673	(177,673)	—
— capital contribution of cash from equity holders of the Company		482,353	(300,004)	—	182,349	—	182,349
Distribution	21	—	(34,811)	(97,199)	(132,010)	—	(132,010)

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in RMB unless otherwise stated)

		Attributable to equity holders of the Company					
		Share capital	Other reserves	(Accumulated deficit)/ retained earnings	Total	Minority interests	Total equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			Note 20	*Note 20*			
Balance at 31 December 2007		2,679,740	(1,032,248)	218,241	1,865,733	46,542	1,912,275
Profit for the year		—	—	503,531	503,531	20,350	523,881
Proceeds from issuance of share capital		1,004,900	149,200	—	1,154,100	—	1,154,100
Share issuance costs		—	(99,543)	—	(99,543)	—	(99,543)
Changes in fair value of available-for-sales financial assets, net of deferred tax		—	(5,476)	—	(5,476)	—	(5,476)
Dividends		—	—	—	—	(29,350)	(29,350)
Capital contribution of cash from minority shareholders		—	—	—	—	14,952	14,952
Transfer to reserves		—	35,352	(35,352)	—	—	—
Balance at 31 December 2008		3,684,640	(952,715)	686,420	3,418,345	52,494	3,470,839

The notes on pages 75 to 208 are an integral part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Cash flows from operating activities			
Cash generated from operations	36	**580,473**	580,077
Interest paid		**(84,556)**	(55,918)
Income tax paid		**(51,491)**	(47,282)
Net cash generated from operating activities		**444,426**	476,877
Cash flows from investing activities			
Additional investment to associates		**(16,720)**	—
Purchase of held-to-maturity investments		**(5,000)**	—
Purchases of property, plant and equipment and investment properties		**(360,701)**	(295,327)
Increase in lease prepayments		**(26,121)**	(11,320)
Purchase of intangible assets		**(3,944)**	(33,968)
Decrease of receivables from CQMEHG		**—**	33,234
Proceeds from disposal of property, plant and equipment	36	**6,830**	20,465
Proceeds from disposal of available-for-sale financial assets		**—**	19,200
Interest received		**43,904**	22,556
Dividends received		**26,357**	23,037
Net cash used in investing activities		**(335,395)**	(222,123)

CONSOLIDATED CASH FLOW STATEMENT

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2008 RMB'000	2007 RMB'000
Cash flows from financing activities			
Proceeds from borrowings		**720,062**	635,991
Repayments of borrowings		**(578,092)**	(353,731)
Proceeds from issuance of new shares		**1,075,192**	—
Contribution from equity holders of the Company		**—**	182,349
Share issuance costs paid		**(31,103)**	(21,050)
Finance lease paid		**(1,392)**	—
Contribution from minority shareholders		**14,952**	—
Dividends paid to equity holders of the Company		**(5,566)**	(178,409)
Dividends paid to minority shareholders		**(28,901)**	(863)
Net cash generated from financing activities		**1,165,152**	264,287
Net increase in cash and cash equivalents		**1,274,183**	519,041
Cash and cash equivalents at beginning of the year		**1,036,079**	517,038
Exchange losses on cash and cash equivalents		**(1,808)**	—
Cash and cash equivalents at end of the year	18	**2,308,454**	1,036,079

The notes on pages 75 to 208 are an integral part of these financial statements.

1. GENERAL INFORMATION

Chongqing Machinery & Electric Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in manufacturing and sales of commercial vehicle parts and components, general machinery, machinery tools and power equipment.

The Company was established in the People's Republic of China (the "PRC" or "China") on 27 July 2007 as a joint stock company with limited liability as part of the reorganisation (the "Reorganisation") of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. ("CQMEHG" or the "Parent Company") 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 ("CQ SASAC"). The address of the Company's registered office is No. 155 Zhongshan Third Road, Yuzhong District, Chongqing 400015, the PRC.

Prior to the establishment of the Company, the operations of commercial vehicle parts and components, general machinery, machinery tools and power equipment and other operations were carried out by various companies owned or controlled by CQMEHG (the "Predecessor Operations").

In accordance with the reorganisation agreement (the "Reorganisation Agreement") entered into amongst CQMEHG and Other Three Promoters (as defined below), CQMEHG underwent the Reorganisation and established the Company on 27 July 2007 (the "effective date of the Reorganisation") and details are as follows:

1. the Company issued 1,999,194,803 shares of par value of RMB1.00 each to CQMEHG in consideration for the following assets and liabilities (collectively referred to as the "Core Operations") transferred from CQMEHG to the Company:

   (i) All operating assets and liabilities relating to the manufacturing and sales of commercial vehicle parts and components;

   (ii) All operating assets and liabilities relating to the manufacturing and sales of power equipment;

   (iii) All operating assets and liabilities relating to manufacturing and sales of general machinery; and

   (iv) All operating assets and liabilities relating to manufacturing and sales of machinery tools.

1. GENERAL INFORMATION *(CONTINUED)*

2. the Company issued 198,192,123 shares of par value of RMB1.00 each to China Huarong Asset Management Corporation ("Huarong Company"; 中國華融資產管理有限公司) in exchange for 44.35% interests in Chongqing General Industry (Group) Co. Ltd. ("Chongqing General Industry"; 重慶通用工業(集團)有限責任公司). Immediately before the effective date of the Reorganisation, CQMEHG has another 53.03% interests in Chongqing General Industry which formed part of the Core Operations.

3. the Company issued 241,176,614 shares of par value of RMB1.00 each to Chongqing Yufu Assets Management Co. Ltd. ("Yufu Company"; 重慶渝富資產經營管理有限公司) and 241,176,614 shares of par value of RMB1.00 each to Chongqing Jiangong Group Co. Ltd. ("Jiangong Company"; 重慶建工集團有限責任公司) for an aggregate cash consideration of approximately RMB482,353,000.

   Huarong Company, Yufu Company and Jiangong Company are owned and controlled by the PRC government.

   The shares issued in this connection totalling of 2,679,740,154 shares were the initial registered capital of the Company. CQMEHG in aggregate owned 74.6% interest in the Company, and Huarong Company, Yufu Company and Jiangong Company (collectively referred to as "Other Three Promoters") in aggregate owned 25.4% interests in the Company.

   In addition, pursuant to the Reorganisation, the equity interests of all entities of CQMEHG that their business activities are not similar to that of the Company's business (collectively referred as the "Excluded Operations") were not transferred to the Company. The Excluded Operations were retained by CQMEHG and accordingly were not included in the consolidated financial statements.

   The H shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 13 June 2008. Details of movements in the Company's share capital are set out in Note 19 to the consolidated financial statements.

   These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 17 April 2009.

2. BASIS OF PRESENTATION

The companies now comprising the Group as described in Note 1 were under the control of CQMEHG both before and after the Reorganisation. The Reorganisation is therefore regarded as common control combination. Accordingly, the assets and liabilities transferred to the Company have been stated at historical carrying amounts, and the consolidated financial statements for the year ended 31 December 2007 presents the results of operations and financial positions of the Core Operations as if they were transferred to the Company by CQMEHG as at the beginning of the year presented and had been in existence throughout the year.

The consolidated financial statements for the year ended 31 December 2007 include the operating results and financial positions of Chongqing General Industry owned by CQMEHG as a subsidiary during the year ended 31 December 2007. Subsequent to the completion of the Reorganisation, the Group's interest in Chongqing General Industry was increased to 97.38% as a result of the contribution from Huarong Company. The difference between the share capital issued and the relevant share acquired of the carrying value of net assets of Chongqing General Industry resulting from purchases from Huarong Company was recorded in the Company's equity (Note 3.2(b)). Thereafter, Chongqing General Industry was accounted for as a 97.38% owned subsidiary of the Group for the year ended 31 December 2007. In October 2008, the Group's interest in Chongqing General Industry was increased to 97.92% as a result of an additional capital injection of RMB124,890,000 from the Company.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

3.1 Basis of preparation

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). They have been prepared under the historical cost convention, as modified by revaluation of available-for-sale financial assets which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1 Basis of preparation *(Continued)*

(a) Amendments and interpretations effective in 2008

- The HKAS 39, 'Financial instruments: Recognition and measurement', amendment on reclassification of financial assets permits reclassification of certain financial assets out of the held-for-trading and available-for-sale categories if specified conditions are met. The related amendment to HKFRS 7, 'Financial instruments: Disclosures', introduces disclosure requirements with respect to financial assets reclassified out of the held-for-trading and available-for-sale categories. The amendment is effective prospectively from 1 July 2008. This amendment does not have any impact on the Group's financial statements, as the Group has not reclassified any financial assets.

- HK (IFRIC) — Int 11, 'HKFRS 2 — Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have an impact on the Group's financial statements.

- HK (IFRIC) — Int 14, 'HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction', provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. This interpretation does not have any impact on the Group's financial statements.

(b) Interpretations effective in 2008 but not relevant

The following interpretation to published standards is mandatory for accounting periods beginning on or after 1 January 2008 but is not relevant to the Group's operations:

- HK (IFRIC) — Int 12, 'Service Concession arrangements'

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), 'Presentation of financial statements' (effective from 1 January 2009). The revised standard will prohibit the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All non-owner changes in equity will be required to be shown in a performance statement, but entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the consolidated income statement and statement of comprehensive income). Where entities restate or reclassify comparative information, they will be required to present a restated balance sheet as at the beginning comparative period in addition to the current requirement to present balance sheets at the end of the current period and comparative period. The Group will apply HKAS 1 (Revised) from 1 January 2009.

- HKAS 23 (Revised), 'Borrowing costs' (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Revised) prospectively from 1 January 2009 but is not expected to have a material impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HKAS 27 (Revised), 'Consolidated and separate financial statements' (effective from 1 July 2009).The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognised in profit or loss. The Group will apply HKAS 27 (Revised) prospectively to transactions with non-controlling interests from 1 January 2010.

- HKAS 32 (Amendment), 'Financial instruments: Presentation', and HKAS 1 (Amendment), 'Presentation of financial statements' — 'Puttable financial instruments and obligations arising on liquidation' (effective from 1 January 2009). The amended standards require entities to classify puttable financial instruments and instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. The Group will apply the HKAS 32 (Amendment) and HKAS 1 (Amendment) from 1 January 2009, but it is not expected to have any impact on the Group's financial statements.

- HKFRS 1 (Amendment), 'First time adoption of HKFRS' and HKAS 27 'Consolidated and separate financial statements' (effective from 1 July 2009). The amended standard allows first-time adopters to use a deemed cost of either fair value or the carrying amount under previous accounting practice to measure the initial cost of investments in subsidiaries, jointly controlled entities and associates in the separate financial statements. The amendment also removes the definition of the cost method from HKAS 27 and replaces it with a requirement to present dividends as income in the separate financial statements of the investor. The Company will apply HKAS 27 (Amendment) prospectively from 1 January 2010 in its separate financial statements. This amendment is not relevant to the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HKFRS 2 (Amendment), 'Share-based payment' (effective from 1 January 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply HKFRS 2 (Amendment) from 1 January 2009, but it is not expected to have a material impact on the Group's financial statements.

- HKFRS 3 (Revised), 'Business combinations' (effective from 1 July 2009). The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the consolidated income statement. There is a choice on an acquisition by acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (Revised) prospectively to all business combinations from 1 January 2010.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HKFRS 8, 'Operating segments' (effective from 1 January 2009). HKFRS 8 replaces HKAS 14, 'Segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009 and the expected impact is still being assessed in detail by management.

- HK(IFRIC) — Int 15, 'Agreements for construction of real estates' (effective from 1 January 2009). HK(IFRIC) — Int 15 clarifies whether HKAS 18, 'Revenue' should be applied to particular transactions. It is likely to result in HKAS 18 being applied to a wider range of transactions. The Group will apply HK(IFRIC) — Int 15 from 1 January 2009 and the expected impact is still being assessed in detail by management.

- HK(IFRIC) — Int 16, 'Hedges of a net investment in a foreign operation' (effective from 1 October 2008). HK(IFRIC) — Int 16 clarifies the accounting treatment in respect of net investment hedging. This includes the fact that net investment hedging relates to differences in functional currency not presentation currency, and hedging instruments may be held anywhere in the Group. The requirements of HKAS 21, 'The effects of changes in foreign exchange rates', do apply to the hedged item. The Group will apply HK(IFRIC) — Int 16 from 1 January 2009. It is not expected to have a material impact on the Group's financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HKICPA's improvements to HKFRS published in October 2008

  — HKAS 1 (Amendment), 'Presentation of financial statements' (effective from 1 January 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' are examples of current assets and liabilities respectively. The Group will apply the HKAS 1 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's financial statements.

  — HKAS 19 (Amendment), 'Employee benefits' (effective from 1 January 2009).

    — The amendment clarifies that a plan amendment that results in a change in the extent to which benefit promises are affected by future salary increases is a curtailment, while an amendment that changes benefits attributable to past service gives rise to a negative past service cost if it results in a reduction in the present value of the defined benefit obligation.

    — The definition of return on plan assets has been amended to state that plan administration costs are deducted in the calculation of return on plan assets only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

    — The distinction between short term and long term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HKICPA's improvements to HKFRS published in October 2008 *(Continued)*

  — HKAS 37, 'Provisions, contingent liabilities and contingent assets' requires contingent liabilities to be disclosed, not recognised. HKAS 19 has been amended to be consistent.

  The Group will apply the HKAS 19 (Amendment) from 1 January 2009.

— HKAS 23 (Amendment), 'Borrowing costs' (effective from 1 January 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in HKAS 39 'Financial instruments: Recognition and measurement'. This eliminates the inconsistency of terms between HKAS 39 and HKAS 23. The Group will apply the HKAS 23 (Amendment) prospectively to the capitalisation of borrowing costs on qualifying assets from 1 January 2009.

— HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The Group will apply the HKAS 28 (Amendment) to impairment tests related to investment in associates and any related impairment losses from 1 January 2009.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group *(Continued)*

- HKICPA's improvements to HKFRS published in October 2008 *(Continued)*

  — HKAS 31 (Amendment), 'Interests in joint ventures (and consequential amendments to HKAS 32 and HKFRS 7) (effective from 1 January 2009). Where an investment in joint venture is accounted for in accordance with HKAS 39, only certain rather than all disclosure requirements in HKAS 31 need to be made in addition to disclosures required by HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7 'Financial Instruments: Disclosures'. The Group will apply HKAS 31 (Amendment) from 1 January 2009.

  — HKAS 36 (Amendment), 'Impairment of assets' (effective from 1 January 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The Group will apply the HKAS 36 (Amendment) and provide the required disclosure where applicable for impairment tests from 1 January 2009.

  — HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). A prepayment may only be recognised in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group will apply the HKAS 38 (Amendment) from 1 January 2009.

  — HKFRS 5 (Amendment), 'Non-current assets held for sale and discontinued operations' (and consequential amendment to HKFRS 1, 'First-time adoption') (effective from 1 July 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to HKFRS 1 states that these amendments are applied prospectively from the date of transition to HKFRSs. The Group will apply the HKFRS 5 (Amendment) prospectively to all partial disposals of subsidiaries from 1 January 2010.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group ***(Continued)***

- HKICPA's improvements to HKFRS published in October 2008 *(Continued)*

  — HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009).

    — This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

    — The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

    — The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that HKAS 39 is consistent with HKFRS 8, 'Operating segments' which requires disclosure for segments to be based on information reported to the chief operating decision maker.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1 Basis of preparation *(Continued)*

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group ***(Continued)***

- HKICPA's improvements to HKFRS published in October 2008 *(Continued)*

  — HKAS 39 (Amendment), 'Financial instruments: Recognition and measurement' (effective from 1 January 2009). *(Continued)*

    — When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

  The Group will apply the HKAS 39 (Amendment) from 1 January 2009. It is not expected to have an impact on the Group's consolidated income statement.

  — HKAS 40 (Amendment), 'Investment property' (and consequential amendments to IAS/HKAS 16) (effective from 1 January 2009). Property that is under construction or development for future use as investment property is within the scope of HKAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The Group will apply HKAS 40 (Amendment) from 1 January 2009.

  — There are a number of minor amendments to HKFRS 7, 'Financial instruments: Disclosures', HKAS 8, 'Accounting policies, changes in accounting estimates and errors', HKAS 10, 'Events after the balance sheet date', HKAS 18, 'Revenue' and HKAS 34, 'Interim financial reporting' which are not addressed above. These amendments are unlikely to have an impact on the Group's financial statements and have therefore not been analysed in detail.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1 Basis of preparation *(Continued)*

(d) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2009 or later periods but are not relevant for the Group's operations:

- HKAS 39 (amendment) 'Financial Instruments: Recognition and Measurement' — 'Eligible hedged items' (effective from 1 July 2009). This amendment is to clarify how the principles that determine whether a hedged risk or portion of cash flows is eligible for designation shall be applied in particular situations.

- HK(IFRIC) — Int 13, 'Customer loyalty programmes' (effective from 1 July 2008). HK(IRFIC) — Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. HK(IFRIC) — Int 13 is not relevant to the Group's operations because none of the Group's companies operate any loyalty programmes.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1 Basis of preparation *(Continued)*

(d) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations *(Continued)*

- HK(IFRIC) — 17 — 'Distributions of non-cash assets to owners' (effective from 1 July 2009). This interpretation applies to non-reciprocal distributions of non-cash assets (or with a cash alternative) except for common control transactions and clarifies that:

  — a dividend payable shall be recognised when the dividend is appropriately authorised and is no longer at the discretion of the entity.

  — the dividend payable shall be measured at the fair value of the assets to be distributed.

  — the difference between the dividend paid and the carrying amount of the assets distributed shall be recognised in profit or loss.

- HKICPA's improvements to HKFRS published in October 2008

  — HKAS 16 (Amendment), 'Property, plant and equipment' (and consequential amendment to HKAS 7, 'Statement of cash flows') (effective from 1 January 2009). Entities whose ordinary activities comprise renting and subsequently selling assets present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to HKAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have an impact on the Group's operations because none of the group companies' ordinary activities comprise renting and subsequently selling assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1 Basis of preparation *(Continued)*

(d) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations *(Continued)*

- HKICPA's improvements to HKFRS published in October 2008 *(Continued)*

  — HKAS 20 (Amendment), 'Accounting for government grants and disclosure of government assistance' (effective from 1 January 2009). The benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with HKAS 39, 'Financial instruments: Recognition and measurement' and the proceeds received with the benefit accounted for in accordance with HKAS 20. The amendment will not have an impact on the Group's operations as there are no loans received from the government.

  — HKAS 27 (Amendment), 'Consolidated and separate financial statements' (effective from 1 January 2009). Where an investment in a subsidiary that is accounted for under HKAS 39, 'Financial instruments: recognition and measurement', is classified as held for sale under HKFRS 5, 'Non-current assets held for sale and discontinued operations', HKAS 39 would continue to be applied. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in subsidiary to be recorded at cost in the standalone accounts of each entity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1 Basis of preparation *(Continued)*

(d) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations *(Continued)*

- HKICPA's improvements to HKFRS published in October 2008 *(Continued)*

  — HKAS 28 (Amendment), 'Investments in associates' (and consequential amendments to HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7, 'Financial instruments: Disclosures') (effective from 1 January 2009). Where an investment in associate is accounted for in accordance with HKAS 39 'Financial instruments: recognition and measurement', only certain rather than all disclosure requirements in HKAS 28 need to be made in addition to disclosures required by HKAS 32, 'Financial Instruments: Presentation' and HKFRS 7 'Financial Instruments: Disclosures'. The amendment will not have an impact on the Group's operations because it is the Group's policy for an investment in an associate to be equity accounted in the consolidated financial statements.

  — HKAS 29 (Amendment), 'Financial reporting in hyperinflationary economies' (effective from 1 January 2009). The guidance has been amended to reflect the fact that a number of assets and liabilities are measured at fair value rather than historical cost. The amendment will not have an impact on the Group's operations, as none of the Group's subsidiaries or associates operate in hyperinflationary economies.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.1 Basis of preparation *(Continued)*

(d) Interpretations and amendments to existing standards that are not yet effective and not relevant for the Group's operations *(Continued)*

- HKICPA's improvements to HKFRS published in October 2008 *(Continued)*

  — HKAS 38 (Amendment), 'Intangible assets' (effective from 1 January 2009). The amendment deletes the wording that states that there is 'rarely, if ever' support for use of a method that results in a lower rate of amortisation than the straight line method. The amendment will not currently have an impact on the Group's operations as all intangible assets are amortised using the straight line method.

  — HKAS 41 (Amendment), 'Agriculture' (effective from 1 January 2009). It requires the use of a market-based discount rate where fair value calculations are based on discounted cash flows and the removal of the prohibition on taking into account biological transformation when calculating fair value. The amendment will not have an impact on the Group's operations as no agricultural activities are undertaken.

  — The minor amendments to HKAS 20 'Accounting for government grants and disclosure of government assistance', HKAS 29, 'Financial reporting in hyperinflationary economies', HKAS 40, 'Investment property' and HKAS 41, 'Agriculture', which are not addressed above. These amendments will not have an impact on the Group's operations as described above.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(a) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Except for the Reorganisation, the purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable tangible and intangible assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the consolidated income statements.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 3.10). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 Consolidation *(Continued)*

(b) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity participants of the Company. Disposals to minority interests result in gains and losses for the Group and are recorded in the Company's equity. Difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary resulting from purchases from minority interests are recorded in the Company's equity.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See Note 3.10 for the impairment of non-financial assets including goodwill.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.2 Consolidation *(Continued)*

(c) Associates *(Continued)*

Dilution gains and losses in associates are recognised in the consolidated income statements.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (Note 3.10). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

3.3 Jointly controlled entities

The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses (Note 3.10). The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

3.4 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and return that are different from those of segments operating in other economic environments.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.5 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements is presented in Renminbi ("RMB"), which is the functional and presentation currency of the Group's entities.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the consolidated income statements.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated income statement within 'finance income or cost'. All other foreign exchange gains and losses are presented in the consolidated income statement within 'other gains/(losses)' net.

3.6 Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated income statement during the financial period in which they are incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.6 Property, plant and equipment *(Continued)*

Depreciation is calculated using the straight-line method to write off the cost less accumulated impairment loss of each asset to its residual value over its estimated useful life, as follows:

— Buildings and plants	20-50 years
— Equipment and machinery	4-28 years
— Motor vehicles	6-12 years
— Others	5-14 years

Construction-in-progress represents buildings, plant and machinery under construction or pending installation and is stated at cost. Cost includes the costs of construction of buildings and costs of plant and machinery. No provision for depreciation is made on construction-in-progress until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 3.10).

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognised within other gains/(losses) — net, in the consolidated income statement.

3.7 Investment properties

Investment properties, comprising office buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated using the straight-line method to write-off the cost of the asset over its estimated useful life of 50 years. The assets' residual values and useful lives are reviewed and adjusted as appropriate, at each balance sheet date. Gains and losses on disposal are determined by comparing proceeds with carrying amount. These are included in the consolidated income statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.8 Lease prepayments

Lease prepayments represent upfront prepayments made for the land use rights. Lease payments are stated at historical costs or, in case of restructuring, at valuation which represented the deemed cost to the Group, and are expensed in the consolidated income statements on a straight-line basis over the period of the land use rights or when there is impairment, the impairment is expensed in the consolidated income statements.

3.9 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is tested for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

(b) Technology know-how

Technology know-how is initially recorded at historical cost. It is amortised on the straight-line basis over its estimated useful life of 10 years.

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.10 Impairment of investments in subsidiaries, associates, jointly controlled entities and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

3.11 Financial assets

3.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available-for-sale and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.11 Financial assets *(Continued)*

3.11.1 Classification *(Continued)*

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'restricted cash' and 'cash and cash equivalents' in the balance sheet (Notes 3.13 and 3.14).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

(d) Held-to-maturity financial assets

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; which are classified as current assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.11 Financial assets *(Continued)*

3.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value and transaction costs are expensed in the consolidated income statement. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to maturity financial assets are carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the consolidated income statement within 'other (losses)/gains-net', in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary securities denominated in a foreign currency and classified as available-for-sale are analysed between translation differences resulting from changes in amortised cost of the security and other changes in the carrying amount of the security. The translation differences on monetary securities are recognised in profit or loss; translation differences on non-monetary securities are recognised in equity. Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in equity.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.11 Financial assets *(Continued)*

3.11.2 Recognition and measurement *(Continued)*

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the consolidated income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the consolidated income statement as part of other income. Dividends on available-for-sale equity instruments are recognised in the consolidated income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group established fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models, making maximum use of market inputs and relying as little as possible on entity-specific inputs.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets in impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement. A provision for impairment of held-to-maturity financial assets is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Impairment testing of trade receivables is described in Note 3.13.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.12 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work-in-progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

3.13 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the consolidated income statements within administrative expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against administrative expenses in the consolidated income statements.

3.14 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.15 Share capital

Share capital is classified as equity.

Incremental costs directly attributable to the issue of new shares or optional are shown in equity as a deduction, net of tax, from the proceeds.

3.16 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

3.17 Borrowings and borrowing costs

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated income statements over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed when incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.18 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised directly in equity. In this case, the tax is also recognised in equity.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the PRC. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.19 Employee benefits

(a) Pension obligations

The Group contributes on a monthly basis to various defined contribution retirement schemes managed by the PRC Government. The contributions to the schemes are charged to the consolidated income statements as and when incurred. The Group's obligations are determined at a certain percentage of the salaries of the employees.

The Group also provided supplementary pension subsidies to certain retired employees. Such supplementary pension subsidies are considered as under defined benefit plans. The liability recognised in the balance sheet in respect of these defined benefit plans is the present value of the defined benefit obligation at the balance sheet date, together with adjustments for unrecognised actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government securities which have maturity approximating to the terms of the related pension liability.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income over the employees' expected average remaining working lives.

Past-service costs are recognised immediately in income statements, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.19 Employee benefits *(Continued)*

(b) Other post-employment obligations

Some companies within the Group provided post-retirement medical benefits to their retired employees. The expected costs of these benefits are accrued over the period of employment using the same accounting methodology as used for defined benefit pension plans. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to income statements over the expected average remaining lives of the related employees. These obligations are valued annually by independent qualified actuaries.

(c) Early retirement benefits

Some companies within the Group bore certain benefits obligation to the qualified early retired staff. Early retirement benefits are for staffs who have retired before the retirement age as specified by the national rules. The Group provides various benefits, including early retirement subsidies, continuous contribution of the medical and other welfare benefits to the local governmental authorities up to the retirement age as specified by the national rules. Such benefits are considered as under defined benefit plans. These obligations are valued annually by independent qualified actuaries. The liability recognised in the balance sheet is the present value of the defined obligation at the balance sheet date. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are charged or credited to the income statements over the expected average remaining lives of the related employees.

(d) Housing fund and other benefits

All full-time employees of the Group are entitled to participate in various government-sponsored housing funds. The Group contributes on a monthly basis to these funds based on certain percentages of the salaries of the employees. The Group's liability in respect of these funds is limited to the contributions payable in each period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.19 Employee benefits *(Continued)*

(e) Bonus entitlement

The expected cost of bonus payments is recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made. Liabilities for bonus are expected to be settled within twelve months and are measured at the amounts expected to be paid when they are settled.

(f) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

3.20 Provisions

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.21 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the consolidated income statements over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of assets are included in non-current liabilities as deferred income and are credited to the consolidated income statements on a straight-line basis over the expected lives of the related assets.

3.22 Construction contracts

Contract costs are recognized as expenses in the period in which they are incurred.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable.

When the outcome of a construction contract can be estimated reliably and it is probable that the contract will be profitable, contract revenue is recognised over the period of the contract. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognised as an expense immediately.

Variations in contract work, claims and incentive payments are included in contract revenue to the extent that may have been agreed with the customer and are capable of being reliably measured.

The Group uses the ‘percentage of completion method’ to determine the appropriate amount to recognise in a given period. The stage of completion is measured by reference to the contract costs incurred up to the balance sheet date as a percentage of total estimated costs for each contract. Costs incurred in the year in connection with future activity on a contract are excluded from contract costs in determining the stage of completion. They are presented as inventories, prepayments or other assets, depending on their nature.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.22 Construction contracts *(Continued)*

The Group presents as an asset the gross amount due from customers for contract work for all contracts in progress for which costs incurred plus recognised profits (less recognised losses) exceed progress billings. Progress billings not yet paid by customers and retention are included within 'trade and other receivables'.

The Group presents as a liability the gross amount due to customers for contract work for all contracts in progress for which progress billings exceed costs incurred plus recognised profits (less recognised losses).

3.23 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminated sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

Revenue from the sale of goods is recognised when significant risks and rewards of ownership of the goods are transferred to the ultimate customers or dealers, as appropriate (normally in the form of delivery of goods to ultimate customers, dealers or parties designated by the dealers), and the ultimate customers, dealers or parties designated by the dealers have accepted the products and collectibility of the related receivables is reasonably assured.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.23 Revenue recognition *(Continued)*

(b) Revenue from construction contracts

Revenue from construction contracts is recognised under the percentage of completion method, when the contract has progressed to a stage where the stage of completion and expected profit on the contract can be reliably determined and is measured mainly by reference to the proportion of contract costs incurred for work performed to date to estimated total contract costs. Anticipated losses are fully provided on contracts when identified.

(c) Sales of services

Revenue for services rendered is recognised when services are rendered and when it is probable that the economic benefits associated with the transaction will flow to the entity.

(d) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(e) Rental income

Rental income is recognised on a straight-line basis over the period of the rental contracts.

(f) Dividend income

Dividend income is recognised when the right to receive payment is established.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.24 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated income statements on a straight-line basis over the period of the lease.

The Group leases certain property, plant and equipment. Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased property and the present value of the minimum lease payments.

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to the consolidated income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the shorter of the useful life of the asset and the lease term.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

3.25 Research and development

Research expenditure is recognised as an expense as incurred. Costs incurred on development projects (relating to the design and testing of new or improved products) are recognised as intangible assets when the following criteria are fulfilled:

(a) it is technically feasible to complete the intangible asset so that it will be available for use or sale;

(b) management intends to complete the intangible asset and use or sell it;

(c) there is an ability to use or sell the intangible asset;

(d) it can be demonstrated how the intangible asset will generate probable future economic benefits;

(e) adequate technical, financial and other resources to complete the development and to use or sell the intangible asset are available; and

(f) the expenditure attributable to the intangible asset during its development can be reliably measured.

Other development expenditures that do not meet these criteria are recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use on a straight-line basis over its useful life.

No development costs were capitalised by the Group during the years ended 31 December 2008 and 2007.

3.26 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

4. FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge the risk exposures.

Risk management is carried out by Finance Department under policies approved by the Board of Directors.

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the HK dollar ("HKD") (Note 18). Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the Group's functional currency. Management has set up a policy to require group companies to manage their foreign exchange risk against their functional currency.

As at 31 December 2008, if RMB had weakened/strengthened by 1% against HKD with all other variables held constant, the Group's net profit for the year would have been approximately RMB6,207,000 higher/lower for the year ended 31 December 2008, mainly as a result of foreign exchange gains/losses on translation of HKD-denominated bank deposits.

4. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

4.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. As at 31 December 2008, substantially all the Group's bank deposits and borrowings are at fixed rates, and certain borrowings are subject to the dynamic adjustments by the People's Bank of China and expose the Group to both cash flow interest rate risk and fair value interest-rate risk. The Group currently does not hedge its exposure to interest rate risk.

As at 31 December 2008, if the interest rate of the Group's bank deposits had been increased/decreased by 10% and all other variables were held constant, the Group's net profit for the year would increase/decrease by approximately RMB3,732,000 for the year ended 31 December 2008.

As at 31 December 2008, if the interest rate of the Group's bank borrowings had been increased/decreased by 10% and all other variables were held constant, the Group's net profit for the year would decrease/increase by approximately RMB7,038,000 for the year ended 31 December 2008.

4. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

4.1 Financial risk factors *(Continued)*

(b) Credit risk

The Group's maximum exposure to credit risk in relation to financial assets is the carrying amounts of cash and cash equivalents, restricted cash, and trade and other receivables.

As at 31 December 2008 and 2007, substantially all the Group's bank deposits are deposited in major banks which are state-owned entities incorporated in the PRC, which management believes are of high credit quality without significant credit risk. The Group's bank deposits as at 31 December 2008 and 2007 were as follows:

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Big four commercial banks *(i)*	**602,225**	286,952
Other listing banks	**1,895,391**	794,022
Other non-listing banks	**123,624**	182,174
	2,621,240	1,263,148

(i) Big four commercial banks include Industrial and Commercial Bank of China, China Construction Bank, Agricultural Bank of China and Bank of China.

All the Group's trade and other receivables have no collateral. However, the Group has policies in place to ensure that sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group assesses the credit quality of each customer by taking into account its financial position, past experience and other factors. Credit limit and terms are reviewed on periodic basis, and the financial department is responsible for such monitoring procedures. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the future cash flows, aging status and the likelihood of collection. In this regards, the directors of the Company are satisfied that the risks are minimal and adequate allowance for doubtful debts, if any, has been made in the financial statements after assessing the collectability of individual debts. Further quantitative disclosures in respect of the impairment of trade and other receivables are set out in Note 15.

The Group has no significant concentration of credit risk, with exposure spread over a number of counterparties and customers.

4. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

4.1 Financial risk factors *(Continued)*

(c) Liquidity risk

To manage the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The Group expects to fund its future cash flow needs through internally generated cash flows from operations, borrowings from financial institutions, as well as equity financing through shareholders.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2008				
Bank borrowings	714,040	52,697	184,942	90,523
Other borrowings	32,091	—	—	—
Trade and other payables	2,727,724	—	—	—
At 31 December 2007				
Bank borrowings	527,944	114,181	—	—
Other borrowings	53,745	19,699	166,097	59,522
Trade and other payables	2,569,070	—	—	—

4. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

4.2 Capital risk management

The Group defines the capital as the equity for its internal management purposes. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders or issue new shares.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as borrowings divided by total capital. Total capital is calculated as equity, as shown in the consolidated balance sheets, plus borrowings. The Group aims to maintain the gearing ratio at a reasonable level.

The gearing ratios at 31 December 2008 and 2007 were as follows:

	31 December 2008 *RMB'000*	31 December 2007 *RMB'000*
Total borrowings	**974,785**	818,754
Total equity	**3,470,839**	1,912,275
Total capital	**4,445,624**	2,731,029
Gearing ratio	**22%**	30%

The decrease in the gearing ratio during 2008 resulted primarily from the issuance of new shares and profit for the year.

4. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

4.3 Fair value estimation

The carrying amounts of the Group's financial assets including cash and cash equivalents, deposits in approved financial institutions, trade and other receivables and held-to-maturity financial assets; and financial liabilities including trade and other payables, short-term borrowings, approximate their fair values due to their short maturities. The fair values of available-for-sale financial assets are based on quoted market prices at the balance sheet date. The fair value of non-current financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments as disclosed in Note 22.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Current income tax and deferred tax

The Group is subject to various taxes in the PRC. Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

(a) Current income tax and deferred tax *(Continued)*

Deferred tax assets relating to certain temporary differences and tax losses are recognised as management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such differences will impact the recognition of deferred tax assets and tax in the periods in which such estimate is changed.

As at 31 December 2008, the Group has deferred tax assets in the amount of approximately RMB72,951,000. To the extent that it is probable that taxable profit will be available against which the deductible temporary differences will be utilised, deferred tax assets are recognised for temporary differences arising from impairment provisions taken on inventory and receivables, deferred income and retirement benefit obligations. Should the Group be required to increase the tax rate, every 1% increment in tax rate would render a further write up of deferred tax asset in the amount of approximately RMB4,380,000.

(b) Depreciation and amortisation

The Group's management determines the estimated residual value, useful lives and related deprecation/amortisation charges for the property, plant and equipment and intangible assets with reference to the estimated periods that the Group intends to derive future economic benefits from the use of these assets. Management will revise the depreciation and amortisation charge where useful lives are different to previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

(c) Construction contracts

Revenue from individual contract is recognised under the percentage of completion method which requires estimation made by management. Anticipated losses are fully provided on contracts when identified. The Group's management estimates the amount of foreseeable losses of construction work based on the estimation prepared for the construction contracts. Because of the nature of the activity undertaken in turbine machinery businesses, the date at which the contract activity is entered into and the date when the activity is completed usually fall into different accounting periods.

The Group reviews and revises the estimates of both contract revenue and contract costs in the budget prepared for each contract as the contract progresses and regularly reviews the progress of the contracts.

(d) Impairment of non-financial assets

Non-financial assets are reviewed for impairment in accordance with the accounting policy stated in Note 3.10. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, which has been prepared on the basis of management's assumptions and estimates. Detailed sensitivity analyses have been performed and management is confident that the carrying amount of the relevant assets will be recovered in full.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS *(CONTINUED)*

(e) Impairment of trade and other receivables

Provision for impairment of trade and other receivables is determined based on the evaluation of collectibility of trade and other receivables. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness, the past collection history of each customer and the current market condition.

(f) Inventories

Management estimates the net realisable value for inventory based primarily on the latest invoice prices less costs to sell or value in use. The Group carries out an inventory review on a product-by-product basis at each balance sheet date and write-downs inventories to net realisable value.

(g) Pension benefits

The present value of the pension obligations depend on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations.

The Group determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Group considers the interest rates of government securities that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 25.

6. SEGMENT INFORMATION

6.1 Primary reporting format-business segments

The Group is organised into four main business segments: (i) manufacture and sale of commercial vehicle parts and components ("Commercial vehicle parts and components"); (ii) manufacture and sale of power equipment ("Power equipment"); (iii) manufacture and sales of general machinery ("General machinery"); and (iv) manufacture and sale of machinery tools ("Machinery tools").

Operating expenses of a functional unit are allocated to the relevant segment which is the predominant user of the services provided by the unit. Operating expenses of other shared services which cannot be allocated to a specific segment and corporate expenses are included as unallocated costs.

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash.

Segment liabilities comprise operating liabilities.

Capital expenditure comprises mainly additions to property, plant and equipment (Note 7) and intangible assets (Note 10).

6. SEGMENT INFORMATION *(CONTINUED)*

6.1 Primary reporting format-business segments *(Continued)*

(a) As at and for the year ended 31 December 2008

The segment results for the year ended 31 December 2008 and other segment items included in the consolidated income statements are as follows:

	Commercial vehicle parts and components *RMB'000*	Power equipment *RMB'000*	General machinery *RMB'000*	Machinery tools *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Total segment revenue	1,674,476	1,904,701	1,212,098	1,177,302	—	5,968,577
Inter-segment revenue	—	(8,152)	—	(10,770)	—	(18,922)
Revenue	1,674,476	1,896,549	1,212,098	1,166,532	—	5,949,655
Segment result	257,759	90,869	92,755	77,570	(55,020)	463,933
Operating profit						463,933
Finance costs, net						(42,682)
Share of profit of associates	36,230	133,573	11,503	—	—	181,306
Profit before income tax						602,557
Income tax expense						(78,676)
Profit for the year						523,881

6. SEGMENT INFORMATION *(CONTINUED)*

6.1 Primary reporting format-business segments *(Continued)*

(a) As at and for the year ended 31 December 2008 *(Continued)*

The segment results for the year ended 31 December 2008 and other segment items included in the consolidated income statements are as follows: *(Continued)*

	Commercial vehicle parts and components *RMB'000*	Power equipment *RMB'000*	General machinery *RMB'000*	Machinery tools *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Other segment items						
Depreciation on property plant and, equipment and investment properties	24,244	22,256	11,835	21,030	319	79,684
Amortisation of deferred income	—	(901)	(5,756)	(5,270)	—	(11,927)
Amortisation of lease prepayments and intangible assets	582	5,327	3,787	1,769	—	11,465
Write-down of inventories	2,898	3,392	3,230	1,406	—	10,926
Provision for impairment on trade and other receivables/(reversal)	1,952	(5,829)	3,592	868	—	583
Provision for impairment on property plant and, equipment	—	—	1,198	—	—	1,198

6. SEGMENT INFORMATION *(CONTINUED)*

6.1 Primary reporting format-business segments *(Continued)*

(a) As at and for the year ended 31 December 2008 *(Continued)*

The segment assets and liabilities as at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Commercial vehicle parts and components *RMB'000*	Power equipment *RMB'000*	General machinery *RMB'000*	Machinery tools *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Assets	1,342,776	1,469,175	1,879,265	1,060,954	1,132,079	6,884,249
Investments in associates	320,203	264,825	56,569	—	—	641,597
Total assets						7,525,846
Liabilities	652,473	718,868	1,258,067	460,213	965,386	4,055,007
Capital expenditure *(Notes 7 and 10)*	50,010	95,386	115,166	83,003	1,298	344,863

6. SEGMENT INFORMATION *(CONTINUED)*

6.1 Primary reporting format-business segments *(Continued)*

(b) As at and for the year ended 31 December 2007

The segment results for the year ended 31 December 2007 and other segment items included in the consolidated income statements are as follows:

	Commercial vehicle parts and components	Power equipment	General machinery	Machinery tools	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment revenue	1,419,977	2,012,007	1,008,288	1,045,228	—	5,485,500
Inter-segment revenue	—	—	—	—	—	—
Revenue	1,419,977	2,012,007	1,008,288	1,045,228	—	5,485,500
Segment result	217,427	84,939	63,363	76,014	(6,308)	435,435
Operating profit						435,435
Finance costs, net						(32,943)
Share of profit of associates	49,068	63,043	5,126	—	—	117,237
Profit before income tax						519,729
Income tax expense						(45,906)
Profit for the year						473,823

6. SEGMENT INFORMATION *(CONTINUED)*

6.1 Primary reporting format-business segments *(Continued)*

(b) As at and for the year ended 31 December 2007 *(Continued)*

The segment results for the year ended 31 December 2007 and other segment items included in the consolidated income statements are as follows: *(Continued)*

	Commercial vehicle parts and components	Power equipment	General machinery	Machinery tools	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other segment items						
Depreciation on property, plant and equipment and investment properties	20,162	21,522	10,036	21,053	188	72,961
Amortisation of deferred income	—	(762)	(5,756)	(5,201)	—	(11,719)
Amortisation of lease prepayments and intangible assets	8,722	47	2,824	1,274	—	12,867
Write-down of inventories	2,028	—	4,552	276	—	6,856
Provision for impairment on trade and other receivables	720	1,076	11,062	2,054	—	14,912

6. SEGMENT INFORMATION *(CONTINUED)*

6.1 Primary reporting format-business segments *(Continued)*

(b) As at and for the year ended 31 December 2007 *(Continued)*

The segment assets and liabilities as at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Commercial vehicle parts and components	Power equipment	General machinery	Machinery tools	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	1,082,859	1,289,529	1,563,734	875,720	339,257	5,151,099
Investments in associates	272,767	156,707	44,817	—	—	474,291
Total assets						5,625,390
Liabilities	533,920	785,375	1,117,697	389,497	886,626	3,713,115
Capital expenditure *(Notes 7 and 10)*	98,706	72,143	128,364	46,348	1,417	346,978

6.2 Secondary reporting format — geographical segments

For the years ended 31 December 2008 and 2007, less than 10% of the Group's revenue and profit were derived from overseas sales and all the principal assets employed by the Group are located in the PRC. Accordingly, no analysis by geographical segments has been provided for the year.

7. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and plants *RMB'000*	Equipment and machinery *RMB'000*	Motor vehicles *RMB'000*	Others *RMB'000*	Construction-in-progress *RMB'000*	Total *RMB'000*
At 1 January 2007						
Cost	549,443	827,938	50,507	3,832	98,185	1,529,905
Accumulated depreciation and impairment	(213,992)	(502,029)	(22,093)	(993)	—	(739,107)
Net book amount	335,451	325,909	28,414	2,839	98,185	790,798
Year ended 31 December 2007						
Opening net book amount	335,451	325,909	28,414	2,839	98,185	790,798
Reclassification	10,451	143,179	6,469	—	(160,099)	—
Additions	399	28,000	3,633	—	280,978	313,010
Disposals	(421)	(10,474)	(1,377)	(1,660)	(3,569)	(17,501)
Distribution to CQMEHG *(d)*	(18,300)	—	—	—	—	(18,300)
Depreciation charge	(11,783)	(53,831)	(4,906)	(51)	—	(70,571)
Closing net book amount	315,797	432,783	32,233	1,128	215,495	997,436
At 31 December 2007						
Cost	508,500	964,929	57,000	2,172	215,495	1,748,096
Accumulated depreciation and impairment	(192,703)	(532,146)	(24,767)	(1,044)	—	(750,660)
Net book amount	315,797	432,783	32,233	1,128	215,495	997,436

7. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Group ***(Continued)***

	Buildings and plants *RMB'000*	Equipment and machinery *RMB'000*	Motor vehicles *RMB'000*	Others *RMB'000*	Construction-in-progress *RMB'000*	Total *RMB'000*
Year ended 31 December 2008						
Opening net book amount	315,797	432,783	32,233	1,128	215,495	997,436
Reclassification	132,901	103,464	4,921	(1,128)	(240,158)	—
Additions	3,204	39,771	5,568	—	292,376	340,919
Disposals *(c)*	(31,154)	(14,459)	(658)	—	(30,747)	(77,018)
Depreciation charge	(17,295)	(51,770)	(8,229)	—	—	(77,294)
Impairment charge	—	(1,181)	(17)	—	—	(1,198)
Closing net book amount	403,453	508,608	33,818	—	236,966	1,182,845
At 31 December 2008						
Cost	579,996	1,060,382	64,101	—	236,966	1,941,445
Accumulated depreciation and impairment	(176,543)	(551,774)	(30,283)	—	—	(758,600)
Net book amount	403,453	508,608	33,818	—	236,966	1,182,845

7. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

Company

	Equipment and machinery *RMB'000*	Motor vehicles *RMB'000*	Total *RMB'000*
At 27 July 2007, effective date of the Reorganisation			
Opening net book amount	—	—	—
Additions	771	646	1,417
Depreciation charge	(137)	(51)	(188)
Closing net book amount	634	595	1,229
At 31 December 2007			
Cost	771	646	1,417
Accumulated depreciation	(137)	(51)	(188)
Net book amount	634	595	1,229
Year ended 31 December 2008			
Opening net book amount	634	595	1,229
Additions	23	1,275	1,298
Depreciation charge	(101)	(218)	(319)
Closing net book amount	556	1,652	2,208
At 31 December 2008			
Cost	794	1,921	2,715
Accumulated depreciation	(238)	(269)	(507)
Net book amount	556	1,652	2,208

7. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(a) Depreciation of the property, plant and equipment has been charged to the consolidated income statements as follows:

	Group Year ended 31 December		Company Year ended 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost of sales	**51,765**	54,368	**—**	—
Administrative expenses	**25,529**	16,203	**319**	188
	77,294	70,571	**319**	188

All the impairment provisions have been charged to cost of sales in the consolidated income statements.

(b) Bank borrowings were secured by certain of the Group's property, plant and equipment with an aggregate carrying value of approximately RMB87,685,000 as at 31 December 2008 (2007: RMB136,910,000) (Note 22).

(c) Property, plant and equipment with net book value of approximately RMB71,954,000 were disposed and such amounts were deducted from the advances from government as relocation expenses (Note 26 (b)).

(d) Upon the incorporation of the Company on 27 July 2007, certain of the Group's buildings of approximately RMB18,300,000 were retained by CQMEHG as a distribution by the Group (Note 21).

7. PROPERTY, PLANT AND EQUIPMENT *(CONTINUED)*

(e) Equipment and machinery includes the following amounts where the Group is a lessee under a finance lease:

	Group As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Cost-capitalised finance leases	**15,721**	—
Accumulated depreciation	**(246)**	—
Net book amount	**15,475**	—

The Group leases various equipment and machinery under non-cancellable finance lease agreements. All the lease terms are below 5 years.

8. INVESTMENT PROPERTIES

	Group	
	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
At beginning of year		
Cost	**38,252**	38,252
Accumulated depreciation	**(9,364)**	(6,974)
Net book amount	**28,888**	31,278
For the year		
Opening net book amount	**28,888**	31,278
Depreciation charge	**(2,390)**	(2,390)
Closing net book amount	**26,498**	28,888
At end of year		
Cost	**38,252**	38,252
Accumulated depreciation	**(11,754)**	(9,364)
Net book amount	**26,498**	28,888
Fair value at end of the year	**142,897**	51,198

As at 31 December 2008 and 2007, the fair values of the investment properties were based on valuations conducted by Chongqing Zhongding Real Estate & Land Appraisal Co., Ltd, and Savills Valuation and Professional Services Limited, both independent and professionally qualified valuers respectively. Such valuations were based on current prices in an active market for all properties.

Bank borrowings were secured by the investment properties with an aggregate carrying value of approximately RMB26,498,000 as at 31 December 2008 (2007: RMB28,888,000) (Note 22).

8. INVESTMENT PROPERTIES *(CONTINUED)*

The following amounts have been recognised in the consolidated income statements:

	Group Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Rental income	**5,518**	4,733
Direct operating expenses arising from investment properties that generate rental income	**(2,390)**	(2,390)

The period of leases whereby the Group leases out its investment properties under operating leases is one year or more.

The Group's interests in investment properties at their net book values are analysed as follows:

	Group Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
In the PRC, held on land use rights with lease term of 50 years	**26,498**	28,888

The future aggregate minimum rentals receivables under non-cancellable operating leases are as follows:

	Group As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Not later than 1 year	**6,006**	3,826
Later than 1 year and not later than 5 years	**13,452**	2,160
	19,458	5,986

9. LEASE PREPAYMENTS

Lease prepayments represent the Group's interests in land use rights which are held on leases of between 30 to 50 years. The movement is as follows:

Group

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
At beginning of the year		
Cost	**406,227**	411,418
Accumulated amortisation	**(27,840)**	(24,320)
Net book amount	**378,387**	387,098
For the year		
Opening net book amount	**378,387**	387,098
Additions	**26,121**	11,320
Disposals	**(119,567)**	—
Distribution to CQMEHG *(c)*	**—**	(16,511)
Amortisation charge	**(5,718)**	(3,520)
Closing net book amount	**279,223**	378,387
At end of the year		
Cost	**312,781**	406,227
Accumulated amortisation	**(33,558)**	(27,840)
Net book amount	**279,223**	378,387

9. LEASE PREPAYMENTS *(CONTINUED)*

(a) All the amortisation of the Group's land use rights of approximately was charged to administrative expenses.

(b) As at 31 December 2008, bank borrowings were secured by certain of the Group's land use rights with an aggregate carrying value of approximately RMB141,100,000 (2007: RMB63,416,000) (Note 22).

(c) Upon the incorporation of the Company on 27 July 2007, land use rights in respect of certain land occupied by the Group amounting to approximately RMB16,511,000 were retained by CQMEHG and accounted for as a distribution by the Group (Note 21).

10. INTANGIBLE ASSETS

Group

	Goodwill	Technical know-how	Computer software	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2007					
Cost	15,368	38,071	4,187	6,048	63,674
Accumulated amortisation	—	(32,213)	(3,675)	(3,049)	(38,937)
Net book amount	15,368	5,858	512	2,999	24,737
Year ended 31 December 2007					
Opening net book amount	15,368	5,858	512	2,999	24,737
Additions	—	30,240	3,491	237	33,968
Amortisation charge	—	(7,001)	(472)	(1,874)	(9,347)
Closing net book amount	15,368	29,097	3,531	1,362	49,358
At 31 December 2007					
Cost	15,368	68,311	7,678	6,285	97,642
Accumulated amortisation	—	(39,214)	(4,147)	(4,923)	(48,284)
Net book amount	15,368	29,097	3,531	1,362	49,358

10. INTANGIBLE ASSETS *(CONTINUED)*

Group ***(Continued)***

	Goodwill	Technical know-how	Computer software	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2008					
Opening net book amount	15,368	29,097	3,531	1,362	49,358
Additions	—	—	1,526	2,418	3,944
Amortisation charge	—	(3,662)	(900)	(1,185)	(5,747)
Closing net book amount	15,368	25,435	4,157	2,595	47,555
At 31 December 2008					
Cost	15,368	68,311	9,204	8,703	101,586
Accumulated amortisation	—	(42,876)	(5,047)	(6,108)	(54,031)
Net book amount	15,368	25,435	4,157	2,595	47,555

(a) All the amortisation of the Group's intangible assets of approximately was charged to administrative expenses.

(b) Impairment for goodwill

Goodwill is allocated to the Group's cash-generating unit (CGU), Chongqing CAFF Automotive Braking & Steering System Co. Ltd. ("CAFF"), identified according to the business acquired.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate for the manufacturing of automobile relating products in which the CGU operates.

10. INTANGIBLE ASSETS *(CONTINUED)*

(b) Impairment for goodwill *(Continued)*

The key assumptions used for value-in-use calculations are as follows:

Gross margin as budgeted	14%
Growth rate	13%
Pre-tax discount rate	11.17%

These assumptions have been used for the analysis of the CGU within the business. Management determined budgeted gross margin and the weighted average growth rate based on past performance and its expectations for the market development. The discount rates used are pre-tax and reflect specific risks relating to the relevant business.

(c) Other intangible assets mainly represent customer relationship and trademark which are amortised over their estimated useful lives of 3 years.

11. INVESTMENTS IN ASSOCIATES

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of the year/ At 27 July 2007, effective date of the Reorganisation	**474,291**	380,091	**366,429**	366,429
Additions	**16,720**	—	**16,720**	—
Share of profit	**181,306**	117,237	**—**	—
Dividend declared	**(30,720)**	(23,037)	**—**	—
At end of the year	**641,597**	474,291	**383,149**	366,429

11. INVESTMENTS IN ASSOCIATES *(CONTINUED)*

(a) The Group's share of the assets and liabilities, revenue and results of associates, all of which are unlisted, are as follows:

Group

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Total assets	**1,083,879**	861,925
Total liabilities	**(442,282)**	(387,634)
Net assets	**641,597**	474,291

Group

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Revenue	**907,517**	803,083
Share of profit for the year	**181,306**	117,237

(b) As at the date of this report, the particulars of the Group's principal associates are set out in Note 40.

12. INVESTMENTS IN SUBSIDIARIES — COMPANY

The Company's investments in subsidiary are carried at the book value of net assets of these subsidiaries comprising the Group as at 27 July 2007. All the subsidiaries are unlisted.

As at the date of this report, the particulars of the Group's principal subsidiaries are set out in Note 40.

13. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Group

(a) The Group's profit and loss sharing from the jointly controlled entities corresponds to its equity interest percentage. The following amounts represent the share of assets and liabilities, revenues and results of jointly controlled entities which have been included in the consolidated balance sheets and income statements:

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Assets		
Non-current assets	**131,852**	124,789
Current assets	**675,016**	409,610
	806,868	534,399
Liabilities		
Current liabilities	**(369,854)**	(246,448)
Net assets	**437,014**	287,951

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Income	**1,200,489**	941,321
Expenses	**(930,663)**	(739,907)
Profit before income tax	**269,826**	201,414
Income tax expense	**(59,143)**	(29,086)
Profit for the year	**210,683**	172,328

(b) As at the date of this report, the particulars of the Group's jointly controlled entities are set out in Note 40. All the jointly controlled entities are unlisted.

13. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES *(CONTINUED)*

Company

The Company's investments in jointly controlled entities are carried at the book value of net assets of such entities as at 27 July 2007, the effective date of the Reorganisation, less a distribution of RMB109,000,000 received in October 2007, which was attributable to the accumulated profits of such entities before the Reorganisation.

14. INVENTORIES

Group

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Raw materials	**286,063**	195,145
Work-in-progress	**415,671**	370,398
Finished goods	**517,196**	400,646
Consumables	**13,190**	35,913
	1,232,120	1,002,102

For the year ended 31 December 2008, the cost of inventories recognised as the Group's expense and included in cost of sales amounted to approximately RMB4,139,432,000 (2007: RMB3,979,794,000).

For the year ended 31 December 2008, write-down of inventories recognised in cost of sales in the consolidated income statements amounted to approximately RMB10,926,000 (2007: RMB6,856,000).

As at 31 December 2008, the Group's inventories of approximately RMB35,919,000 (2007: RMB21,716,000) are stated at net realisable value.

As at 31 December 2008, the Group's inventories with carrying value of approximately RMB50,000,000 (2007: RMB32,558,000) were secured for the Group's borrowings (Note 22).

15. TRADE AND OTHER RECEIVABLES

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and bills receivables *(a)*	**1,178,539**	1,192,229	**—**	—
Less: provision for impairment of trade receivables	**(235,974)**	(253,009)	**—**	—
Trade and bills receivables-net	**942,565**	939,220	**—**	—
Deposits paid	**15,915**	35,281	**—**	—
Less: provision for impairment of deposits paid	**(9,707)**	(14,877)	**—**	—
Deposits paid-net	**6,208**	20,404	**—**	—
Prepayments	**192,122**	179,012	**—**	—
Receivables from CQMEHG *(f)*	**—**	21,373	**—**	—
Staff advances	**28,898**	17,403	**—**	—
Other receivables due from related parties *(Note 39)*	**27,816**	10,201	**251,924**	10,639
Others	**55,223**	13,590	**4,727**	21,243
Less: provision for impairment of receivables other than trade receivables and deposits paid	**(22,068)**	(17,699)	**—**	—
	1,230,764	1,183,504	**256,651**	31,882
Less: long-term other receivables	**—**	—	**(193,957)**	—
Current portion	**1,230,764**	1,183,504	**62,694**	31,882

15. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

Group

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Less than 30 days	**243,261**	339,048
31 days to 90 days	**307,708**	248,872
91 days to 1 year	**364,287**	335,588
1 year to 2 years	**83,697**	72,238
2 years to 3 years	**37,384**	22,025
Over 3 years	**142,202**	174,458
	1,178,539	1,192,229

As at 31 December 2008, full provision has been made by the Group for trade receivables aged over 3 years.

15. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

Trade receivables that are less than nine months past due are generally not considered individually impaired. As at 31 December 2008, trade receivables of approximately RMB343,890,000 (2007: RMB313,704,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The analysis of ageing, which were counted from the day of recognition of trade receivables, is as follows:

Group

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
91 days to 1 year	**313,726**	302,356
1 year to 2 years	**26,390**	11,348
2 year to 3 years	**3,774**	—
	343,890	313,704

15. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

As at 31 December 2008, trade receivables of RMB283,680,000 (2007: RMB290,605,000) were individually impaired and provided for. The amount of the provision was RMB235,974,000 as at 31 December 2008 (2007: RMB253,009,000). The individually impaired receivables mainly relate to certain customers, which are in difficult financial situations. It was assessed that a portion of the receivables is expected to be recovered based on the past collection history under similar circumstances. The ageing of these receivables is as follows:

Group

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
91 days to 1 year	**50,561**	33,232
1 year to 2 years	**57,307**	60,890
2 years to 3 years	**33,610**	22,025
Over 3 years	**142,202**	174,458
	283,680	290,605

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

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

15. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

Group

Trade receivables	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
At beginning of the year	**253,009**	259,282
Provision for impairment of receivables	**1,384**	5,575
Receivables written off during the year as uncollectible	**(18,419)**	(11,848)
At end of the year	**235,974**	253,009

Deposits paid	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
At beginning of the year	**14,877**	13,292
(Reversal)/provision for impairment of receivables	**(5,170)**	1,585
At end of the year	**9,707**	14,877

15. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

	Year ended 31 December	
Other items	**2008**	2007
	RMB'000	*RMB'000*
At beginning of the year	**17,699**	15,652
Provision for impairment of receivables	**4,369**	7,752
Receivables written off during the year as uncollectible	**—**	(5,705)
At end of the year	**22,068**	17,699

The Group has recognized the provision for impairment of receivables in administrative expenses in the consolidated income statements.

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

(f) The receivables from CQMEHG are non-trade in nature and were settled in 2008.

(g) Refer to Note 39 for Group's trade and other receivables due from related parties.

16. CONTRACT WORK-IN-PROGRESS

Group

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Contract cost incurred plus recognized profit less recognized losses	**1,019,934**	898,227
Less: progress billings	**(850,678)**	(731,093)
Contract work-in-progress	**169,256**	167,134
Representing:		
Amount due from customers for contract work	**181,162**	167,134
Amount due to customers for contract work	**(11,906)**	—
	169,256	167,134

Group

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Contract revenue recognized as revenue in the year	**284,654**	268,464

17. RESTRICTED CASH

Group

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Restricted cash denominated in RMB	**314,190**	229,795

The restricted cash held in dedicated bank accounts was pledged as security for the Group's bills payable and issuance of letters of credit.

18. CASH AND CASH EQUIVALENTS

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash in hand	**1,404**	2,726	**—**	4
Cash at bank	**1,494,814**	822,280	**546,200**	267,451
Short-term bank deposits *(a)*	**812,236**	211,073	**507,087**	—
	2,308,454	1,036,079	**1,053,287**	267,455
Cash and cash equivalents denominated in:				
— RMB	**1,595,307**	1,030,259	**349,455**	267,455
— HKD	**703,832**	—	**703,832**	—
— USD	**9,315**	5,820	**—**	—
	2,308,454	1,036,079	**1,053,287**	267,455

(a) Short-term bank deposits can be withdrawn at the discretion of the Group without any restriction.

19. SHARE CAPITAL

	Number of Shares *In thousand*	Domestic shares *In thousand*	H shares *In thousand*	Total shares *In thousand*
Registered, issued and fully paid				
At 27 July 2007 and 1 January 2008 (nominal value of RMB1.00 each)	2,679,740	2,679,740	—	2,679,740
Domestic shares converted into H shares *(a)*	—	(95,287)	95,287	—
Issue of new shares *(b)*	1,004,900	—	1,004,900	1,004,900
At 31 December 2008 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640

(a) The 95,287,000 H shares converted from Domestic shares (the "Transfer H Shares") were transferred by the Promoters to the National Council for Social Security Fund (the "NCSSF") of the PRC in compliance with the "Interim Administrative Regulations on the Reduction of State-owned Shares to Raise Social Security Funds" (the "Regulations"). Pursuant to the Regulations, holders of State-owned shares of a joint stock limited company in the PRC shall transfer part of their Domestic Shares to the NCSSF for no consideration equivalent to approximately 10% of the total number of H Shares to be issued upon the listing of the Company. The Transfer H Shares rank pari passu with the new H shares in all respects offered for subscription.

(b) On 13 June 2008, the Company issued 1,004,900,000 shares with a par value of RMB1.00 each at price of HKD1.30. These shares, together with the Transfer H Shares, were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 13 June 2008. All these shares rank pari passu in respects with the then existing Domestic Shares.

The Company raised net proceeds of approximately RMB1,033,507,000 from the sales of 1,004,900,000 new shares, of which paid-up share capital was RMB1,004,900,000 and the resulted capital reserve was approximately RMB 28,607,000 (Note 20).

20. RESERVES

Group

		Other Reserves					
		Capital reserve	Share issuance costs	Investment revaluation reserve	Statutory reserve fund	(Accumulated deficit)/ retained earnings	Total
	Note	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2007		(796,338)	—	6,692	72,444	(35,428)	(752,630)
Profit for the year		—	—	—	—	450,015	450,015
Dividends		—	—	—	—	(86,776)	(86,776)
Changes in fair value of available-for-sales financial assets, net of deferred tax		—	—	5,512	—	—	5,512
Disposal of available-for-sale financial assets		—	—	(4,503)	—	—	(4,503)
Extinguishment of debts by CQMEHG	(b)	47,958	—	—	—	—	47,958
Transfer to reserves	(a)	—	—	—	12,371	(12,371)	—
Incorporation of the Company	(c)	(248,079)	—	—	(72,444)	—	(320,523)
Share issuance costs		—	(21,050)	—	—	—	(21,050)
Distributions	21	(34,811)	—	—	—	(97,199)	(132,010)
At 31 December 2007		(1,031,270)	(21,050)	7,701	12,371	218,241	(814,007)
Profit for the year		—	—	—	—	503,531	503,531
Proceeds from issuance of share capital		28,607	120,593	—	—	—	149,200
Share issuance costs		—	(99,543)	—	—	—	(99,543)
Changes in fair value of available-for-sales financial assets, net of deferred tax		—	—	(5,476)	—	—	(5,476)
Transfer to reserves	(a)	—	—	—	35,352	(35,352)	—
At 31 December 2008		(1,002,663)	—	2,225	47,723	686,420	(266,295)

20. RESERVES *(CONTINUED)*

Statement of changes in equity of the Company for the year ended 31 December 2008.

Company

		Other Reserves				
	Note	Capital reserve RMB'000	Share issuance costs RMB'000	Statutory reserve fund RMB'000	(Accumulated deficit)/ retained earnings RMB'000	Total RMB'000
At 27 July 2007, effective date of the Reorganisation		(912,620)	—	—	—	(912,620)
Share issuance costs		—	(21,050)	—	—	(21,050)
Distributions	21	(97,199)	—	—	—	(97,199)
Profit for the period		—	—	—	1,760	1,760
Transfer to reserves		—	—	12,371	(12,371)	—
At 31 December 2007		(1,009,819)	(21,050)	12,371	(10,611)	(1,029,109)
Proceeds from issuance of share capital		28,607	120,593	—	—	149,200
Share issuance costs		—	(99,543)	—	—	(99,543)
Profit for the year		—	—	—	62,827	62,827
Transfer to reserves		—	—	35,352	(35,352)	—
At 31 December 2008		(981,212)	—	47,723	16,864	(916,625)

20. RESERVES *(CONTINUED)*

(a) In accordance with the relevant laws and regulations in the PRC and the Articles of Association of the Company, it is required to appropriate 10% of its annual net profit, after offsetting any prior years' losses as determined under the PRC Accounting Standards for Business Enterprises, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the Company's share capital, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholders or by increasing the par value of the shares currently held by them. The fund is non-distributable except for liquidation situation.

Pursuant to the Articles of Association of the Company, approximately RMB35,352,000 was appropriated to the statutory surplus reserve fund from the net profit for the year ended 31 December 2008 (2007: RMB12,371,000).

(b) In January 2007, as a result of the debt restructuring arrangement, CQMEHG reduced part of the Group's borrowings due to CQMEHG from approximately RMB69,355,000 to RMB21,397,000. Such extinguishment of debt of approximately RMB47,958,000 was credited to reserve for the year ended 31 December 2007.

(c) Upon the incorporation of the Company on 27 July 2007, such reserves have been transferred to share capital as the contribution by CQMEHG to the Company.

21. DISTRIBUTIONS AND DIVIDENDS

	For the year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Special Distribution to CQMEHG and Huarong Company *(a)*	—	97,199
Transfer of certain assets *(b)*	—	34,811
	—	132,010

21. DISTRIBUTIONS AND DIVIDENDS *(CONTINUED)*

(a) Pursuant to the Reorganisation and the applicable PRC financial regulations, the Company made a distribution (the "Special Distribution") to CQMEHG and Huarong Company in an amount equal to its net profit as determined in accordance with the PRC GAAP, generated from 1 October 2006 to 26 July 2007, the date immediately prior to the date on which the Company was incorporated, netting dividends already paid for such period.

(b) Subsequent to the incorporation of the Company on 27 July 2007, certain buildings and lease prepayments (Note 7(d) and Note 9(c)) with an aggregate net carrying amount of approximately RMB34,811,000 are retained by CQMEHG pursuant to the Reorganisation.

22. BORROWINGS

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current				
Borrowings *(1)*	**264,673**	274,466	**194,000**	—
Finance lease liabilities *(2)*	**9,322**	—	**—**	—
	273,995	274,466	**194,000**	—
Current				
Borrowings *(1)*	**696,051**	544,288	**6,000**	—
Finance lease liabilities *(2)*	**4,739**	—	**—**	—
	700,790	544,288	**6,000**	—
Total borrowings	**974,785**	818,754	**200,000**	—

22. BORROWINGS *(CONTINUED)*

(1) Borrowings

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current				
Long-term bank borrowings				
— secured *(a)*	**9,000**	20,000	**—**	—
— unsecured *(b)*	**255,673**	93,058	**194,000**	—
	264,673	113,058	**194,000**	—
Other unsecured borrowings				
— due to CQMEHG *(c)*	**—**	161,408	**—**	—
Total non-current borrowings	**264,673**	274,466	**194,000**	—
Current				
Short-term bank borrowings				
— secured *(a)*	**382,670**	261,220	**—**	—
— unsecured *(b)*	**281,290**	243,022	**6,000**	—
	663,960	504,242	**6,000**	—

22. BORROWINGS *(CONTINUED)*

(1) Borrowings *(Continued)*

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other unsecured borrowings				
— due to independent third parties *(d)*	**32,091**	31,830	**—**	—
— others	**—**	8,216	**—**	—
	32,091	40,046	**—**	—
Total current borrowings	**696,051**	544,288	**6,000**	—
	960,724	818,754	**200,000**	—

(a) As at 31 December 2008, all these bank borrowings were secured by certain of the Group's property, plant and equipment, investment properties, land use rights and inventories (Notes 7, 8, 9 and 14).

22. BORROWINGS *(CONTINUED)*

(1) Borrowings *(Continued)*

(b) As at 31 December 2008 and 2007, a portion of the bank borrowings of approximately RMB5,000,000 and RMB120,000,000 were guaranteed by the following parties:

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Yufu Company *(Note 39(b))*	**—**	90,000	**—**	—
Related parties *(Note 39(b))*	**5,000**	30,000	**—**	—
	5,000	120,000	**—**	—

(c) The borrowings due to CQMEHG were replaced by bank loans in 2008.

(d) As at 31 December 2008 and 2007, borrowings due to independent third parties mainly represents amounts advanced from a potential customer to support the Group's construction of certain production facilities for the manufacturing of products to this customer.

22. BORROWINGS *(CONTINUED)*

(1) Borrowings *(Continued)*

(e) The maturities of the Group's total borrowings at respective balance sheet dates are set out as follows:

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Total borrowings				
— Within 1 year	**696,051**	544,288	**6,000**	—
— Between 1 and 2 years	**34,000**	119,058	**15,000**	—
— Between 2 and 5 years	**160,000**	125,000	**179,000**	—
— Over 5 years	**70,673**	30,408	**—**	—
	960,724	818,754	**200,000**	—

22. BORROWINGS *(CONTINUED)*

(1) Borrowings *(Continued)*

(f) As at 31 December 2008 and 2007, all the carrying amounts of the Group's borrowings are denominated in RMB.

(g) The weighted average effective interest rates at respective balance sheet dates are set out as follows:

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings	**6.93%**	6.72%	**7.77%**	—
Other borrowings	**—**	5.48%	**—**	—

(h) The carrying amounts of current portion of long-term and short-term borrowings approximate their fair values.

The carrying value and fair value of non-current borrowings are set out as follows:

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amount	**264,673**	274,466	**194,000**	—
Fair value	**265,506**	271,865	**193,386**	—

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at respective balance sheet dates.

22. BORROWINGS *(CONTINUED)*

(1) Borrowings *(Continued)*

(i) At each balance sheet date, the Group had the following undrawn borrowing facilities:

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Fixed rate		
— Expiring within 1 year	**10,000**	41,110
— Expiring beyond 1 year	**26,590**	17,530
	36,590	58,640

(2) Finance lease liabilities

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Gross finance lease liabilities		
— minimum lease payments		
No later than 1 year	**5,571**	—
Later than 1 year and no later than 5 years	**9,974**	—
	15,545	—
Unrecognised future finance charge on finance leases	**(1,484)**	—
Present value of finance lease liabilities	**14,061**	—

22. BORROWINGS *(CONTINUED)*

(2) Finance lease liabilities *(Continued)*

The present value of finance lease liabilities is analysed as follows:

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
No later than 1 year	**4,739**	—
Later than 1 year and no later than 5 years	**9,322**	—
	14,061	—

23. DEFERRED INCOME

Group

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
At beginning of the year	**105,655**	99,058
Additions		
— government grants related to assets	**11,584**	18,316
Amortisation	**(11,927)**	(11,719)
At end of the year	**105,312**	105,655

23. DEFERRED INCOME *(CONTINUED)*

During the year ended 31 December 2008, the Group had obtained grants from local government of approximately RMB11,584,000 (2007: RMB11,016,000), in relation to strengthening and improving the quality of certain of the Group's machinery and equipment. As such, these government grants were accounted for as deferred income and amortised over the estimated useful life of the related machinery and equipment which ranged from 7 to 14 years. In addition, for the year ended 31 December 2007, RMB7,300,000 has been transferred from advance received from government as a result of completion of part of such activities (Note 26(b)). During the year ended 31 December 2008, approximately RMB11,927,000 (2007: RMB11,719,000) of deferred income was amortised and credited to cost of sales.

24. DEFERRED INCOME TAX

(a) Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows:

Group

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Deferred tax assets:		
— Deferred tax assets to be recovered after more than 12 months	**38,401**	65,342
— Deferred tax assets to be recovered within 12 months	**34,550**	1,795
	72,951	67,137
Deferred tax liabilities:		
— Deferred tax liabilities to be recovered within 12 months	**(393)**	(1,359)
	72,558	65,778

24. DEFERRED INCOME TAX *(CONTINUED)*

(a) Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. The offset amounts are as follows: *(Continued)*

The gross movement on the deferred income tax is set out as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
At beginning of the year	**65,778**	54,845
Recognised in the consolidated income statements *(Note 33)*	**5,814**	10,849
Recognised in equity	**966**	84
At end of the year	**72,558**	65,778

24. DEFERRED INCOME TAX *(CONTINUED)*

(b) The movements on the deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, are set out as follows:

Deferred tax assets

	Provision for impairment of assets *RMB'000*	Deferred income *RMB'000*	Retirement and termination benefit obligations *RMB'000*	Warranty and other accrued expenses *RMB'000*	Total *RMB'000*
At 1 January 2007	34,099	11,992	10,197	—	56,288
Recognised in the consolidated income statements *(Note 33)*	8,969	(755)	(240)	2,875	10,849
At 31 December 2007	43,068	11,237	9,957	2,875	67,137
Recognised in the consolidated income statements *(Note 33)*	(4,195)	(951)	(3,094)	14,054	5,814
At 31 December 2008	38,873	10,286	6,863	16,929	72,951

24. DEFERRED INCOME TAX *(CONTINUED)*

(b) The movements on the deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same jurisdiction, are set out as follows: *(Continued)*

Deferred tax liabilities

	Available-for-sale financial assets *RMB'000*
At 1 January 2007	(1,443)
Recognised in equity	84
At 31 December 2007	(1,359)
Recognised in equity	966
As at 31 December 2008	(393)

(c) In accordance with the PRC tax law or other tax regulations applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. As at 31 December 2008, the Group did not recognise deferred tax assets of approximately RMB16,180,000 (2007: RMB95,072,000) of tax losses amounting to approximately RMB107,864,000 (2007: RMB80,934,000), as management believes it is more than likely that such tax losses would not be utilised before they expire. As at 31 December 2007 and 2008, the tax losses carried forward are as follows:

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Year of expiry of tax losses		
2009	**14,815**	14,815
2010	**13,500**	13,500
2011	**25,424**	25,424
2012	**27,195**	27,195
2013	**26,930**	—
	107,864	80,934

25. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

The amount of retirement and termination benefit obligation recognised in the balance sheet is determined as follows:

Group

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Non-current		
Retirement benefit obligations	**109,050**	131,750
Termination benefit obligations	**22,780**	—
	131,830	131,750
Current		
Retirement benefit obligations	**5,290**	6,550
Termination benefit obligations	**2,870**	—
	8,160	6,550
	139,990	138,300

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

	Group	
	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Present value of defined benefits obligations	**149,560**	137,850
Unrecognised actuarial (gain)/loss	**(9,570)**	450
Liability on the balance sheet	**139,990**	138,300
Less: current portion	**(8,160)**	(6,550)
	131,830	131,750

The movements of retirement and termination benefit obligations for the years ended 31 December 2007 and 2008 are as follows:

	Group	
	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
At beginning of the year	**138,300**	147,271
For the year		
— Interest cost	**6,050**	1,304
— Actuarial gain	**(24,400)**	(3,694)
— Additions on termination benefit obligations	**28,880**	—
— Payment	**(8,840)**	(6,581)
At end of the year	**139,990**	138,300

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

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

The material actuarial assumptions used in valuing these obligations are as follows:

(a) Discount rates adopted (per annum):

	As at 31 December	
	2008	2007
Discount rates	**3.25%**	4.50%

The effect of above changes in discount rate was reflected as actuarial gains and losses and charged to the consolidated income statements in the period of change.

(b) Trend rate: 5%-15% (2007: 4.2%-15%);

(c) Mortality: Average life expectancy of residents in the PRC;

(d) Medical costs paid to early retirees are assumed to continue until the death of the retirees.

The sensitivity of the overall pension liability to changes in the weighted principal assumptions is:

	Change in assumption	Impact on overall liability
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 6.6%/7.4%
Inflation rate	Increase/decrease by 0.5%	Increase/decrease by 0.1%
Salary growth rate	Increase/decrease by 0.5%	Increase/decrease by 6.1%

26. TRADE AND OTHER PAYABLES

	Group As at 31 December		Company As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and bills payables *(a)*	**1,183,519**	956,647	**—**	—
Other taxes payables	**115,601**	116,789	**25**	—
Other payable	**284,822**	176,871	**147,550**	125,706
Accrued payroll and welfare	**166,878**	194,085	**188**	—
Advances from customers	**666,147**	594,924	**—**	—
Advances from government *(b)*	**310,757**	529,754	**—**	—
	2,727,724	2,569,070	**147,763**	125,706

(a) As at 31 December 2007 and 2008, the ageing analysis of the trade and bills payables was as follows:

	Group As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Less than 30 days	**282,486**	224,235
31 days than 90 days	**347,045**	193,591
91 days to 1 year	**468,927**	487,702
1 year to 2 years	**52,625**	15,274
2 years to 3 years	**11,163**	11,309
Over 3 years	**21,273**	24,536
	1,183,519	956,647

26. TRADE AND OTHER PAYABLES *(CONTINUED)*

(b) Prior to 31 December 2007, certain subsidiaries of the Group had received grants of approximately RMB537,933,000 from the local government in respect of compensations for relocation of their manufacturing plants, which included compensation for relocation expenses, purchase of new land use rights and construction of new production plants and properties. As the relocation of such subsidiaries had not been fully completed as at 31 December 2007, after netting off the relocation expenses of approximately RMB24,509,000, the remaining balance of the grants received of approximately RMB513,424,000 was recorded as advance from government as at 31 December 2007. For the year ended 31 December 2008, the subsidiaries received such government grants of approximately RMB18,486,000. As the relocation of such subsidiaries had not been fully completed as at 31 December 2008, after netting off the relocation expenses of approximately RMB237,883,000 (including property, plant and equipment with net book value of approximately RMB71,954,000 (Note 7(c))) for the year ended 31 December 2008, the remaining balance of the grants received of approximately RMB294,027,000 was recorded as advance from government as at 31 December 2008.

In addition, prior to 31 December 2007, the Group had received grants of approximately RMB23,630,000 from the local government in respect of improvement of the Group's manufacturing technology. As such activities have only commenced and partly completed by 31 December 2007, RMB7,300,000 has been transferred to deferred income, and the remaining balance of the grants received of approximately RMB16,330,000 were recorded as advance received from government as at 31 December 2007. For the year ended 31 December 2008, the Group had received such grants of approximately RMB400,000. As at 31 December 2008, the balance of the grants received of approximately RMB16,730,000 were recorded as advance received from government.

(c) Refer to Note 39 for payables due to related parties.

27. PROVISIONS FOR WARRANTY

This 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 the consolidated income statements.

	Provision for warranty
	RMB'000
At 1 January 2007	7,215
Charged to the consolidated income statements	22,892
Utilised during the year	(10,942)
At 31 December 2007	19,165
Charged to the consolidated income statements	13,975
Utilised during the year	(9,522)
At 31 December 2008	23,618

28. EXPENSE BY NATURE

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Depreciation on property, plant and equipment *(Note 7)*	**77,294**	70,571
Depreciation on investment properties *(Note 8)*	**2,390**	2,390
Amortisation of lease prepayments *(Note 9)*	**5,718**	3,520
Amortisation of intangible assets *(Note 10)*	**5,747**	9,347
Amortisation of deferred income *(Note 23)*	**(11,927)**	(11,719)
Employee benefit expense *(Note 29)*	**514,765**	424,258
Changes in inventories of finished goods and work-in-progress	**(152,473)**	(178,672)
Raw materials and consumables used	**4,291,905**	4,183,556
Transportation	**50,192**	32,762
Research and development costs	**98,801**	32,228
Technology usage fee	**13,558**	12,191
Utilities	**75,745**	66,667
Repairs and maintenance expenditure on property, plant and equipment	**46,247**	27,546
Operating lease rentals	**10,636**	7,573
Write-down of inventories *(Note 14)*	**10,926**	6,856
Provision for impairment of receivables *(Note 15)*	**583**	14,912
Provision for impairment of property, plant and equipment *(Note 7)*	**1,198**	—
Provision for warranty *(Note 27)*	**13,975**	22,892
Auditors' remuneration	**9,270**	1,166
Other expenses	**469,818**	391,830
Total cost of sales, distribution costs and administrative expenses	**5,534,368**	5,119,874

29. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**392,085**	330,728
Contributions to pension plans *(a)*	**64,493**	46,714
Supplemental pension benefits to qualified employees *(b)*		
— interest cost	**6,050**	1,304
— actuarial gain	**(24,400)**	(3,694)
Housing benefits *(c)*	**9,876**	13,871
Termination benefits	**28,880**	—
Welfare, medical and other expenses	**37,781**	35,335
	514,765	424,258

(a) The employees of the Group participate in various retirement benefit plans organised by the relevant municipal and provincial government in the PRC under which the Group is required to make monthly contributions to these plans at rates ranging from 17% to 25%, depending on the applicable local regulations, of the employees' basic salary for the years ended 31 December 2008 and 2007.

(b) The Group provided supplemental pension and other post-employment benefits to certain retired employees. The costs of providing these benefits are charged to the consolidated income statements so as to spread the service cost over the average service lives of the retirees.

(c) These represent contributions to the government-sponsored housing funds (at rates ranging from 7% to 15% of the employees' basic salary) in the PRC.

30. OTHER GAINS, NET

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Gain on waiver of other tax payable	**6,130**	—
Gain on waiver of other liabilities due to independent third parties	**—**	5,181
Gain on disposal of property, plant and equipment	**1,490**	2,964
Gain on disposal of available-for-sale financial assets	**—**	18,560
Others	**5,866**	10,707
	13,486	37,412

31. OTHER INCOME

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Government grants in relation to		
— Tax refunds *(a)*	**11,107**	22,206
— further development of manufacturing technology *(b)*	**8,412**	8,066
— relocation for environment protection *(b)*	**12,110**	—
— others	**3,531**	2,125
	35,160	32,397

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

(b) During the years ended 31 December 2007 and 2008, the Group received certain grants from local government in compensation of the Group's expenditures on further development of manufacturing technology and relocation for environment protection. Such amounts were considered as government grant relating to expenses and credited to other income in the consolidated income statements.

32. FINANCE COSTS, NET

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Finance income		
— Interest income on short-term bank deposits	**43,904**	18,665
— Interest income from receivables due from CQMEHG	**—**	3,891
	43,904	22,556
Interest expense		
— Bank borrowings wholly repayable within five years	**(70,406)**	(45,670)
— Bank borrowings wholly repayable after five years	**(14,115)**	—
— Other borrowings	**—**	(10,248)
— Finance lease liabilities	**(257)**	—
	(84,778)	(55,918)
Net exchange (loss)/gain	**(1,808)**	419
Net finance costs	**(42,682)**	(32,943)

33. TAXATION

(a) Income tax expense

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law was effective from 1 January 2008. Pursuant to detailed measures of the new CIT Law in respect of West China Development Champion, the enterprise income tax rate of most of the Group's subsidiaries is 15% from 2008 to 2010. The eight entities which are subject to enterprise income tax rate of 25% from 1 January 2008 (2007: 33%) onwards are as follows:

— the Company;

— Chongqing Huijiang Machine Tools Founding Co., Ltd.;

33. TAXATION *(CONTINUED)*

(a) Income tax expense *(Continued)*

— Chongqing Zhengtong Founding Co., Ltd.;

— Chongqing Boshui Imports & Exports Trade Co., Ltd.;

— Chongqing General Group Bingyang Air conditioner Equipment installation Co., Ltd.;

— Chongqing General Yunxiu Co., Ltd.;

— Chongqing Ji Dian Yi Huan Environmental Equipment Co., Ltd.;

— Chongqing Machine Tools (Group) Shengpu Machinery Set Co., Ltd.

For the year ended 31 December 2008, the applicable CIT rate of Chongqing Cummins Engine Co., Ltd. is 25% (2007: 15%).

The new CIT rate of 25% of Shenzhen Chongfa Cummins Engine Co., Ltd. will be gradually effective in a 5 years period. For the year ended 31 December 2008, the applicable CIT rate is 18% (2007: 15%).

The amount of income tax expense charged to the consolidated income statements represents:

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Current income tax:		
— PRC enterprise income tax	**84,490**	56,755
Deferred tax *(Note 24)*	**(5,814)**	(10,849)
	78,676	45,906

33. TAXATION *(CONTINUED)*

(a) Income tax expense *(Continued)*

The difference between the actual income tax charge in the consolidated income statements and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Profit before income tax	**602,557**	519,729
Tax calculated at the tax rate of 15%	**90,384**	77,959
Companies which are subject to different tax rates	**20,758**	—
Income not subject to tax		
— share of profit of associates	**(27,196)**	(17,582)
— subsidy income not taxable under the tax rules	**(1,466)**	(2,782)
Tax concessions	**(16,097)**	(4,089)
Deductible allowances under the tax rules	**—**	(5,973)
Expenses not deductible for tax purposes	**10,148**	5,558
Utilisation of previously unrecognised tax assets	**(1,895)**	(11,264)
Tax losses with no deferred tax asset recognised	**4,040**	4,079
Tax expense	**78,676**	45,906

The weighted average tax rate for the year ended 31 December 2008 is 13% (2007: 9%).

33. TAXATION *(CONTINUED)*

(b) Value-added tax ("VAT") and related taxes

All companies now comprising the Group are subject to output VAT generally calculated at 17% of the product selling prices. An input credit is available whereby input VAT previously paid on purchases of raw materials or semi-finished products can be used to offset the output VAT to determine the net VAT payable.

34. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors', supervisors' and senior management's emoluments

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Directors and supervisors		
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,219**	291
— Contributions to pension plans	**96**	54
— Discretionary bonuses	**1,055**	375
	2,370	720
Senior management		
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**324**	124
— Contributions to pension plans	**72**	22
— Discretionary bonuses	**277**	—
	673	146
	3,043	866

The emoluments received by individual directors, supervisors and senior management are presented as below.

34. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(CONTINUED)*

(a) Directors', supervisors' and senior management's emoluments *(Continued)*

(i) For the year ended 31 December 2008:

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind	Contributions to pension plans	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Directors and supervisors				
Mr. Sun Nengyi *(a)*	—	—	—	—
Mr. He Yong	134	24	105	263
Mr. Liao Shaohua	108	16	471	595
Mr. Chen Xianzheng	108	24	59	191
Mr. Huang Yong *(a)*	61	—	—	61
Mr. Yu Gang *(a)*	61	—	—	61
Mr. Yang Jingpu	61	—	—	61
Mr. Wu Jian	58	—	—	58
Mr. Lu Huawei	118	—	—	118
Mr. Ren Xiaochang	87	—	—	87
Mr. Kong Weiliang	87	—	—	87
Mr. Duan Rongsheng *(a)*	61	—	—	61
Mr. Ye Zusheng	31	—	—	31
Ms. Wang Rongxue	31	—	—	31
Ms. He Xiaoping	31	—	—	31
Mr. Wang Xuqi	101	13	228	342
Mr. Wu Chongjiang	81	19	192	292
	1,219	96	1,055	2,370

34. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(CONTINUED)*

(a) Directors', supervisors' and senior management's emoluments *(Continued)*

(i) For the year ended 31 December 2008: *(Continued)*

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind	Contributions to pension plans	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Senior management				
Mr. Zhang Ke	108	24	162	294
Mr. Wang Nongcheng	108	24	56	188
Ms. Miao Xiaoping	108	24	59	191
	324	72	277	673
	1,543	168	1,332	3,043

34. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(CONTINUED)*

(a) Directors', supervisors' and senior management's emoluments *(Continued)*

(ii) For the year ended 31 December 2007:

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind	Contributions to pension plans	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Directors and supervisors				
Mr. Sun Nengyi *(a)*	—	—	—	—
Mr. He Yong	48	7	—	55
Mr. Liao Shaohua	80	14	375	469
Mr. Chen Xianzheng	39	7	—	46
Mr. Huang Yong *(a)*	—	—	—	—
Mr. Yu Gang *(a)*	—	—	—	—
Mr. Yang Jingpu	—	—	—	—
Mr. Wu Jian	—	—	—	—
Mr. Duan Rongsheng *(a)*	—	—	—	—
Mr. Ye Zusheng	—	—	—	—
Ms. Wang Rongxue	—	—	—	—
Ms. He Xiaoping	—	—	—	—
Mr. Wang Xuqi	71	13	—	84
Mr. Wu Chongjiang	53	13	—	66
	291	54	375	720

34. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(CONTINUED)*

(a) Directors', supervisors' and senior management's emoluments *(Continued)*

(ii) For the year ended 31 December 2007: *(Continued)*

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind	Contributions to pension plans	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Senior management				
Mr. Zhang Ke	46	10	—	56
Mr. Wang Nongcheng	39	6	—	45
Ms. Miao Xiaoping	39	6	—	45
	124	22	—	146
	415	76	375	866

(a) Those directors and supervisors, without payment from the Group, received emoluments from CQMEHG, part of which are in relation to his services to the Group. No apportionment has been made as the directors and supervisors consider that it is impractical to apportion the amount between his services to the Group and his services to CQMEHG, and the amount is immaterial.

34. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(CONTINUED)*

(a) Directors', supervisors' and senior management's emoluments *(Continued)*

The emoluments of the directors, supervisors and senior management of the Company fall within the following bands:

	Year ended 31 December	
	2008	2007
Directors and supervisors		
— Nil to HK$1,000,000 (equivalent to approximately RMB881,890)	**17**	14
Senior management		
— Nil to HK$1,000,000 (equivalent to approximately RMB881,890)	**3**	3
	20	17

For the years ended 31 December 2008 and 2007, no directors, supervisors or senior management of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors, supervisors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

34. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(CONTINUED)*

(b) Five highest paid individuals

One of the five highest paid individuals of the Group for the years ended 31 December 2008 and 2007 was also a director of the Company and the emolument was reflected in the analysis presented in Note 34(a) above. The emoluments payable to the remaining four individuals for the year ended 31 December 2008 and 2007 are as follows:

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**375**	489
— Contributions to pension plans	**45**	53
— Discretionary bonuses	**2,196**	1,204
	2,616	1,746

The emoluments of the above four non-director individuals fall within the following bands:

	Year ended 31 December	
	2008	2007
— Nil to HK$1,000,000 (equivalent to approximately RMB881,890)	**4**	4

35. EARNINGS PER SHARE

	Year ended 31 December	
	2008	2007
Profit attributable to equity holders of the Company *(RMB'000)*	**503,531**	450,015
Weighted average number of shares in issue *(thousand)*	**3,224,061**	2,282,755
Basic and diluted earnings per share *(RMB per share)*	**0.16**	0.20

The Company's weighted average number of shares in issue during the year ended 31 December 2007 used in the basic earnings per share calculation is determined on the assumption that the 1,999,195,000 shares at par value RMB1.00 each issued to CQMEHG had been in issue prior to the incorporation of the Company. It is adjusted to add the 680,545,000 shares at par value RMB1.00 each issued to the other Promoters on 27 July 2007 upon the incorporation of the Company. In determining the weighted average number of shares in issue for the year ended 31 December 2008, the 2,679,740,000 shares, existing as at 1 January 2008, were adjusted by the 1,004,900,000 shares issued on 13 June 2008, which were outstanding for six and a half months.

Diluted earnings per share is equal to basic earnings per share as there were no potential dilutive shares outstanding for all periods presented.

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS

(a) Reconciliation of profit for the year to net cash generated from operations

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Profit for the year	**523,881**	473,823
Adjustments for:		
— Income tax expense	**78,676**	45,906
— Depreciation of property, plant and equipment and investment properties	**79,684**	72,961
— Amortisation of intangible assets and lease prepayments	**11,465**	12,867
— Amortisation of deferred income	**(11,927)**	(11,719)
— Write-down of inventories	**10,926**	6,856
— Provision for impairment in trade and other receivables	**583**	14,912
— Provision for impairment in property, plant and equipment	**1,198**	—
— Interest income	**(43,904)**	(22,556)
— Interest expense	**86,586**	55,918
— Share of profit from associates	**(181,306)**	(117,237)
— Net gain on disposal of property, plant and equipment	**(1,490)**	(2,964)
— Gain on disposal of available for available-for-sale financial assets	**—**	(18,560)
— Gain on waiver of borrowings and other liabilities *(Note 30)*	**(6,130)**	(5,181)
	548,242	505,026

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS *(CONTINUED)*

(a) Reconciliation of profit for the year to net cash generated from operations *(Continued)*

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Changes in working capital:		
— Inventories	**(241,605)**	(203,261)
— Trade and other receivables	**(28,299)**	(237,484)
— Contract work-in-progress	**(2,122)**	(10,523)
— Restricted cash	**(84,395)**	(39,861)
— Retirement and termination benefit obligations	**1,690**	(8,971)
— Trade and other payables	**386,962**	575,151
	32,231	75,051
Cash generated from operations	**580,473**	580,077

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENTS *(CONTINUED)*

(b) Proceeds from sale of property, plant and equipment

In the consolidated cash flow statements, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Net book amount	**5,340**	17,501
Gain on disposal of property, plant and equipment	**1,490**	2,964
Proceeds from sale of property, plant and equipment	**6,830**	20,465

37. CONTINGENCIES

As at 31 December 2008, the Group had no material contingencies.

38. COMMITMENTS

(a) Capital commitments

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

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Property, plant and equipment	**184,262**	281,723
Lease prepayments	**2,520**	30,640

38. COMMITMENTS *(CONTINUED)*

(b) Operating lease commitments

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

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
No later than 1 year	**9,472**	3,029
Later than 1 year and no later than 5 years	**8,190**	8,398
Later than 5 years	**20,822**	22,627
	38,484	34,054

39. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC Government which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as the "state-owned enterprises").

In accordance with HKAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC Government are regarded as related parties of the Group (''other state-owned enterprises"). For purpose of related party transactions disclosure, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatization programs. Nevertheless, management believes that meaningful information relating to related party transactions has been adequately disclosed.

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, including other state-owned enterprises, during the years ended 31 December 2008 and 2007 and balances arising from related party transactions as at 31 December 2008 and 2007.

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions

For the years ended 31 December 2007 and 2008, the Group had the following significant transactions with related parties.

Continuing

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Transactions with the Parent Company and fellow subsidiaries and associates		
Revenue		
— Revenue from sales of goods	**60,943**	51,432
Expenses		
— Purchase of materials	**56,671**	25,334
— Services	**330**	987
— Management fees	**465**	438
— Leasing of equipment	**282**	376
— Other expenses	**8,773**	7,758
Transactions with jointly controlled entities *(a)*		
Revenue		
— Revenue from sales of goods	**76,865**	47,568

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions *(Continued)*

Continuing *(Continued)*

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Transactions with associates		
Revenue		
— Revenue from sales of goods	**63,350**	49,203
— Revenue from provision of services	**29,146**	24,132
Expenses		
— Purchase of materials	**41,697**	45,537
— Services	**7,051**	6,784
Transactions with shareholders of jointly controlled entities		
Revenue		
— Revenue from sales of goods	**207,920**	137,424
Expenses		
— Management fees and technical fees	**3,602**	3,569
Transactions with minority interests		
Expenses		
— Purchase of materials	**4,147**	9,441

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions *(Continued)*

Continuing *(Continued)*

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Transactions with other state-owned enterprises		
Revenue		
— Revenue from sales of goods	**1,290,841**	1,221,097
Expenses		
— Purchase of materials	**1,427,355**	1,187,355

(a) The transactions with jointly controlled entities shown above are after elimination of the Group's proportionate interests in them.

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions *(Continued)*

Discontinued

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Interest income from receivables from CQMEHG *(Note 32)*	—	3,891
Waiver of borrowings owing by the Group to CQMEHG *(Note 20(b))*	—	47,958
Transactions with shareholders of jointly controlled entities		
Expenses		
— Purchase of technical know-how from Cummins Company, Inc.*	—	30,240

* Cummins Company, Inc. is the parent company of Cummins (China) Investment Co., Ltd., the other owner of Chongqing Cummins Engine Co., Ltd..

In the opinion of the directors of the Company, the above related party transactions were carried out in the ordinary course of business and in accordance with the term of the underlying agreements.

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and other receivables				
Trade receivables due from				
— Fellow subsidiaries and associates	**7,158**	19,605	**—**	—
— Jointly controlled entities	**5,651**	2,837	**—**	—
— Associates	**13,442**	5,429	**—**	—
— Shareholders of jointly controlled entities	**7,328**	13,895	**—**	—
— Other state-owned enterprises	**388,343**	417,255	**—**	—
Other receivables due from				
— Fellow subsidiaries	**20,453**	6,947	**251,924**	—
— Associates	**7,363**	3,225	**—**	—
— Shareholders of jointly controlled entities	**—**	29	**—**	—
— Other state-owned enterprises	**82,501**	14,667	**—**	—
Receivables from CQMEHG *(Note 15)*	**—**	21,373	**—**	—
	532,239	505,262	**251,924**	—
Less: long-term other receivables	**—**	—	**(193,957)**	—
Current portion	**532,239**	505,262	**57,967**	—

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties *(Continued)*

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and other payables				
Trade payables due to				
— Fellow subsidiaries and associates	**33,319**	38,289	**—**	—
— Associates	**26**	3,997	**—**	—
— Other state-owned enterprises	**302,379**	307,185	**—**	—
Other payables due to				
— CQMEHG	**31,497**	5,071	**—**	—
— Huarong Company	**—**	5,566	**—**	5,566
— Fellow subsidiaries	**8,972**	4,148	**117,405**	—
— Shareholders of jointly controlled entities	**664**	—	**—**	—
— Other state-owned enterprises	**9,303**	9,014	**—**	—
	386,160	373,270	**117,405**	5,566
Borrowings				
— due to CQMEHG *(Note 22)*	**—**	161,408	**—**	—
— due to a fellow subsidiary *(Note 22)*	**—**	8,216	**—**	—
	—	169,624	**—**	—

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties *(Continued)*

	Group		Company	
	As at 31 December		As at 31 December	
	2008	2007	**2008**	2007
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other balances with other state-owned enterprises				
— Restricted cash	**314,190**	229,795	**—**	—
— Cash and cash equivalents	**2,307,050**	1,033,353	**1,053,287**	267,451
— Borrowings	**960,724**	617,300	**200,000**	—

As disclosed in Note 22(b), as at 31 December 2008, the Group's bank borrowings of approximately RMB5,000,000 (2007: RMB120,000,000) were guaranteed by related parties.

(c) Key management compensation

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,543**	415
Contributions to pension plans	**168**	76
Discretionary bonuses	**1,332**	375
	3,043	866

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

(a) Subsidiaries

As at the date of this report, the Company has direct and indirect interests in the following principal subsidiaries:

Name	Country/Place and date of incorporation	Type of legal entity	Issued/ paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
CAFF (重慶卡福汽車制動轉向系統有限公司)	PRC/ 27 June 2003	Limited liability company	58,800	100%	—	Manufacturing of vehicle parts and components
Chongqing Qi-Chi Automotive Part Co., Ltd. (重慶市綦齒汽車零部件有限責任公司)	PRC/ 26 June 2000	Limited liability company	1,250	76%	24%	Manufacturing of vehicle parts and components
Chongqing Boshui Imports & Exports Trade Co., Ltd. (重慶市搏水進出口貿易有限公司)	PRC/ 14 March 2007	Limited liability company	3,092	100%	—	Import and export of products relating to vehicles
Chongqing Qi-Chi Xinxin Welfare Co., Ltd. (綦齒鑫欣福利有限責任公司)	PRC/ 8 February 2007	Limited liability company	18,367	100%	—	Manufacturing of vehicle parts and components
Chongqing General Industry (重慶通用工業(集團)有限責任公司) *(i)*	PRC/ 6 April 1997	Limited liability company	602,876	97.92%	—	Manufacturing of general machinery

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(Continued)*

As at the date of this report, the Company has direct and indirect interests in the following principal subsidiaries: *(Continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued/ paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Chongqing Pump Industry Co., Ltd. (重慶水泵廠有限責任公司)	PRC/ 12 September 2002	Limited liability company	145,251	—	97.92%	Manufacturing of pumps
Chongqing Jiangbei Machinery Co., Ltd. (重慶江北機械有限責任公司)	PRC/ 10 September 2002	Limited liability company	76,270	—	97.92%	Manufacturing of separation machinery
Chongqing Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司)	PRC/ 12 September 2002	Limited liability company	70,774	—	97.92%	Manufacturing of gas compression machine
Chongqing Shunchang General Electrical Equipment Co., Ltd. (重慶順昌通用電器有限責任公司)	PRC/ 20 January 2007	Limited liability company	1,000	—	97.92%	Manufacturing of general electric apparatus for general machine
Chongqing General Group Bingyang Air conditioner Equipment installation Co., Ltd. (重慶通用集團冰洋製冷空調設備安裝有限公司)	PRC/ 11 May 1994	Limited liability company	8,223	—	97.92%	Provision of air-conditioner installation services

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(Continued)*

As at the date of this report, the Company has direct and indirect interests in the following principal subsidiaries: *(Continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued/ paid in capital *(RMB'000)*	Attributable equity interest Directly held	Indirectly held	Principal activities
Chongqing Zhengtong Founding Co., Ltd. (重慶正通鑄造有限責任公司)	PRC/ 21 February 2000	Limited liability company	5,045	—	97.92%	Manufacturing of foundry products
Chongqing General Yunxiu Co., Ltd. (重慶通用運修有限責任公司)	PRC/ 21 March 2000	Limited liability company	1,500	—	97.92%	Provision of transportation services
Chongqing Machinery & Electric Yihuan Environment Equipment Co., Ltd. (重慶機電一環環保設備有限公司)	PRC/ 25 October 2001	Limited liability company	500	—	97.92%	Manufacturing of environmental protection equipment
Chongqing Machine Tools (Group) Co., Ltd. (重慶機床(集團)有限責任公司) *(ii)*	PRC/ 31 December 2005	Limited liability company	307,161	100%	—	Manufacturing of gear-cutting machines
Chongqing No. 2 Machine Tools Factory Co., Ltd. (重慶第二機床廠有限責任公司)	PRC/ 12 June 2007	Limited liability company	80,000	—	100%	Manufacturing of machinery tools
Chongqing Shenjian Automotive Drive Part Co., Ltd. (重慶神箭汽車傳動件有限責任公司)	PRC/ 19 July 1999	Limited liability company	18,624	—	100%	Manufacturing of transmission systems for vehicles
Chongqing Tool Factory Co., Ltd. (重慶工具廠有限責任公司)	PRC/ 13 February 2007	Limited liability company	37,620	—	100%	Manufacturing of cutting tools for gear-cutting machines

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(Continued)*

As at the date of this report, the Company has direct and indirect interests in the following principal subsidiaries: *(Continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued/ paid in capital (RMB'000)	Attributable equity interest Directly held	Indirectly held	Principal activities
Chongqing Yinhe Forging & Founding Co., Ltd. (重慶銀河鑄鍛有限責任公司)	PRC/ 6 October 1997	Limited liability company	18,704	—	100%	Manufacturing of foundry goods
Chongqing Haoyue Machinery Manufacture Co., Ltd. (重慶市皓月機械製造有限責任公司)	PRC/ 22 January 2007	Limited liability company	4,387	—	100%	Manufacturing of small gears
Chongqing Machine Tools (Group) Shengpu Machinery Set Co., Ltd. (重慶機床集團盛普機械成套設備有限公司)	PRC/ 1 February 2007	Limited liability company	1,405	—	100%	Sales of machinery tools
Chongqing Shengong Machinery Manufacture Co., Ltd. (重慶神工機械製造有限責任公司)	PRC/ 28 April 2000	Limited liability company	1,103	—	100%	Manufacturing of machinery tools
Chongqing Yuzhu Tai-Xin Plating Co., Ltd. (重慶渝築鈦星鍍膜有限公司)	PRC/ 25 September 2003	Limited liability company	1,892	—	70%	Provision of processing services

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(Continued)*

As at the date of this report, the Company has direct and indirect interests in the following principal subsidiaries: *(Continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued/ paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Chongqing Huijiang Machine Tools Founding Co., Ltd. (重慶惠江機床鑄造有限公司)	PRC/ 14 March 2007	Limited liability company	3,670	—	55%	Manufacturing of machinery tools
Chongqing Water Turbine Works Co., Ltd. (重慶水輪機廠有限責任公司) *(iii)*	PRC/ 26 March 1998	Limited liability company	135,097	100%	—	Manufacturing of power generators
Chongqing Huahao Smelting Co., Ltd. (重慶華浩冶煉有限公司) *(iv)*	PRC/ 16 April 2002	Limited liability company	30,835	98.57%	—	Metallurgical production
Chongqing Pigeon Electric Wire & Cable Co., Ltd. (重慶鴿牌電線電纜有限公司) *(v)*	PRC/ 20 January 2001	Limited liability company	52,000	54.69%	—	Manufacture electric wires and cables
Chongqing Pigeon Electric Materials Co., Ltd. (重慶鴿牌電工材料有限公司) *(vi)*	PRC/ 19 October 2006	Limited liability company	6,800	—	31.25%	Manufacture electrical material
Chongqing Pigeon Electrical Porcelain Co., Ltd. (重慶鴿牌電瓷有限公司)	PRC/ 19 October 2006	Limited liability company	53,000	—	54.69%	Manufacture electrical porcelain

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(Continued)*

(i) In October 2008, the paid in capital of Chongqing General Industry was increased from RMB477,986,000 to RMB602,876,000 as a result of an additional capital injection of RMB124,890,000 from the Company. After the injection, the Group's interest in Chongqing General Industry (Group) Co., Ltd. was increased from 97.38% to 97.92%.

In November 2008, the paid in capital of Chongqing Gas Compressor Factory Co., Ltd. and Chongqing Pump Industry Co., Ltd. were increased from RMB50,214,000 to RMB70,774,000 and from RMB106,411,000 to RMB145,251,000, respectively, as results of the additional capital injections of RMB20,560,000 and RMB38,840,000 from Chongqing General Industry.

(ii) In August 2008, the paid in capital of Chongqing Machine Tools (Group) Co., Ltd. was increased from RMB184,241,000 to RMB307,161,000 as a result of an additional capital injection of RMB122,920,000 from the Company.

In October 2008, the paid in capital of Chongqing Tool Factory Co., Ltd. and Chongqing No. 2 Machine Tools Factory Co., Ltd. were increased from RMB30,000,000 to RMB37,620,000 and from RMB50,000,000 to RMB80,000,000, respectively, as results of the additional capital injections of RMB7,620,000 and RMB30,000,000 from Chongqing Machine Tools (Group) Co., Ltd..

(iii) In August 2008, the paid in capital of Chongqing Water Turbine Works Co., Ltd. was increased from RMB85,097,000 to RMB135,097,000 as a result of an additional capital injection of RMB50,000,000 from the Company.

(iv) In August 2008, the paid in capital of Chongqing Huahao Smelting Co., Ltd. was increased from RMB8,835,000 to RMB30,835,000 as a result of an additional capital injection of RMB22,000,000 from the Company. After the injection, the Group's interest in Chongqing Huahao Smelting Co., Ltd. was increased from 95% to 98.57%.

(v) In October 2008, the paid in capital of Chongqing Pigeon Electric Wire & Cable Co., Ltd. was increased from RMB19,000,000 to RMB52,000,000. The additional capital injection was in the proportion of equity interests of the Company and other investors.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(Continued)*

(vi) The Group has 54.69% interests in Chongqing Pigeon Electric Wire & Cable Co., Ltd. which owns 50% interests in Chongqing Pigeon Electric Materials Co., Ltd.. Chongqing Pigeon Electric Materials Co., Ltd. is considered as the Group's subsidiary because the Group has majority voting rights on the Board of Directors and its strategic, operating, investing and financing activities are controlled by the Group.

(b) Jointly controlled entities

As at the date of this report, the Company has the following principal jointly controlled entities (all are unlisted):

Name	Country/Place and date of incorporation	Type of legal entity	Issued/ paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Chongqing Cummins Engine Co., Ltd. (重慶康明斯發動機有限公司)	PRC/ 15 June 1995	Limited liability company	417,600	50%	—	Manufacturing of engines
Shenzhen Chongfa Cummins Engine Co., Ltd. (深圳崇發康明斯發動機有限公司) *(i)*	PRC/ 14 August 1997	Limited liability company	20,000	—	29.20%	Manufacturing of engines

(i) The Group has 50% interest in a jointly controlled entity which owns 58.4% interest in Shenzhen Chongfa Cummins Engine Co., Ltd.. This entity is considered as the Group's jointly controlled entity because its strategic, operating, investing and financing activities are jointly controlled by the Company and other joint venture parties.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(c) Associates

As at the date of this report, the Company has direct and indirect interest in the following principal associates (all are unlisted):

Name	Country/Place and date of incorporation	Type of legal entity	Issued/ paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Qijiang Qi-Chi High-New Founding Co., Ltd. (重慶市綦齒高新鑄造有限責任公司)	PRC/ 13 July 2000	Limited liability company	1,200	40.83%	—	Manufacturing of foundry products
Qijiang Gear Transmission Co., Ltd. (綦江齒輪傳動有限公司)	PRC/ 28 December 2002	Limited liability company	200,000	49.00%	—	Manufacturing of transmission systems for vehicles
Chongqing Hongyan Changli Automotive Spring Co., Ltd. (重慶紅岩長力汽車彈簧有限公司) *(i)*	PRC/ 27 June 2003	Limited liability company	94,281	44.00%	—	Manufacturing of automobile springs for vehicles
Exedy (Chongqing) Driving System Co., Ltd. (愛思帝(重慶)驅動系統有限公司)	PRC/ 3 December 2003	Limited liability company	101,040	27.00%	—	Manufacturing of clutches
Qijiang Qi-Chi Forging Co., Ltd. (綦江綦齒鍛造有限公司)	PRC/ 7 November 2003	Limited liability company	21,000	23.52%	25.48%	Manufacturing of forge products

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(c) Associates *(Continued)*

As at the date of this report, the Company has direct and indirect interest in the following principal associates (all are unlisted): *(Continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued/ paid in capital *(RMB'000)*	Attributable equity interest Directly held	Indirectly held	Principal activities
Chongqing Midea General Refrigeration Equipment Co., Ltd. (重慶美的通用製冷設備有限公司)	PRC/ 4 August 2004	Limited liability company	103,750	—	43.82%	Manufacturing of refrigeration equipment
Chongqing Gas Engineering Co., Ltd. (重慶燃氣工程股份有限公司)	PRC/ 6 December 2006	Limited liability company	20,000	—	19.48%	Provision of gas engineering services
Chongqing Power Transformer Co., Ltd. (重慶變壓器有限責任公司) *(ii)*	PRC/ 5 March 1996	Limited liability company	161,410	65.69%	—	Investor of Chongqing ABB Power Transformer Co. Ltd.
Chongqing ABB Power Transformer Co., Ltd. (重慶ABB變壓器有限公司)	PRC/ 22 January 1998	Limited liability company	403,167	—	24.83%	Manufacturing of power transmission equipment
Chongqing Ji'en Smelting Co., Ltd. (重慶吉恩冶煉有限公司)	PRC/ 16 June 2004	Limited liability company	23,590	—	24.64%	Manufacturing of metallic products

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(c) Associates *(Continued)*

(i) In October 2008, the paid in capital of Chongqing Hongyan Changli Automotive Spring Co., Ltd. was increased from RMB56,281,000 to RMB94,281,000. The additional capital injection was in the proportion of equity interests of the Company and another investor.

(ii) Although the Company owns 65.69% of the equity interest of Chongqing Power Transformer Co., Ltd., the Group only has minority voting rights on the Board of Directors and has no control over the making of financial and operating decisions, and only has significant influence on Chongqing Power Transformer Co., Ltd., therefore this entity is considered as an associate.

41. ULTIMATE HOLDING COMPANY

The Directors regard CQMEHG as being the ultimate holding company of the Company.

42. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

For the year ended 31 December 2008, the profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB62,827,000 (2007: RMB1,760,000).

43. EVENTS AFTER THE BALANCE SHEET DATE

The Group owned 49% equity interests in both Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear") and Qijiang Qi-Chi Forging Co., Ltd. (Qijiang Forging) prior to February 2009, which have been accounted for as associates of the Group. In February 2009, the Group acquired the remaining 51% equity interests of both Qijiang Gear and Qijiang Forging at a total consideration of approximately RMB256,960,000. Thereafter, Qijiang Gear and Qijiang Forging became wholly-owned subsidiaries of the Group. As at the date of the approval of these financial statements, management of the Company is still in the process of preparing the financial information relating to the acquisition of those two entities.