



沈機集團昆明機床股份有限公司  
SHENJI GROUP KUNMING MACHINE TOOL COMPANY LIMITED

(A sino-foreign joint stock limited company established in the People's Republic of China with limited liability)  
(Stock Code: 0300)

Annual Report 2008



# CONTENT

1.	IMPORTANT NOTICE	2
2.	COMPANY INFORMATION	3
3.	FINANCIAL AND OPERATING HIGHLIGHTS	5
4.	CHANGES IN SHARE CAPITAL AND SHAREHOLDERS	8
5.	DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS	14
6.	CORPORATE GOVERNANCE STRUCTURE	23
7.	CORPORATE GOVERNANCE REPORT	26
8.	SHAREHOLDERS' MEETINGS	33
9.	DIRECTORS' REPORT	34
10.	SUPERVISORY COMMITTEE'S REPORT	48
11.	SIGNIFICANT EVENTS	50
12.	FINANCIAL STATEMENTS	58
	AUDITORS' REPORT AND FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS	58
	INDEPENDENT AUDITORS' REPORT AND FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH HONG KONG FINANCIAL REPORTING STANDARDS	123
13.	DOCUMENTS AVAILABLE FOR INSPECTION	193

## IMPORTANT NOTICE

1. The Board of Directors, Supervisory Committee, Directors, Supervisors and Senior Management Officers of the Company have declared that the information in this report does not contain any false information, misleading statements or material omissions. The Board of Directors of the Company also jointly and severally accepts full responsibility for the truthfulness, accuracy and completeness of the content of the report.
2. Save as Mr. Sun Kai, Non-executive Director, was unable to attend the meeting in person due to office duties where Mr. Gao Minghui, Chairman was appointed to attend and vote at the meeting on his behalf, the remaining directors attended the board meetings.
3. The financial statements of the Company for the year were audited by Zonzun Accounting Office Limited and KPMG respectively, and both firms have issued unqualified opinions on the financial statements in their auditor's reports.
4. Mr. Gao Minghui, Chairman and Executive Director, Mr. Pi Jianguo, Financial Controller of the Company, and Ms. Zhao Qiongfeng, Accounting Supervisor, have declared that they assured for the truthfulness and completeness of the financial statements in the Annual Report.

## COMPANY INFORMATION

Name of the Company (Chinese)	: 沈機集團昆明機床股份有限公司
Abbreviated Name (Chinese)	: 昆明機床
Name of the Company (English)	: SHENJI GROUP KUNMING MACHINE TOOL COMPANY LIMITED
Abbreviated Name (English)	: KMTCL
Legal Representative	: Mr. Gao Minghui

## SECRETARY TO THE BOARD

Secretary to the Board	: Mr. Luo Tao
Correspondence address	: 23 Ciba Road, Kunming City, Yunnan Province, the PRC
Telephone number	: 86-871-6166612
Facsimile number	: 86-871-6166288
E-mail	: luotao@kmtcl.com.cn

## SECURITIES AFFAIRS

Securities Affairs Representative	: Ms. Wang Bihui
Correspondence address	: 23 Ciba Road, Kunming City, Yunnan Province, the PRC
Telephone number	: 86-871-6166623
Facsimile number	: 86-871-6166288
E-mail	: wangbh@kmtcl.com.cn
Registered office	: 23 Ciba Road, Kunming City, Yunnan Province, the PRC
Business address	: 23 Ciba Road, Kunming City, Yunnan Province, the PRC
Post code	: 650203
Website	: <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
E-mail	: <a href="mailto:dsh@kmtcl.com.cn">dsh@kmtcl.com.cn</a>
Designated newspapers for publishing	: China Securities Daily, Shanghai Securities News and Securities Times
Designated internet websites by CSRC for publishing annual report	: <a href="http://www.sse.com.cn">http://www.sse.com.cn</a> , <a href="http://kmtcl.com.cn">http://kmtcl.com.cn</a> , <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a>
Annual report available at	: Office Building, 23 Ciba Road, Kunming City, Yunnan Province, the PRC

# COMPANY INFORMATION

## SHARE LISTING

<b>Stock type</b>	<b>Stock exchange</b>	<b>Short name</b>	<b>Stock code</b>	<b>Short name before the change</b>
A Shares	Shanghai Securities Exchange	KUNMING MACHINE	600806	
H Shares	The Stock Exchange of Hong Kong Limited	KUNMING MACHINE	0300	

## OTHER RELEVANT INFORMATION

Date of incorporation	: 19th October 1993
Place of registration	: Yunnan Commercial and Industrial Administration Bureau
First change of registration date	: 29th March 2002
Second change of registration date	: 1st December 2007
Place of first change of registration	: Yunnan Commercial and Industrial Administration Bureau
Place of second change of registration	: Yunnan Commercial and Industrial Administration Bureau
Business registration number	: 530000400000458
Tax registration number	: 530111622602196
Organization code	: 62260219-6

## APPOINTED AUDITORS

Appointed auditor in the PRC	: Zonzun Accounting Office Limited
Address	: 4/F, Guoxing Building, 22 Capital Road South, Haiding District, Beijing, the PRC
Appointed auditor outside the PRC	: KPMG
Address	: 8/F, Prince's Building, 10 Chater Road, Central, Hong Kong

# FINANCIAL AND OPERATING HIGHLIGHTS

## I. PRINCIPAL ACCOUNTING DATA

### 1. In accordance with the PRC accounting standards (“PRC GAAP”)

<b>Item</b>	<i>Unit: RMB</i> <b>Amount</b>
Operating profit	292,024,056.18
Profit for the year	318,923,343.07
Net profit attributable to the equity shareholders of the Company	276,564,904.31
Net profit excluding non-recurring items attributable to the equity shareholders of the Company	250,747,388.75
Net cash flow from operating activities	120,047,854.09

### 2. In accordance with Hong Kong accounting standards (“Hong Kong GAAP”)

<b>Item</b>	<i>Unit: RMB’000</i> <b>Amount</b>
Profit from operations	310,524
Profit from continuing operations	281,086
Profit for the year attributable to equity shareholders of the Company	276,565

## II. DIFFERENCE BETWEEN THE PRC GAAP AND HONG KONG GAAP

<b>Item</b>	<i>Unit:RMB’000</i> <b>Net Profit</b>	<b>Net Assets</b>
Consolidated results in accordance with the PRC GAAP	276,565	1,041,231
Add: Gain on investment in jointly controlled entity(ies)	–	(8,869)
Adjustment on deferred gain	–	57
Amortisation of goodwill	–	(1,428)
Others	–	219
Consolidated results in accordance with Hong Kong GAAP	276,565	1,031,210

## III. NON-RECURRING ITEMS AND AMOUNTS EXCLUDED

<b>Non-recurring item</b>	<i>Unit:RMB</i> <b>Amount</b>
Gain on disposal of non-current assets	(3,045,328.00)
Tax refund, reduction or exemption with approval exceeding authority or without official approval	26,293,607.79
Gain arising from the excess of the fair value of identifiable net assets of the acquiree over the cost of investment in subsidiaries, associates and joint ventures acquired	3,450,495.78
Government grants	428,040.00
Gain arising from entrusted investment	153,205.48
Other non-operating income and expenses other than the above	(310,690.55)
Effect of minority interests	(1,844,742.23)
Effect of income tax	692,927.30
Total	<u>25,817,515.56</u>



# FINANCIAL AND OPERATING HIGHLIGHTS

## IV. PRINCIPAL ACCOUNTING DATA AND FINANCIAL HIGHLIGHTS FOR THE LATEST 3 YEARS DURING THE REPORTING PERIOD

### 1. In accordance with the PRC GAAP

*Unit: RMB*

Principal accounting data	2008	2007	Increase/ Decrease (%)	2006
Revenue	<b>1,563,105,398.47</b>	1,302,385,627.67	20.02	852,038,766.03
Profit for the year	<b>318,923,343.07</b>	297,182,435.72	7.32	124,463,951.85
Net profit attributable to equity shareholders of the Company	<b>276,564,904.31</b>	242,957,688.27	13.83	98,058,774.72
Net profit excluding non-recurring items attributable to equity shareholders of the Company	<b>250,747,388.75</b>	209,690,728.85	19.58	94,765,234.14
Basic earnings per share	<b>0.65</b>	0.57	13.83	0.23
Diluted earnings per share	<b>0.65</b>	0.57	13.83	0.23
Basic earnings per share excluding non-recurring items	<b>0.59</b>	0.49	19.58	0.22
Return on net assets (fully diluted) (%)	<b>26.56</b>	27.63	Decreased by 1.07 pts	15.41
Return on net assets (weighted average) (%)	<b>27.18</b>	32.06	Decreased by 4.88 pts	16.88
Return on net assets based on net profit excluding non-recurring items (fully diluted) (%)	<b>24.08</b>	23.85	Increased by 0.23 pts	14.89
Return on net assets based on net profit excluding non-recurring items (weighted average) (%)	<b>24.64</b>	27.67	Decreased by 3.03 pts	16.31
Net cash flow from operating activities	<b>120,047,854.09</b>	265,050,299.92	(54.71)	97,669,484.86
Net cash flow per share from operating activities	<b>0.28</b>	0.62	(54.71)	0.23
	<b>As at 31st December 2008</b>	<b>As at 31 December 2007</b>	<b>Increase/ Decrease (%)</b>	<b>As at 31 December 2006</b>
Total assets	<b>1,911,770,243.50</b>	1,779,007,685.99	7.46	1,271,079,886.17
Shareholders' equity	<b>1,041,230,512.25</b>	879,379,127.95	18.41	636,421,439.67
Net assets per share attributable to equity shareholders of the Company	<b>2.45</b>	2.07	18.41	1.50

### 2. In accordance with the Hong Kong GAAP

*Unit: RMB*

	2008	2007 (Restated)	Increase/ Decrease (%)	2006	2005	2004
Revenue ('000)	<b>1,523,382</b>	1,259,867	20.92	818,085	672,643	469,436
Profit (loss) for the year attributable to equity shareholders of the Company ('000)	<b>276,565</b>	241,452	14.54	102,529	11,001	(17,586)
Total assets ('000)	<b>1,909,520</b>	1,764,718	8.21	1,256,360	1,070,597	1,123,305
Total liabilities ('000)	<b>813,684</b>	821,368	(0.94)	557,262	488,358	561,467
Shareholders' equity ('000)	<b>1,031,210</b>	869,359	18.62	627,907	523,141	512,140
Earnings per share	<b>0.651</b>	0.568	14.61	0.241	0.045	(0.07)
Net assets per share	<b>2.43</b>	2.05	18.54	1.48	2.14	2.09
Return on net assets (%)	<b>26.82</b>	27.77	Decreased by 0.95 pts	16.33	2.10	(3.45)
Net assets per share after adjustment	<b>2.43</b>	2.05	18.54	1.48	2.14	2.09
Net cash flow per share from operating activities	<b>0.26</b>	0.67	(61.19)	0.14	0.42	0.47

## FINANCIAL AND OPERATING HIGHLIGHTS

### V. RETURN ON NET ASSETS AND EARNINGS PER SHARE DISCLOSED ACCORDING TO DISCLOSURE REQUIREMENT SET OUT IN ISSUE NO.9 OF “THE CONTENT AND FORMAT OF DISCLOSURE INFORMATION BY LISTED COMPANIES” ISSUED BY CSRC

Profit for the reporting period	Return on net assets (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Basic earnings per share	Diluted earnings per share
Net profit attributable to equity shareholders of the Company	26.56	27.18	0.65	0.65
Net profit excluding non-recurring items attributable to equity shareholders of the Company	24.08	24.64	0.59	0.59

### VI. MOVEMENT IN SHAREHOLDERS' EQUITY AND REASONS FOR THE CHANGE DURING THE REPORTING PERIOD

#### 1. In accordance with the PRC GAAP

*Unit: RMB'000*

Item	Share Capital	Capital Reserve	Surplus Reserve	Undistributed Profit	Total shareholders' equity
Opening balance	424,864.88	133,519.54	41,903.29	279,091.41	879,379.13
Net profit	–	–	–	276,564.90	276,564.90
Transfer to surplus reserve	–	–	26,695.85	(26,695.85)	–
Distribution of dividends	–	–	–	(114,713.52)	(114,713.52)
Closing balance	<u>424,864.88</u>	<u>133,519.54</u>	<u>68,599.14</u>	<u>414,246.95</u>	<u>1,041,230.51</u>

#### 2. In accordance with the Hong Kong GAAP

*Unit: RMB'000*

Item	Share capital	Share premium	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Undistributed profit	Total shareholders' equity
Opening balance	424,865	113,887	10,225	42,939	–	277,443	869,359
Change in share capital	–	–	–	–	–	–	–
Increase for the year	–	–	–	–	–	276,565	276,565
Transfer	–	–	–	26,696	–	(26,696)	–
Distribution of dividends	–	–	–	–	–	(114,714)	(114,714)
Closing balance	<u>424,865</u>	<u>113,887</u>	<u>10,225</u>	<u>69,635</u>	<u>–</u>	<u>412,598</u>	<u>1,031,210</u>



# CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

## I. CHANGES IN SHARE CAPITAL

### 1. Table of changes in share capital of the Company

*Unit: Share*

	Beginning of the year		Increase/Decrease during the year (+/-)					End of the year	
	Number of shares	Proportion (%)	Allotment	Bonus shares	Transfer from capital reserve	Others	Sub-total	Number of shares	Proportion (%)
A. Shares subject to selling restrictions									
1. State-owned shares	-	-	-	-	-	-	-	-	-
2. State-owned legal person shares	153,596,550	36.15	-	-	-	-	-	153,596,550	36.15
3. Other domestic shares	26,414,550	6.22	-	-	-	(21,243,244)	(21,243,244)	5,171,306	1.22
Including:									
Shares owned by domestic non-state-owned legal person	-	-	-	-	-	-	-	-	-
Shares owned by domestic nature person	-	-	-	-	-	-	-	-	-
4. Foreign owned shares	-	-	-	-	-	-	-	-	-
Including:									
Shares owned by foreign legal person	-	-	-	-	-	-	-	-	-
Shares owned by foreign nature person	-	-	-	-	-	-	-	-	-
<b>Total shares subject to selling restrictions</b>	<b>180,011,100</b>	<b>42.37</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(21,243,244)</b>	<b>(21,243,244)</b>	<b>158,767,856</b>	<b>37.37</b>
B. Circulating shares not subject to selling restrictions									
1. RMB ordinary shares	132,137,933	31.10	-	-	-	21,243,244	21,243,244	153,381,177	36.10
2. Domestic listed foreign shares	-	-	-	-	-	-	-	-	-
3. Overseas listed foreign shares	112,715,850	26.53	-	-	-	-	-	112,715,850	26.53
4. Others	-	-	-	-	-	-	-	-	-
<b>Total circulating shares not subject to selling restrictions</b>	<b>244,853,783</b>	<b>57.63</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>21,243,244</b>	<b>21,243,244</b>	<b>266,097,027</b>	<b>62.63</b>
C. Total number of shares	424,864,883	100.00	-	-	-	-	-	424,864,883	100.00

# CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

## 2. Changes in selling restricted shares

*Unit: Share*

Name of shareholders	Number of selling restricted shares at the beginning of the year	Number of selling restricted shares released for the year	Increase in the number of selling restricted shares	Number of selling restricted shares at the end of the year	Reasons for selling restrictions	Date of release of selling restrictions
Shenyang Machine Tool (Group) Co., Ltd.	106,578,219	-	-	106,578,219	Committed to hold as stated in the agreement	31st December 2010
Yunnan Industrial Investment Holding Group Co., Ltd.	47,018,331	-	-	47,018,331	Committed to hold as stated in the agreement	31st December 2010
Kunming Jinghua Co., Ltd.	26,414,550	21,243,244	-	5,171,306	5% of the total share capital will be traded after G+12 months, and not more than 10% of total share capital will be traded after G+24 months according to the share reform commitment	7th March 2009
Total	<u>180,011,100</u>	<u>21,243,244</u>	<u>-</u>	<u>158,767,856</u>		

*Note:* Kunming Jinghua Co., Ltd., a shareholder of the Company was interested in 26,414,550 shares of the Company, representing 6.22% of the total share capital of the Company. The 21,243,244 shares (representing 5% of the total share capital) held by such company were released from selling restrictions since 7th March 2008 and were tradable on Shanghai Stock Exchange. The remaining 5,171,306 shares (representing 1.22% of the total share capital of the Company) were also tradable on Shanghai Stock Exchange since 11th March 2009.

## II. ISSUANCE AND LISTING OF SECURITIES

### 1. Issuance of securities in the past three years

As at the end of this reporting period, no securities were issued and listed by the Company in the past three years.

### 2. Changes in total share capital and share structure

Please refer to the changes in share capital and relevant details.

### 3. Information of existing employee shares

As at the end of this reporting period, there were no employee shares.

# CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

## III. SHAREHOLDERS AND BENEFICIAL CONTROLLERS

### 1. Number of shareholders and shares held by them

Total number of shareholders as at the end of the reporting period

Unit: Share  
38,059

#### Shares held by the top ten shareholders

Name of shareholders	Nature of shareholders	Proportion (%)	Total number of shares held	Increase/Decrease during the reporting period	Number of selling restricted shares held	Number of shares pledged or frozen
HKSCC Nominees Limited	Foreign state-owned legal person	25.90	110,029,348	-	-	Unknown
Shenji Machine Tool (Group) Co., Ltd.	State-owned legal person	25.08	106,578,219	-	106,578,219	No
Yunnan Industrial Investment Holding Group Co., Ltd.	State-owned	11.07	47,018,331	-	47,018,331	No
Kunming Jinghua Co.	Domestic non-state legal person	5.44	23,132,913	-	5,171,306	No
China Minsheng Banking Corp. – Oriental Choiceness Mixed Opening Securities Investment Fund	Others	2.07	8,777,633	-	-	Unknown
China Construction Bank – ICBC Ruixin Dividend-stock Securities Investment Fund	Others	1.40	5,932,189	-	-	Unknown
Agriculture Bank of China – Taida Enterprise Stock Securities Investment Fund	Others	1.01	4,282,728	-	-	Unknown
Industrial and Commercial Bank of China – E Fund Value Growth Mixed Securities Investment Fund	Others	0.66	2,800,000	-	-	Unknown
Industrial and Commercial Bank of China – Nuoan Balance Securities Investment Fund	Others	0.47	2,000,000	-	-	Unknown
Bank of China – Huabao Fortune Dynamic Portfolio Securities Investment Fund (華寶興業動力組合股票型證券投資基金)	Others	0.47	1,995,379	-	-	Unknown

## CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

### Selling unrestricted shares held by the top ten shareholders

Name of shareholders	Number of selling unrestricted shares	Type of shares
HKSCC Nominees Limited	110,029,348	Overseas listed foreign shares
Kunming Jinghua Co.	17,961,607	RMB ordinary shares
China Minsheng Banking Corp. – Oriental Choiceness Mixed Opening Securities Investment Fund	8,777,633	RMB ordinary shares
China Construction Bank – ICBC Ruixin Dividend-stock Securities Investment Fund	5,932,189	RMB ordinary shares
Agriculture Bank of China – Taida Enterprise Stock Securities Investment Fund	4,282,728	RMB ordinary shares
Industrial and Commercial Bank of China – E Fund Value Growth Mixed Securities Investment Fund	2,800,000	RMB ordinary shares
Industrial and Commercial Bank of China – Nuoan Balance Securities Investment Fund	2,000,000	RMB ordinary shares
Bank of China – Huabao Fortune Dynamic Portfolio Securities Investment Fund (華寶興業動力組合股票型證券投資基金)	1,995,379	RMB ordinary shares
Bank of Communications – Putian Profit Securities Investment Fund (普天收益證券投資基金)	1,894,180	RMB ordinary shares
China Construction Bank – Fortune SGAM Industrial Selected Securities Investment Fund	1,865,169	RMB ordinary shares

### Explanation of the connected relationship or acting in concert relationship among the above shareholders

There is no connected relationship among the top ten shareholders of selling unrestricted circulating shares, legal person shareholders and state-owned legal person shareholders. The Company was not notified of any connected relationship or acting in concert relationship regulated by “Information Disclosure Management Procedure to Changes of Shareholding of Listed Company” among the top ten shareholders of selling unrestricted circulating shares of the Company. Among the top ten shareholders, there is no connected relationship among shareholders of selling restricted circulating shares. The Company was not notified by its shareholders that there was any relationship between the shareholders of selling restricted circulating shares and the shareholders of public shares; and any relationship among the shareholders of public shares.

Other than the substantial shareholders disclosed above, as at 31st December, 2008, there were no other shareholders whose shareholdings exceeded the amount required to be disclosed under Article 60 of “Administration of the Issuing and Trading of Shares Provisional Regulations” of the PRC and Issue no.2 of “The Content and Format of Disclosure of Information of the Listed Companies” (amended in 2005) and the register of substantial shareholders maintained under the requirement of reporting; and under Section 16(1) of the Securities and Futures Ordinance under the Hong Kong Exchanges and Clearing Limited, the Company was not notified of any interests representing 10% or more of the issued share capital of the Company.

Among top ten shareholders, there are four shareholders holding 5% or more of the Company's shares. They are HKSCC Nominees Limited, which holds the overseas listed foreign shares; Shenyang Machine Tool (Group) Co., Ltd., which holds the state-owned legal person shares; Yunnan Industrial Investment Holding Group Co., Ltd., which holds state-owned shares; and Kunming Jinghua Co., Ltd., which holds legal person shares. All of the shares held by these shareholders are not pledged, frozen, mortgaged, nor designated except the shares sold by Kunming Jinghua Co..

## CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

Notes:

- 1) HKSCC Nominees Limited holds shares on behalf of clients. The Company did not receive any notification from HKSCC Nominees Limited that any single H shareholder who held more than 10% in total share capital of the Company. Holders of H Shares who held more than 5% of total issued H Shares are as follows: on 13th November 2008, the Company received a notification that Chilton Investment Company Inc. held 15,731,713 H Shares of the Company, representing 13.96% of total issued H Shares of the Company and 3.55% of total issued shares of the Company.
- 2) Save as disclosed above, the Directors were not notified by any person (who is not a Director or a chief executive officer) who owns the interest or short position in the shares or underlying shares of the Company and shall be disclosed to the Company in compliance with the requirements as stated in Division 2 and 3 of Part XV of Securities and Future Ordinance ("SFO"), or the interest or short position that shall be included in the prescribed register in accordance with section 336 of SFO.
- 3) On 11th March 2009, the 24 months selling restricted period for trading the shares of the Company held by Kunming Jinghua Co., a shareholder of the Company, was expired. From 11th March 2009, 26,414,550 shares of the Company (representing 6.22% of the total issued capital) held by Kunming Jinghua Co. were tradable on Shanghai Stock Exchange.

As at 16th February 2009, Kunming Jinghua Co. sold a total of 5,468,085 shares of the Company (representing 1.29% of the total issued share capital). Such company was interested in 20,946,465 shares of the Company, representing 4.93% of the total share capital of the Company.

This issue was announced in according to the regulation – *Notice Of Supervising The Shareholders Of Listed Companies Implementing The Rules On Lessening Terminated Selling Restricted Shareholding* issued by Shanghai Stock Exchange.

### 2. Number of shares held by the top ten shareholders of selling restricted shares and the conditions of selling restriction

Unit: Share

No.	Name of shareholders of selling restricted shares	Number of selling restricted shares held	Trading of selling restricted shares		Conditions of selling restriction
			Date of trading	Number of additional shares to be traded	
1.	Shenyang Machine Tool (Group) Co., Ltd.	106,578,219	31st December 2010	-	Committed to hold as stated in the agreement
2.	Yunnan Industrial Investment Holding Group Co., Ltd.	47,018,331	31st December 2010	-	Committed to hold as stated in the agreement
3.	Kunming Jinghua Co.	5,171,306	11th March 2009	21,243,244	5% of the total share capital will be traded after G+12 months, and not more than 10% of total share capital will be traded after G+24 months according to the share reform commitment

### 3. Description of agreed holding period of shares in respect of strategic investors and general legal persons involved in the placing of new shares

Name of strategic investors and general legal persons	Agreed holding period of shares
Shenyang Machine Tool (Group) Co., Ltd.	31st December 2010
Yunnan Industrial Investment Holding Group Co., Ltd.	31st December 2010

Note: Committed to hold until 31st December 2010 as stated in the agreement.

## CHANGES IN SHARE CAPITAL AND SHAREHOLDERS

### 4. Controlling shareholder and beneficial controller

(1) *Legal controlling shareholder*

Unit: RMB'000

Name	Legal representative	Registered capital	Date of incorporation	Principal activities
Shenyang Machine Tool (Group) Co., Ltd.	Guan Xiyou	712,840	18th December 1995	Manufacturing of metal cutting machines, CNC machines and mechanical equipment

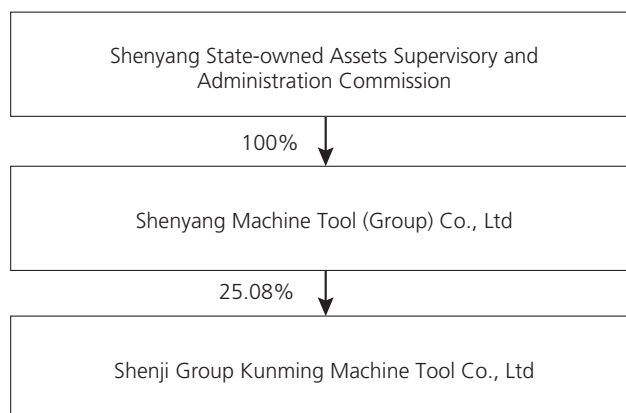
(2) *Legal beneficial controller*

Name: Shenyang State-owned Assets Supervision and Administration Commission

(3) *Changes in controlling shareholder and beneficial controller*

During the reporting period, there was no change in controlling shareholder and beneficial controller.

(4) *Shareholding and controlling relationships between the Company and the beneficial controller*



### 5. Other legal person shareholders holding over 10% shares of the Company

Unit: RMB

Name of shareholder	Legal representative	Registered capital	Date of incorporation	Principal operating or managing activities
Yunnan Industrial Investment Holding Group Co., Ltd.	Gong Lidong	4,600,000	October 2000	Engages in investment, financing, and assets operation and management, merger and acquisition of enterprises, stock trading, state-owned assets trusted management and trusted disposal in various industries and different business; domestic and international trade; other businesses approved by the Yunnan Provincial Government

Note: Yunnan Industrial Investment Holding Group Co., Ltd. was formerly known as Yunnan State-owned Assets Operation Co., Ltd..



# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS

## I. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS

Name	Title	Gender	Age	Date of appointment	Number of shares held as at 1st January 2008	Number of shares held as at 31 December 2008	Increase/Decrease in the number of shares	Reasons for the change	Remuneration and allowances received	Unit: Share	
										Total emoluments received during the reporting period (RMB'0000) (before tax)	Remuneration and allowances received from shareholder's business unit or other associated business unit
Gao Minghui	Chairman, Executive director Former general manager	Male	45	30th December 2006 to 31st October 2011 23rd October 2007 to 29th April 2008	-	-	-	-	Yes	27.04	Yes
Li Zhenxiong	Vice chairman	Male	46	23rd March 2007 to 31st October 2011	-	-	-	-	No	-	Yes
Zhang Xiaoyi	Vice chairman, Executive director General manager Former vice general manager	Male	44	31st October 2008 to 31st October 2011 29th April 2008 to 31st October 2011 1st November 2002 to 29th April 2008	-	-	-	-	Yes	67.46	
Pi Jianguo	Executive director Financial controller	Male	37	23rd March 2007 to 31st October 2011 30th December 2006 to 31st October 2011	-	-	-	-	Yes	51.32	
Sun Kai	Non-executive director	Male	42	30th September 2006 to 31st October 2011	-	-	-	-	Yes	4.26	
Wang Sheng	Non-executive director	Male	43	30th September 2006 to 31st October 2011	-	-	-	-	Yes	4.26	
Wang Xing	Non-executive director	Male	43	23rd March 2007 to 31st October 2011	-	-	-	-	Yes	4.26	
Zhang Tao	Non-executive director	Male	38	31st October 2008 to 31st October 2011	-	-	-	-	No	-	
Wayne Yu	Independent non-executive director	Male	45	16th June 2005 to 31st October 2011	-	-	-	-	Yes	17.14	
Liu Minghui	Independent non-executive director	Male	44	23rd March 2007 to 31st October 2011	-	-	-	-	Yes	11.43	
Chen Ying	Independent non-executive director	Male	55	23rd March 2007 to 31st October 2011	-	-	-	-	Yes	11.43	
Li Dongru	Independent non-executive director	Female	53	29th June 2007 to 31st October 2011	-	-	-	-	Yes	11.43	
Shao Li	Chairman of the Supervisory Committee Former Executive director	Male	50	31st October 2008 to 31st October 2011 13th June 2008 to 31st October 2008	-	-	-	-	Yes	22.48	
Zhang Weiming	Supervisor	Male	51	23rd March 2007 to 31st October 2011	-	-	-	-	Yes	2.76	
Gao Xingang	Supervisor	Male	38	31st October 2008 to 31st October 2011	-	-	-	-	Yes	0.46	
Fan Hong	Supervisor	Male	45	31st October 2008 to 31st October 2011	-	-	-	-	No	-	
Xiang Rong	Supervisor	Male	43	31st October 2008 to 31st October 2011	-	-	-	-	Yes	10.57	
Ye Nong	Vice general manager	Male	48	30th December 2006 to 31st October 2011	-	-	-	-	Yes	51.79	
Zhu Xiang	Vice general manager	Male	43	20th August 2007 to 31st October 2011	-	-	-	-	Yes	53.33	
Zhou Guoxing	Vice general manager	Male	46	10th April 2006 to 31st October 2011	-	-	-	-	Yes	48.34	
Luo Tao	Secretary to the Board	Male	33	28th May 2008 to 31st October 2011	-	-	-	-	Yes	27.26	
Zhang Hanrong	Former vice chairman Former general manager	Male	44	1st November 2002 to 31st October 2008 1st November 2002 to 23rd October 2007	-	-	-	-	Yes	24.76	
Song Xingju	Former vice chairman, non-executive director	Male	41	23rd March 2007 to 31st October 2008	-	-	-	-	No	-	Yes
Li Hongshu	Former chairman of the Supervisory Committee	Male	60	23rd March 2007 to 31st October 2008	-	-	-	-	No	-	
Yan Shiwen	Former supervisor	Male	54	30th October 2007 to 31st October 2008	-	-	-	-	Yes	2.76	
Zhao Qiongfeng	Former employee supervisor	Female	46	30th December 2006 to 31st October 2008	-	-	-	-	Yes	15.39	
Shen Guorong	Former non-executive director Former supervisor	Male	62	23rd March 2007 to 28th February 2008 1st November 2008 to 23rd March 2007	1,468	1,468	-	-	Yes	7.10	
Yu Yan	Former secretary to the Board	Female	37	30th December 2006 to 28th May 2008	-	-	-	-	Yes	10.32	

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS

### Major working experience of Directors, Supervisors and Senior Management in the past 5 years:

1. **Gao Minghui**, male, born in 1963, holding a bachelor degree and postgraduate qualification. He is currently the chairman of the Board, executive director and committee secretary of CCP of the Company. He graduated from the Northeastern University majoring in engineering in 1988. Mr. Gao was a researcher, deputy manager and manager of the Research and Development Department of Shenyang First Machine Tool Factory. Then he was the deputy chief engineer, assistant to general manager, deputy general manager, and general manager of Shenyang First Machine Tool Factory. Starting from January 2002, he had also been as the deputy general manager of Shenyang Machine Tool Co., Ltd.. He had been the chairman of the board of directors of Yunnan Machine Tool Factory (now known as Yunnan CY Group Co., Ltd. since the change of name in 2006) from August 2004. Since 2006, he had been the chairman of Shenyang Machine Tool (Group) Co., Limited. He was appointed as the director of the Company on 30th October 2006, and the Chairman of the Company on 30th December, 2006. During 23rd October 2007 to 29th April 2008, he was also the general manager of the Company. His tenure of appointment will expire on 31st October 2011.
2. **Li Zhenxiong**, male, born in May 1962, holding a bachelor degree and is an assistant economist. Mr. Li joined Kunming Machine Tool Factory in 1985 and worked as the technician for construction and the head of construction team. During October 1993 to July 2002, he was the general manager and secretary to the committee of CCP of Kunming Kunji Group Construction Company. Since August 2002, he has acted as the general manager assistant, member of party committee, vice general manager and general manager of Kunming Kunji Group Company. He is now the vice general manager of Yunnan Industrial Investment Holding Group Co., Ltd.. Her tenure of appointment will expire on 31st October 2011.
3. **Zhang Xiaoyi**, male, born in April 1964, holding a bachelor degree and is a senior engineer. He is currently the general manager and member of the committee of CCP of the Company. Mr. Zhang joined Kunming Machine Tool Factory in 1985. He has extensive experience in machinery design and technology management. He worked as the deputy manager, manager of the technical center of the Company, general manager assistant and chief engineer, vice general manager of the Company. His tenure of appointment will expire on 31st October 2011.
4. **Pi Jianguo**, male, born in July 1971, holding a bachelor degree and is a certified public accountant, certified assets estimator, certified tax commissioner and senior accountant. He is currently the executive director and chief financial officer of the Company. During October 1999 to January 2002, Mr. Pi worked in the Industrial Department of Chuxiong State-owned Assets Company. During January 2002 to April 2005, he was the vice manager of the Auditing Department of Yunnan Huitong Accounting Firm. During May to December, 2005, he worked for Yunnan State-owned Assets Operation Co., Ltd.. His tenure of appointment will expire on 31st October 2011.
5. **Sun Kai**, male, born in 1966, holding a master degree and postgraduate qualification and is a senior accountant. He graduated from Dongbei University of Finance & Economics majoring in finance in 1989. He worked as the deputy manager of the Import and Export Department of Liaoning Provincial Medical Appliance Company; general manager assistant of Liaoning Trust and Investment Company; head of Finance Section of Liaoning Province Government; manager of the Finance and Accounting Department, secretary to the board, director and vice general manager of Shenyang Machine Tool Co., Ltd.. He had held the positions of director and vice general manager of Shenyang Machine Tool (Group) Co., Ltd. since 2006. On 30th October, 2006, he was appointed as the director of the Company. His term of appointment will expire on 31st October 2011.
6. **Wang Sheng**, male, born in 1965, is a member of the Committee of CPC. He graduated from Shenyang Industry University with a bachelor degree in Engineering in July 1986. In July 1989, he graduated from Dalian Polytechnic University with a master degree. Since July 1987, he had worked as the technician, deputy section chief, deputy chief engineer, deputy general manager, general manager, and secretary to the Committee of CPC of Zhong Jie You Yi Machine Tool Factory. From January 2006, he has been the deputy general manager of Shenyang Machine Tool (Group) Co., Ltd.. On 30th October 2006, he was appointed as the director of the Company. His term of appointment will expire on 31st October 2011.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS

7. **Wang Xing**, male, born in 1965. He graduated from Harbin University of Science and Technology majoring in auditing in 1989. He is currently an undergraduate of the MPACC at Dongbei University of Finance and Economics. In 1989, he was with the Auditing Department of Shenyang First Machine Tool Factory. In early 1996, he worked for the Finance Department of Shenyang Machine Tool (Group) Co., Ltd.. Later that year he joined the liquidation team of Shenyang Third Machine Tool Factory. In January 2001, he acted as the vice general manager and the head of Finance Department of Zhong Jie Machine Tool Co., Ltd.. At the end of 2003, he worked as the vice general manager and the head of Finance Department of Shenyang CNC Machine Tool Co., Ltd.. From 2006, he was the director and the head of Finance Department of Shenyang Machine Tool (Group) Co., Ltd.. Since March 2007, he has held the positions of vice general manager and the head of Finance Department of Yunnan CY (Group) Co., Ltd.. On 23rd March 2007, he was appointed as the director of the Company. His tenure of appointment will expire on 31st October 2011.
8. **Zhang Tao**, male, born in June 1970, holding a bachelor degree and is an engineer. Mr. Zhang graduated from the Department of Architecture of Yunnan Industrial University majoring in city roads and bridges. During July 1991 to December 1993, he worked as the technician and subsequently the assistant engineer for the Kunming railroad second maintenance team under Chengdu Railroad Bureau. During December 1993 to May 1996, he was the secretary to the office of Kunming Railroad Bureau. During May 1996 to June 2004, he worked as the vice manager, manager and the vice chairman of the Labor Union of Yunnan Guangda Railroad Co., Ltd.. During June 2004 to March 2008, he held the positions of office manager, secretary to the board, general manager assistant and vice chief engineer at Dianxi Railroad Co., Ltd.. Since March 2008, he has been the vice manager of Investment Department of Yunnan Industrial Investment Holding Group Co., Ltd.. His tenure of appointment will expire on 31st October 2011.
9. **Wayne Yu**, male, born in 1963, holding a doctorate degree in finance and a master degree in economics. He is a Chartered Financial Analyst (CFA) of Hong Kong Polytechnic University. During 1998 to 1999, he was an associate professor of the Faculty of Business at Queen's University in Canada; during 1996 to 1998, he was an associate professor of the Faculty of Management at University of Lethbridge in Canada; during 1994 to 1995, he was a visiting professor of the Faculty of Management at Xi'an Jiaotong University; during 1992 to 1996, he was a part-time demonstrator of the Faculty of Business at University of Alberta in Canada. He is now the Chief Editor of "China Accounting and Finance Review", associate professor of the Faculty of Accounting and Finance at Hong Kong Polytechnic University and specialized professor of the Faculty of Accounting at Shanghai University of Finance and Economics. His tenure of appointment will expire on 31st October 2011.
10. **Liu Minghui**, male, born in 1964, is a professor and tutor of doctoral students and certified public accountant. During August 1987 to May 2000, he was an assistant lecturer, lecturer, associate professor and professor in Dongbei University of Finance and Economics. Since May 2000, he has been a tutor of doctoral students. During March 2001 to January 2004, he was the head of Jinqiao Faculty of Business at Dongbei University of Finance and Economics. During January 2004 to October 2004, he was the general manager of Dongbei University of Finance and Economics Magazine Company. From October 2004, he has held the positions of vice president of Dalian Newspaper Group and president of Dalian Publisher. He is also the director, vice-secretary general of China Accounting Association, a president of a branch of Cost Accounting Association, a president of a branch of Cost Accounting Association, director of China Auditing Association etc.. His tenure of appointment will expire on 31st October 2011.
11. **Chen Ying**, male, born in 1953, is a senior engineer. During 1997 to 1999, he was the chairman and general manager of Yunnan Transformer Co., Ltd.. During 1999 to 2003, he was the chairman of Yunnan Transformer Electric Co., Ltd.. During 2000 to 2003, he was the chairman and general manager of Kunming Securamid Electric Co., Ltd. During 2003 to 2004, he was the Mayor Assistant of Kunming City. During 2004 to 2006, he was the vice mayor of Kunming City. Since April 2006, he has been the chairman of Yunnan Transformer Electric Co., Ltd.. His tenure of appointment will expire on 31st October 2011.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS

12. **Li Dongru**, female, born in 1955, Han nationality, a member of the Committee of CPC, professional senior engineer, holding postgraduate qualification. Ms Li is working at the China Machinery Industry Federation (the "Federation"). Starting from January 2001, she has been the manager of the Science and Technology Department of the Federation and is responsible for the management of the machinery industry. During the periods of the Ninth-Five and Tenth-Five year plans, she organized or managed several state-level science and technology development large projects such as "數控技術與裝備工程化的研究與開發" and "新一代數控系統平臺的開發研究" etc.. Her tenure of appointment will expire on 31st October 2011.
13. **Shao Li**, male, Han nationality, born in 1958, holding a master degree and is deputy researcher. He is currently the deputy secretary to the Committee of CPC. Mr. Shao joined the Second Light Industry Bureau of Kunming City in February 1984 as a deputy office manager. In May 1987, he worked for Publicity Department under the Committee of CPC in Kunming City as the office manager, and subsequently the assistant to the director of the department. In December 1992, he worked for Research Center of Kunming City Government as a deputy director. In August 2000, he worked for the Enterprises Union Department under the Committee of CPC in Yunnan Province as the deputy office manager and subsequently the director of the research center. In February 2003, he worked for Yunnan State-owned Assets Supervision and Administration Commission as the director of Policy and Statute Department. Since October 2007, Mr. Shao has been the deputy secretary to the Committee of CPC of the Company. His tenure of appointment will expire on 31st October 2011.
14. **Zhang Weiming**, male, born in 1957, holding postgraduate qualification and is a senior economist. He graduated from the Party School of the Liaoning Committee of CPC majoring in economics management in 1997. Since 1983, he had been the secretary to the Youth League of Shenyang Lubricating Oil Pump Plant, secretary to the Enterprises Management Bureau of Shenyang Municipal Government, Vice Director of Economic Planning Department of Shenyang Municipal Government etc.. From January 2003, he has held the positions of vice secretary to the Committee of CPC, secretary to the Disciplinary Inspection Committee, and chairman of the Labor Union of Shenyang Machine Tool (Group) Co., Ltd.. His tenure of appointment will expire on 31st October 2011.
15. **Gao Xingang**, male, born in 1970, holding a bachelor degree and is a senior accountant. He graduated from Dongbei University of Finance & Economics majoring in accounting in 1990. Starting from 1994, he had been the accountant of Liaoning Trust and Investment Company and the head of the Financial Department of an enterprise under Liaoning Trust and Investment Company. Since 2004, he had been the associate director of the Financial Department of Shenyang Machine Tool (Group) Co., Ltd., head of the Financial Department and chief financial officer of the Whole Machine Business Department of Shenyang Machine Tool Co., Ltd.. Since June 2008, he has been the director of the Internal Audit Department of Shenyang Machine Tool (Group) Co., Ltd. His tenure of appointment will expire on 31st October 2011.
16. **Fan Hong**, male, born in June 1963, holding a bachelor degree and is an engineer. Mr. Fan graduated from Jiangxi University of Finance & Economics majoring in finance in 1987. During July 1987 to September 1992, he worked for the Provincial Department of Finance of Yunnan. During August 1992 to February 2005, he worked as the department manager for Yunnan International Trust and Investment Company. Since February 2005, he has held the positions of trust department manager, risk control department manager and policy and statute department manager. His tenure of appointment will expire on 31st October 2011.



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS

17. **Xiang Rong**, male, is currently the supervisor and head and director of the Committee of CPC Affairs Department (黨群工作部負責人、部長), born in April 1965, holding a bachelor degree. During August 2003 to May 2005, Mr. Xiang was a member of the Committee of the CPC of Kunming Kunji Group, integrated office manager, and the director of the Committee of CPC Affairs Department. During May 2005 to December 2007, Mr. Xiang was a member of the Committee of the CPC of Kunming Kunji Group, chairman of the Union and the manager of the integrated office, responsible for the Union, the Committee of CPC Affairs Department and Retirement Management Department. His tenure of appointment will expire on 31st October 2011.
18. **Ye Nong**, male, is currently the vice general manager of the Company, born in November 1960, holding college diploma and is an engineer. During February 2000 to May 2002, he was the manager of the Technology Department of Shenyang Machine Tool (Group) and vice president of Shenyang Machine Tool Design Institute. During May 2002 to December 2003, he was the manager of the Quality Control Department of Zhongjie Machine Tool Co., Ltd.. He was the manager of Production Department during December 2003 to June 2006. Since June 2006, he has held the positions of general manager assistant and vice general manager of the Company. His tenure of appointment will expire on 31st October 2011.
19. **Zhu Xiang**, male, is currently the vice general manager, born in April 1966. He graduated from Beijing Institute of Technology majoring in optical instruments in July 1988. He joined Kunming Machine Tool Factory in 1988. He has extensive experience in machine tool products design and sales management. He has held the positions of vice director of Assembly Sub-Plant of Kunming Machine Tool Factory, deputy director of the Technology Centre, vice manager of the Sales Department, manager of Sales Company, general manager assistant, and vice general manager of the Company. His tenure of appointment will expire on 31st October 2011.
20. **Zhou Guoxing**, male, is currently the vice general manager of the Company, born in November 1962, holding a master degree and is a senior engineer. Mr. Zhou joined Kunming Machine Tool Factory in 1987 and has extensive experience in machine tool designation and production management. He was the manager of the Laboratory of the Company; vice manager and manager of the Technical Center; deputy chief engineer; manager of the Manufacture Center; general manager assistant and the head of the assembly sub-plant; chief engineer and vice general manager of the Company. His tenure of appointment will expire on 31st October 2011.
21. **Luo Tao**, male, is currently the secretary to the Board of the Company, born in July 1975, holding a bachelor degree and postgraduate qualification. During July 2000 to December 2001, he worked for Yunnan Ying Mao (Group) Co., Ltd. as the treasurer and subsequently the accountant. Since January 2002, he had been the manager of the Financial and Accounting Department of Yunnan Ying Mao Biological Agriculture Co., Ltd.. From April 2004, he was also the accounting department manager of Yunnan Ying Mao Flower Co., Ltd.. Since April 2005, he had been the secretary to the board of Yunnan Pharmaceutical Group. Starting from October 2005, he has held the positions of assistant secretary to the Board and the manager of the office of the Board of the Company, manager of the office of general manager and securities affairs representative. His tenure of appointment will expire on 31st October 2011.
22. **Zhang Hanrong**, male, was formerly the vice-chairman and non-executive director of the Company and is currently the chairman of Xi'an Jiaotong University Science & Technology Park Co., Ltd., and vice and general manager of Xi'an Jiaotong University Assets Operation Co., Ltd.. He joined the Group in August 2001 and has held the positions of deputy general manager, general manager and vice chairman of the Group. On 1st November, 2002, he was appointed as the director of the Company and resigned as the general manager of the Company for reshuffling on 23rd October 2007. His tenure of appointment expired on 31st October 2008.

## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS

23. **Song Xingju**, male, was formerly the vice chairman and non-executive director of the Company, born in February 1967, holding a master degree and is an assistant economist. During July 1986 to June 1997, he worked for Yunnan Provincial Bureau of Finance and held the position as the accountant and subsequently the manager. During July 1997 to August 1999, he was the vice head of Jinping county. During September 1999 to October 2000, he was the vice general manager of Yunnan State-owned Assets (Holding) Operation Company. Since October 2000, he has been the vice general manager of Yunnan State-owned Assets Operation Co., Ltd. His tenure of appointment was from 23rd March 2007 to 31st October 2008.
24. **Li Hongshu**, male, was formerly the chairman of the Supervisory Committee of the Company, born in July 1948, holding college diploma and is a senior economist. During January 1995 to August 2000, he was the director of the Transportation Department of Economic and Trade Committee of Yunnan Province. From August 2000, he had been the general manager of Yunnan State-owned Operation Co., Ltd. Since December 2004, he has been the secretary to the Committee of CPC. On 23rd March 2007, he was appointed as the supervisor of the Company. His tenure of appointment expired on 31st October 2008.
25. **Yan Shiwen**, male, was formerly the supervisor of the Company, born in 1953, holding a master degree. Since January 2002, he had been the secretary to the Committee of CPC of Shenyang First Machine Tool Factory, secretary to Disciplinary Inspection Committee, vice general manager of the Human Resource Department and the chairman of the Labor Union of Shenyang First Machine Tool Factory. Starting from March 2007, he has held the positions of secretary to Disciplinary Inspection Committee and the director of the Disciplinary Supervision Department of Shenyang Machine Tool (Group) Co., Ltd.. On 30th October 2007, he was appointed as the supervisory of the Company. His tenure of appointment expired on 31st October 2008.
26. **Zhao Qiongfeng**, female, was formerly the employee supervisor of the Company, born in 1962, holding college diploma and is an assistant accountant. She joined Kunming Machine Tool Factory in 1980 and worked in the Finance and Accounting Department. She became the vice manager of the Finance and Accounting Department of Kunming Machine Tool Co., Ltd. in June 1997. Since December 1999, she has been the manager of the Finance and Accounting Department. From August 2003, she has also been the general manager assistant and head of the Finance Department of Kunming Machine Tool Co., Ltd.. On 30th December 2006, she was appointed as the employee supervisor of the Company. Her term of appointment expired on 31st October 2008.
27. **Shen Guorong**, male, was formerly the director of the Company, born in 1948, holding college diploma. He joined Kunming Machine Tool Factory in 1968. He has extensive experience in labour and human resource management. Since 1995, he has held the positions of vice section chief and section chief of the Organization Department of the Committee of CPC of the factory, the vice head and the head of Labour and Personnel Department of the factory, and the general manager and secretary to the Committee of CPC of Kunming Kunji (Group). Starting from November 2002, he has been the supervisor of the Company. His term of supervisorship was from 1st November 2005 to 23rd March 2007. On 28th February 2008, he resigned as director for retirement. His term of directorship was from 23rd March 2007 to 28th February 2008.
28. **Yu Yan**, female, was formerly the secretary to the Board of the Company, born in December 1971, holding postgraduate qualification. She is a certified public accountant, certified tax commissioner, accountant and auditor. She joined the Company in November 2002 as the auditing manager, officer to the Board and chief financial officer. On 28th May 2008, she resigned as secretary to the Board of the Company. Her term of appointment expired on 28th May 2008.



## DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS

### II. POSITIONS IN SHAREHOLDER'S BUSINESS UNIT

Name	Shareholder's business unit	Position	Remuneration and allowances received
Li Zhenxiong	Yunnan Industrial Investment Holding Group Co., Ltd.	Vice general manager	Yes
Sun Kai	Shenyang Machine Tool (Group) Co., Ltd.	Vice general manager	Yes
Zhang Tao	Yunnan Industrial Investment Holding Group Co., Ltd.	Deputy manager of the Investment Department	Yes
Zhang Weiming	Shenyang Machine Tool (Group) Co., Ltd.	Vice chairman and secretary to the Committee of CPC	Yes
Gao Xingang	Shenyang Machine Tool (Group) Co., Ltd.	Director of the Internal Audit Department	Yes
Fan Hong	Yunnan Industrial Investment Holding Group Co., Ltd.	Manager of the Policy and Statue Department	Yes

### Positions in Other Business Units

Name	Other business unit	Position	Remuneration and allowances received
Gao Minghui	Shenyang Machine Tool (Group) Kunming Co., Ltd.	Chairman	
	Yunnan CY Group Co., Ltd.	Chairman	
Zhang Xiaoyi	Kunming Kunji General Machine Co., Ltd.	Chairman	No
	Xi'an Ser Turbo Machinery Manufacturing Co., Ltd.	Vice chairman	Yes
	TOS Kunming Machine Tool Manufacturing Co., Ltd.	Vice chairman	Yes
	Kunji Transportation Co., Ltd.	Chairman	No
	Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd.	Director	Yes
Pi Jianguo	Xi'an Ser Turbo Machinery Manufacturing Co., Ltd.	Director	Yes
Wang Xing	Yunnan CY Group Co., Ltd.	Vice general manager	Yes
	Shenyang Machine Tool (Group) Kunming Limited	Vice general manager	Yes
	Xi'an Ser Turbo Machinery Manufacturing Co., Ltd.	Director	Yes
Wayne Yu	Faculty of Finance at Hong Kong Polytechnic University	Associate professor, CFA	Yes
	Faculty of Accounting at Shanghai University of Finance and Economics	Specialized professor	Yes
Liu Minghui	Dalian Newspaper Group	Vice president	Yes
	Dalian Publisher	President	Yes
Chen Ying	Yunnan Transformer Co., Ltd.	Chairman	Yes
Li Dongru	China Machinery Industry Federation	Manager of the Science and Technology Department	Yes
Zhou Guoxing	TOS Kunming Machine Tool Manufacturing Co., Ltd.	Member of controlling committee	Yes
Ye Nong	TOS Kunming Machine Tool Manufacturing Co., Ltd.	Director	Yes
Zhu Xiang	Kunming Kunji General Machine Co., Ltd.	Director and general manager	No
	Xi'an Ser Turbo Machinery Manufacturing Co., Ltd.	Director	Yes
	Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd.	Director	Yes

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS

## III. EMOLUMENTS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS

1. The procedures for the determination of directors, supervisors and senior management's emoluments: the emoluments of directors and supervisors of the Company will be considered and approved at the shareholders' meeting; the emoluments of senior management officers are determined based on the terms of reference of the senior management officers in accordance with the remuneration policies formulated by the Remuneration and Assessment Committee of the Company, and assessed with reference to the profit indicators, operating indicators and business development indicators accomplished by the senior management officers for the year, and the improvement in quality of the assets of the Company. The results of the performance assessment results for the year, together with rewards and penalties proposed by the Remuneration and Assessment Committee, will be implemented with the approval from the Board.
2. Basis for emoluments of directors, supervisors and senior management officers
  - (1) general information of the emoluments of domestic directors and supervisors;
  - (2) general information of the emoluments of Hong Kong directors and supervisors;
  - (3) emoluments of senior management officers are based on the domestic industry practice and emoluments of the comparable listed companies in the region;

## IV. CHANGE OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS

Name	Position	Reasons for the change
Li Zhenxiong	Appointed as the vice chairman of the Company	Reshuffling
Zhang Xiaoyi	Appointed as vice chairman and general manager of the Company	Reshuffling
Zhang Tao	Appointed as the non-executive director of the Company	Reshuffling
Shao Li	Appointed as the chairman of the Supervisory Committee of the Company	Reshuffling
Gao Xingang	Appointed as the supervisor of the Company	Reshuffling
Fan Hong	Appointed as the supervisor of the Company	Reshuffling
Xiang Rong	Appointed as employee supervisor of the Company	Reshuffling
Luo Tao	Appointed as secretary to the Board of the Company	Reshuffling
Zhang Honrong	Resigned as vice chairman and non-executive director of the Company	Expiry of tenure
Song Xingju	Resigned as the vice chairman and non-executive director of the Company	Expiry of tenure
Li Hongshu	Resigned as the chairman of the Supervisory Committee of the Company	Expiry of tenure
Yan Shiwen	Resigned as supervisory of the Company	Expiry of tenure
Zhao Qiongfeng	Employee supervisor of the Company not yet assumed	Expiry of tenure
Shen Guorong	Resigned as non-executive director of the Company	Retirement
Yu Yan	Resigned as secretary to the Board of the Company	Reshuffling

# DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS

## V. COMPANY STAFF

### 1. Areas of specialization

Areas of specialization	Number of Employees
1. Staff	
No. of existing staff	2,733
Of which: Production worker	1,840
Skilled technician	348
Sales and marketing	54
Finance	52
Administration	135
General services	33
Early retirement	215
Staff pending for duties	54
Others	2

### 2. Education level

Education level	Number of Employees
2. Qualifications	
Of which: Postgraduate	14
University graduate	300
College diploma	430
Diploma	414
High school or vocational school	789
Junior high school or below	786
3. Title	
Of which: Senior	46
Intermediate	135
Junior	224

# CORPORATE GOVERNANCE STRUCTURE

## I. CORPORATE GOVERNANCE

The Company strictly complies with the “Company Laws”, the “Securities Laws”, relevant laws and regulations issued by the CSRC and the Listing Rules of Shanghai Securities Exchange (上海證券交易所的有關規定) to establish a modern enterprise system, continuously improve its corporate governance and regulate the operations of the Company. Various systems of the Company are substantially in compliance with the requirements of the “Corporate Governance Standards of Listed Company” promulgated by the CSRC and the State Economic and Trade Commission. The Company will continue to improve and strengthen the internal control system in the course of ordinary operation so as to strive for the highest standards of corporate governance.

*Note:* Please refer to IV. THE ESTABLISHMENT AND SITUATION OF THE COMPANY’S INTERNAL CONTROL SYSTEM for details.

## II. INDEPENDENT NON-EXECUTIVE DIRECTORS AND THEIR DUTIES

### 1. Attendance of Independent Non-executive Directors at the Board Meetings

Please refer to the board meetings for the year and attendance for details.

### 2. Objections raised by Independent Non-executive Directors

During the reporting period, there were no objections raised by independent non-executive directors at the board meetings and other non-board meetings for the year.

## III. SEGREGATION OF THE COMPANY AND THE COMPANY’S CONTROLLING SHAREHOLDER ON THE OPERATIONS, PERSONNEL, ASSETS, STRUCTURE AND FINANCE

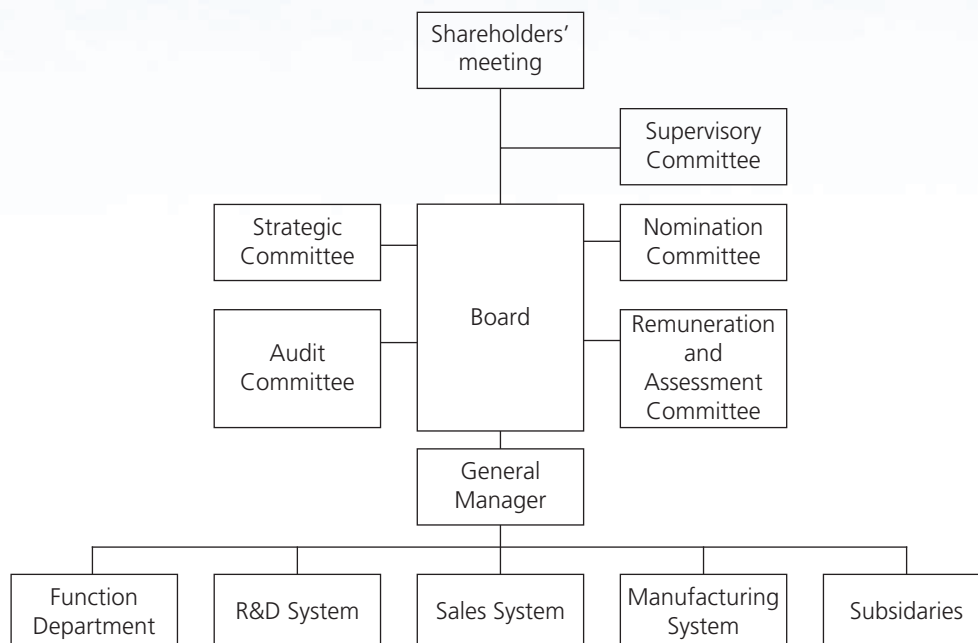
Operations	The Company has established an independent and complete system of procurement, production and sales with its operations completely independent of the controlling shareholder and its own operating capacity.
Personnel	The human resources and payroll management of the Company are completely independent of the controlling shareholder. No emoluments are received by the operating personnel of the Company from the shareholders’ business unit or other business unit.
Assets	The Company and the controlling shareholder have clearly defined rights to the assets where the assets of the Company are completely independent of the controlling shareholder with legal person property rights.
Organizational structure	The organizational structure of the Company is independent of the controlling shareholder where the Company and the controlling shareholder do not share the same line function.
Finance	The Company has established an independent system for accounting and finance management with separate bank accounts.

# CORPORATE GOVERNANCE STRUCTURE

## IV. THE ESTABLISHMENT AND SITUATION OF THE COMPANY'S INTERNAL CONTROL SYSTEM

The Company continues to improve and regulate the organizational structure of the internal system of the Company in accordance with the Company Law and the Articles of Association of the Company to ensure the operation standards and effectiveness of the shareholders' meeting, Board, Supervisory Committee and the management of the Company so as to safeguard the interest of investors and the Company.

### 1. Internal control organization structure



- A. Shareholders' meeting is the power authority of the Company. It can safeguard all of the shareholders of the Company, especially for minority shareholders having equal status in the Company and ensure all shareholders to fully enforce their rights.
- B. The Board is the decision-making authority of the Company. The Board is responsible for the establishment and supervision of the internal control system of the Company. The Board also establishes and improves the policies and proposals of the internal control system and supervises the implementation of the internal control system.
- C. Supervisory Committee is the supervisory organization of the Company. It reviews the financial statements of the Company, reviews and provides written advice on the reports regularly prepared by the Board, supervises the work of the directors and senior management officers, and convenes the shareholders' meeting and reports their work at the shareholders' meeting.
- D. Strategic Committee, Nomination Committee, Remuneration and Assessment Committee and Audit Committee are established under the Board. These committees comprise of directors only. The majority of the members of the Remuneration and Assessment Committee and Audit Committee are independent non-executive directors, who act as the chairman. The responsibilities of these committees are executed in accordance with the relevant laws and regulations, committee provisions and relevant rules.

## CORPORATE GOVERNANCE STRUCTURE

- E. The management of the Company is responsible for the establishment and implementation of the internal control system. The management exercises its operation and management authority through directing, coordinating and supervising the business departments to manage the ordinary business of the Company. Each branch, business unit and controlling company executes specific production and operation tasks to ensure the smooth operation of the Company.

### 2. The establishment and implementation of the internal control system

In order to regulate management and control operation risk, the Company has established a comprehensive internal control system based on its own features and management needs. The internal control system penetrates each level and segment of the operating and management activities of the Company to ensure the smooth operation of each procedure of the Company.

## V. DISCLOSURE OF THE BOARD'S SELF-ASSESSMENT REPORT AND THE REVIEW OPINIONS OF THE AUDITORS ON THE COMPANY'S INTERNAL CONTROL

### 1. The Company disclosed the Board's self-assessment report on the Company's internal control.

The Board of the Company conducted the self-assessment on the internal control during 2008 and no material defects were discovered in terms of the design or implementation of the internal system. As of 31 December 2008, the Company maintained effective internal control in all material aspects pursuant to the "Basic Standard for Enterprise Internal Control" and relevant requirements. (See the Appendix to the Annual Report published on the website of the Company ([www.kmtcl.com.cn](http://www.kmtcl.com.cn)) and the website of Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) on 23rd April 2009 for details).

### 2. The auditors issued the review opinions on the internal control of the Company. (See the self-assessment report on the internal control of the Company published on the website of the Company ([www.kmtcl.com.cn](http://www.kmtcl.com.cn)) and the website of Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) on 23rd April 2009 for details).

## VI. ASSESSMENT OF THE SENIOR MANAGEMENT OFFICERS AND REWARDS

The Board and Remuneration and Assessment Committee of the Company reviewed and approved for the reward in the sum of RMB500,000 to the operating personnel based on the profit indicators and other operating indicators accomplished for the year.

### VII. The Company disclosed the report on social responsibilities (See the report on social responsibilities of the Company published on the website of the Company ([www.kmtcl.com.cn](http://www.kmtcl.com.cn)) and the website of Shanghai Stock Exchange ([www.sse.com.cn](http://www.sse.com.cn)) on 23rd April 2009 for details).



# CORPORATE GOVERNANCE REPORT

## I. CORPORATE GOVERNANCE PRACTICE

The Company complies with the relevant provisions as set out in the “Code on Corporate Governance Practices” (“Code”) of the Appendix 14 to the Listing Rules of the Stock Exchange of Hong Kong Limited and strives to improve its level of corporate governance.

The implementation of the provisions as set out in the Code is as follow:

### A. Directors

#### A.1 Board Meetings

The Company holds at least one board meeting each quarter. 13 board meetings were held during 2008 and 10 of them were in written resolutions, please refer to page 29 for details of directors’ attendance. The secretary to the Board would consult each director for discussion issues and include them in the agenda for every board meeting to be held. During the reporting period, the notice and preliminary agenda were distributed to the directors at least 14 days before the date of meeting.

All directors keep close contact with the Company Secretary. The Company Secretary is responsible for ensuring that the compliance of the operations of Board with the procedures and advising on the corporate governance and compliance issues. The minutes of the board meetings are compiled and kept by the Company Secretary. Minutes are passed to each director for reference within a reasonable period after the meeting. Directors may seek for professional advice at the cost of the Company.

If a substantial shareholder or a director has a conflict of interest in respect of any material matters, a board meeting shall be held. The subject director shall abstain from voting and be excluded from the quorum of the meeting.

#### A.2 Chairman and Chief Executive Officer

The positions of Chairman and Chief Executive Office were held by Mr. Gao Minghui and Mr. Zhang Xiaoyi respectively.

#### A.3 Composition of the Board

The Company discloses the composition of members of Board in its communications by the director category including Chairman, Executive Directors, Independent Non-Executive Directors and Non-Executive Directors. The Board currently comprises 4 independent non-executive directors, representing 1/3 of the total number of directors. During 2008, 3 directors took up the role of management, representing more than 1/4 of the total number of directors. This enabled the Board to strictly review and monitor the management procedures of the Company. In order to enrich the shareholders’ understanding of the directors and the composition of the Board of the Company, the Company has published the role of directors and their responsibilities in related media.

#### A.4 Appointment, Election and Removal

The directors of the Company (including non-executive directors) have specific term of appointment. According to the Articles of Association, directors are elected at shareholders’ meeting for a term of three years, subject to re-election upon expiry. However, the term of appointment for independent non-executive directors shall not exceed 6 years. The appointment of all directors of the Company shall be approved by the shareholders.

# CORPORATE GOVERNANCE REPORT

## A.5 *Directors' Responsibilities*

In order to ensure the directors' sufficient understanding of the operations and businesses of the Company, each newly appointed director is given a comprehensive induction materials kit upon appointment. This kit sets out the business profile of the Company, responsibilities and obligations of directors and other legal requirements. Apart from that, each non-executive director will receive strategic proposals, business reports, and economics activities analysis regularly in order to execute their functions effectively (including making recommendations at board meetings). The non-executive directors shall give directions in the event of any potential interest conflicts; act as members of the committees under the Board; and carefully assess the performance of the issuer.

The Company Secretary is responsible for ensuring that all directors receive the latest updates on the Listing Rules and other statutory requirements.

## A.6 *Provision and Usage of Information*

In order to ensure that obligations are duly performed and informed decision are made the directors of the Company, the agenda and relevant documents of the board meetings are distributed to all directors within ten days before the date of the meeting. The directors may meet the senior management officers formally or informally before the board meetings. The directors and committee members may review the relevant documents and minutes of the board meetings.

## **B.1 Remuneration of Director and Senior Management Officers**

Since the establishment of Remuneration and Assessment Committee of the Company, the remuneration and assessment of directors, supervisor and senior management officers are based on rules of procedure of such committee. Independent professional advice may be sought if necessary in accordance with the stated procedures at the cost of the Company.

## **C. Accountability and Auditing**

### C.1 *Financial Reporting*

The directors would regularly receive integrated reports including strategic proposals, latest updates on various operations, financial objectives, plans and measures from the management. In the annual or interim report, or other announcements regarding price sensitive information and other disclosable financial information, the Board would make a balanced, clear and reasonable review for the Company's state of affairs and prospects.

### C.2 *Internal Control*

The Supervisory Committee of the Company exercises its supervisory rights independently in accordance with laws and regulations to safeguard the legal rights of shareholders, the Company and employees. The number of members and composition of the Supervisory Committee shall comply with the laws and regulations. During 2008, 5 meetings were held and full attendances were recorded in every meeting where the supervisors supervised on behalf of the shareholders the financial conditions of the Company and the performance of obligations of directors and senior management officers and their compliance, and sat in on the board meetings to perform the duties of the Supervisory Committee in a diligent manner.

The Board is responsible for the establishment and maintenance the internal control system of the Company for reviewing the financial, operational and supervisory control procedures so as to safeguard the interests of the shareholders and the assets of the Company. The Board may delegate the authority to the management for implementation of the internal control system. The Audit Committee is responsible for reviewing its effectiveness.

The Internal Audit Department regularly conducts inspection, supervision and assessment on the risks relating to and the importance of various businesses and procedures and when necessary. In addition, corresponding internal management system and procedures are established for monitoring, operation, construction, finance and administration. Inspection will be carried out on a random basis.

# CORPORATE GOVERNANCE REPORT

## C.3 *Audit Committee*

Since its establishment, the Audit Committee has functioned its important role of improving the financial reporting and the transparency of financial arrangement. The Company attaches great attention to the documentation of minutes of the Audit Committee. The minutes draft is prepared by a designated person and will be delivered to the members of the committee within a reasonable period. The draft is prepared for collecting the comments from the members and will be kept as minutes once finalized.

## D. **Transfer of Right of the Board**

### D.1 *Management Function*

The Board and the management of the Company both have clearly defined terms of reference and their respective functions are set out in the Articles of Association.

### D.2 *Committees under the Board*

The Strategic Committee, Audit Committee, Nomination Committee, Remuneration and Assessment Committee of the Company are established under the board of directors with respective terms of reference. Each committee performed its duties separately during the reporting period.

## E. **Communication with Shareholders**

### E.1 *Effective Communication*

The Board endeavours to maintain communications with its shareholders. During the Annual General Meeting in 2007, all Executive Directors, and part of the Non-Executive Directors and senior management officers attended the meeting to communicate with its shareholders.

### E.2 *Voting by poll*

Shareholders are informed regularly of the procedures of voting by poll. The procedures of voting by poll are set out in the notice of annual general meeting and circular. Relevant procedures will be also explained at the annual general meeting.

## II. SECURITIES TRANSACTION OF DIRECTORS

During the reporting period, the Company adopted the "Model Code for Securities Transactions by Directors of Listed Issuers" ("Model Code") of the Appendix 10 to the Listing Rules of the Stock Exchange of Hong Kong Limited as regulation for securities transaction of directors. The directors and supervisors of the Company complied with the Model Code and standards on securities transaction of directors as stated in its code of conduct during the reporting period.

## III. BOARD OF DIRECTORS

### 1. **Composition of the Board**

Currently, there are 12 directors in the Company and 4 of them are independent non-executive directors. This is the sixth session of Board of Directors since the establishment of the Company. The term of directors begins from 1st November, 2008 or the date of appointment to the date of next election of directors.

## CORPORATE GOVERNANCE REPORT

13 board meetings (10 of them were in written resolutions) were held during the year and members of the board meetings are as follows:

Name	Position	Required attendance	Attended in person	Attended by representative	Absence	% of attendance
Gao Minghui	Chairman and executive director	13	13	0	0	100
Li Zhenxiong	Vice chairman and non-executive director	4	4	0	0	100
Zhang Xiaoyi	Vice chairman and non-executive director	4	4	0	0	100
Sun Kai	Non-executive director	13	13	0	0	100
Wang Sheng	Non-executive director	13	13	0	0	100
Wang Xing	Non-executive director	13	13	0	0	100
Pi Jianguo	Executive director	13	13	0	0	100
Zhang Hai	Non-executive director	4	4	0	0	100
Wayne Yu	Independent non-executive director	13	12	1	0	92
Liu Minghui	Independent non-executive director	13	12	1	0	92
Chen Ying	Independent non-executive director	13	11	2	0	85
Li Dongru	Independent non-executive director	13	13	0	0	100

During the reporting period, the directors attended substantially all the board meetings. Representatives were appointed to attend the board meetings and express opinions on the behalf of directors if the directors were unable to attend the board meetings due to office duties.

In addition, according to the Article of Association, notice of a regular board meeting shall be given to all directors at least 10 days before the board meeting. In the course of practical operations, the Company complied with the requirements under the Appendix 14A.1.3 to the Listing Rules of the Stock Exchange of Hong Kong Limited where all notices of the regular board meetings were despatched 14 days before the board meetings.

The secretary to the Board is responsible for distributing the details of the regular board meetings (including the information of the committees under the Board) to the directors no later than 5 days before the date of meetings to ensure that all directors understand the issues to be considered at the meetings.

Details of any temporary board meetings held based on the needs of the management of the Company in the form of communication shall be despatched to all directors by means of e-mail and facsimile, and shall allow sufficient time for directors' consideration. The secretary to the Board shall respond to the directors' queries in a timely manner and take proper actions to assist the directors to ensure compliance with the requirements such as the Company Act, Articles of Association and Listing Rules.

Minutes of the board meetings shall be signed by the directors and the minutes-taker attending the meetings, and maintained over a long period of time for inspection by the directors if necessary.

Where the directors consider that material conflicts of interests arise in respect of the connected transactions discussed, the directors involved shall take a side-step and abstain from voting in respect of such matters.

# CORPORATE GOVERNANCE REPORT

## 2. Appointment of Directors

Each director of the Company is elected for a term of three years, subject to re-election upon expiry. The term of appointment of the independent non-executive directors shall not exceed six years. The Company shall enter into a Directors' Service Contract with the directors for a term of three years where the term of appointment of any additional directors during the term is less than three years. The appointment or removal of directors shall be approved at the shareholders' meeting. The appointment or removal of directors during 2008 is set out in "Change of Directors, Supervisors and Senior Management Officers" on page 21 of the Annual Report.

## 3. Duties of the Board

The duties and responsibilities of the Board are clearly defined and set out in the Articles of Association of the Company.

## 4. Nature and Independence of Independent Non-executive Directors

Members of independent board committee have different professional backgrounds. They have professional expertise, sound qualifications and extensive experience in the areas of corporate management, financial accounting and manufacturing of machine tools.

The Company has received from each of its independent non-executive director an annual confirmation of independence and considered each of them independent of the Company pursuant to Rule 3.13 of the Listing Rules.

## 5. Implementation of Measures for Ensuring the Performance of Directors' Responsibilities

The secretary to the Board shall give all the directors relevant materials and updates on the statutory, regulatory and other ongoing responsibilities that the directors of the listed companies shall comply in a timely manner to ensure thorough understanding of their responsibilities, consistent execution of the procedures of the Board and proper compliance with applicable laws and regulations. The Board of the Company is entitled to engage independent professional bodies for such duties based on its power of authority for the performance of its responsibilities or business needs at the reasonable expense of the Company.

## 6. Relationship between the Members of the Board

There is no relationship between the members of the Board, particularly between the chairman and the general manager, in terms of finance, business, family and others.

## IV. CHAIRMAN AND GENERAL MANAGER

The roles of chairman and general manager shall not be taken by the same person with clearly segregated duties. The chairman is responsible for the management of the affairs of the Board such as inspecting the implementation progress of the issues approved by the Board. The general manager is responsible for management of operations of the Company and implementation of strategies formulated by the Board. The duties and responsibilities of the general manager are clearly defined and set out in the Articles of Association of the Company.

# CORPORATE GOVERNANCE REPORT

## V. TERM OF NON-EXECUTIVE DIRECTORS:

According to the Articles of Association, Rules of Procedure for the General Meetings of the Shareholders, and Rules of Procedure for the Meetings of the Board of Directors, the term of the non-executive directors under the sixth session of the Board will expire on 31st October 2011.

## VI. STRATEGIC COMMITTEE, AUDIT COMMITTEE, NOMINATION COMMITTEE AND REMUNERATION AND ASSESSMENT COMMITTEE ARE UNDER THE BOARD OF DIRECTORS

Details are as follows:

No.	Committee	Major responsibilities	Chairman	Committee members	Annual meeting and work details
1.	Strategic Committee	Conducting research and providing suggestions on the Company's strategic planning, significant investment and financing issues, significant usage of capital and asset utilization	Gao Minghui	Gao Minghui, Li Zhenxiong, Zhang Xiaoyi, Li Dongru and Wang Xing	Conducted detailed analysis and research on various aspects of the Company according to the changes in the market trends of the machine tool industry to outline the basis for the growth strategies of the Company
2.	Audit Committee	Issuing work reports based on regularly reporting, annual performance results and implementation of the internal control system	Wayne Yu	Wayne Yu, Liu Minghui and Sun Kai	Convened special auditing meetings for annual report and interim report
3.	Nomination Committee	Formulating policies for directors' nomination including nomination procedures, handling steps and criteria for selection of director candidates	Liu Minghui	Liu Minghui, Chen Ying and Wang Sheng	Reviewed and nominated senior management officers appointment or removal for the year
4.	Remuneration and Assessment Committee	Formulating remuneration policy for executive directors, assessing performance of executive directors and approving clauses in directors' service contract	Chen Ying	Chen Ying, Wayne Yu and Sun Kai	Formulated assessment and appraisal system

*Note:* The chairman of the Company's Strategic Committee is Mr. Gao Minghui, Chairman and executive director;  
 The chairman of the Company's Audit Committee is Mr. Wayne Yu, independent non-executive director;  
 The chairman of the Company's Nomination Committee is Mr. Liu Minghui, independent non-executive director;  
 The chairman of the Company's Remuneration and Assessment Committee is Mr. Chen Ying, independent non-executive director.



# CORPORATE GOVERNANCE REPORT

## VII. AUDITOR'S FEE

The auditor's fee for 2008 included the following:

An amount of RMB500,000 was paid to Zonzun Accounting Office Limited, the domestic accounting firm.

An amount of RMB2,500,000 was paid to KPMG, the foreign accounting firm.

The major factors for the basis of determination of the auditor's fee paid by the Company are as follows:

- (1) General remuneration offered for auditing service in PRC;
- (2) General remuneration offered for auditing service in Hong Kong;
- (3) General work load on audit work for the previous accounting period;
- (4) General work load on audit work for the previous engagement.

## VIII. RIGHTS OF SHAREHOLDERS

The Company maintains good communication with its shareholders. The major communication channels include the Annual General Meeting, website and email of the Company, office facsimile and telephone of the secretary to the Board to enable shareholders to express their opinions or exercise their rights.

# SHAREHOLDERS' MEETING

## I. ANNUAL GENERAL MEETING ("AGM")

<b>Meeting session</b>	<b>AGM date</b>	<b>Publishing newspaper resolved for information disclosure</b>	<b>Publishing date resolved for information disclosure</b>
2007 AGM	13th June 2008	China Securities Daily, Shanghai Securities News and Securities Times	14th June 2008

## II. EXTRAORDINARY GENERAL MEETING ("EGM")

<b>Meeting session</b>	<b>EGM date</b>	<b>Publishing newspaper resolved for information disclosure</b>	<b>Publishing date resolved for information disclosure</b>
1st EGM for 2008	13th June 2008	China Securities Daily, Shanghai Securities News and Securities Times	16th June 2008
2nd EGM for 2008	31st October 2008	China Securities Daily, Shanghai Securities News and Securities Times	1st November 2008

# DIRECTORS' REPORT

## I. BUSINESS REVIEW DURING THE REPORTING PERIOD

### 1. Overview of Operations during the Reporting Period:

During the reporting period, the economic development of the PRC continued to be affected by the global economic landscape. From January to December 2008, the total production value of the 115 metal-cutting machine tool key associated enterprises nationwide grew by 11.4% to RMB47.82 billion, where the production value of CNC machines amounted to RMB29.58 billion, representing a year-on-year increase of 18.2%. The productivity fell by 14.2% to 284,464 units where the CNC productivity amounted to 70,764 units, representing a year-on-year decrease of 9.5%. The realized sales revenue increased by 7% over the previous year to RMB59.3 billion; the CNC products accounted for 48.6% of the production value, an increase of 3.7% over the previous year; and realized profits fell by 6% over the previous year to RMB3,498.9 million. Based on the above figures, the production value and productivity of the industry both recorded significant slowdown, alongside with the CNC production value and productivity taking a downward trend.

The sales orders of the conventional boring and milling machine products of the Company continued to shrink since July 2008. Due to the lack of market information, the product inventory gradually increased from 194 units in September to 280 units in December. Accordingly, limiting production was the only available measure. As the customers of CNC large-scale machine tools delayed the pick up of their orders, the cash flow receipts were slow. From January to December 2008, the net cashflow from the operating activities of the Company amounted to RMB120,048,000, representing a decrease of RMB145,002,000 as compared to RMB265,050,000 for the previous year. Meanwhile, the soaring raw material prices and labor costs in the first half of the year resulted in the increase of the unit cost of the products by approximately 10%, which in turn reduced the products' gross profit margin by approximately 2%.

Amid such unfavorable macro-economic environment, the operating personnel of the Company remained focused and confident to undertake active measures through capitalizing on the knowledge and expertise of all of the staff under the proper direction of the Board. All economic indicators of the Company recorded growth with achievements and breakthroughs attained in all aspects of the operations.

#### (1) *Marketing:*

The Company launched the product promotion policies to actively capture orders according to market changes; accelerated the development of the marketing network; and continued to expand the market share of new products. In addition, through maintaining relationship with the key customers, the Company focused on securing market share as its primary objective; continued to introduce innovative management concepts and management models; revamped the after-sales services to be more proactive; and developed a team of young and dynamic personnel for future development of the Company.

#### (2) *Production:*

The Company continued to implement the standard manufacturing and timely production according to the Kunji model; strengthened the control on production progress; enhanced the production organization level; and superior boutique engineering. Through exploring new customers and implementing cost effective measures, the Company relocated and balanced the production resources in a timely manner, thereby enhancing the production quality and production efficiency.

#### (3) *Technology:*

The Company clearly defined the "large-scale, CNC, precise and efficient" product development directions; attached great importance to and strengthened the product mix; endeavored to accelerate the product upgrade and new product design and development with a view to becoming the nation's technology center.

## DIRECTORS' REPORT

(4) *Quality control:*

The Company continued to improve the accountability of the inspection system; strengthened the position assessment; executed strict product quality standards; eliminated long-term obsolescence and batch obsolescence, so as to stabilize and increase the appearance and quality of the cast products.

(5) *Technological renovation:*

The technological renovation was consistent with the medium and long-term strategic growth objectives of the Company, which focused on the processing of the fundamental and bulk facilities and the major and key facilities; energy saving; customized management and environmental conservation.

(6) *Human resources management*

The Company implemented the interim worker system which reasonably allocated the human resources to satisfy the demand for workforce. Through strengthening the on-site training and practical operating training, the operating level and ability of the staff were enhanced, thus increasing the work efficiency.

During the reporting period, the Company realized an operating income of RMB1,563,105,000 and net profits of RMB276,565,000, representing an increase of RMB260,720,000 and RMB33,607,000 respectively as compared to RMB1,302,386,000 and RMB242,958,000 over the previous year. In particular, the realized revenue and net profits from machine tool business amounted to RMB1,302,130,000 and RMB281,868,000 respectively, representing an increase of 26.18% and 23.98% over the previous year; the realized revenue from non-machine tool business fell by RMB28,251,000 over the previous year to RMB252,942,000, whereas the net profits grew to RMB11,225,000 over the previous year.

### 2. Major products accounting for 10% or above of the total operating income from or gross profits

Business or product	Operating income	Operating expenses	Unit: RMB'000
			Gross profit margin (%)
Sales and processing of machine tool products	1,302,130	883,891	32.12
Sales, installation and technical services of highly efficient compressors	202,768	164,645	18.80

In 2008, the Company realized a sales revenue of RMB1,563,105,000, up by RMB260,720,000 over 2007. In particular, the sales revenue from machine tool products rose by 27.95% to RMB284,408,000; whereas the sales revenue from Ser turbo machine products dropped by 13.18% to RMB30,777,000. Based on the sales structure, the sales of machine tool products and Ser turbo machine products accounted for 83.30% and 12.97% of the total sales revenue respectively in 2008, totaling 96.27% of the total sales, as compared to the increase of 5.16 percentage points and the decrease of 4.96 percentage points in 2007.

### 3. Reasons of the change in operating market and the change in structure of operating costs

Item	2007	Proportion (%)	2008	Unit: RMB'000	
				Proportion (%)	Increase/Decrease (%)
Raw materials	465,650.35	55.80	<b>570,616.43</b>	55.07	22.54
Direct labor costs	44,995.80	5.39	<b>59,185.48</b>	5.71	31.54
Benefit expenses	22,134.06	2.65	<b>29,368.38</b>	2.83	32.68
Fuel	12,816.22	1.54	<b>16,330.56</b>	1.58	27.42
Power	13,238.63	1.59	<b>17,585.91</b>	1.70	32.84
Manufacturing costs	107,909.57	12.93	<b>131,927.17</b>	12.73	22.26
Internal processing expenses	8,035.39	0.96	<b>8,749.21</b>	0.84	8.88
External processing expenses	159,656.27	19.13	<b>202,325.57</b>	19.53	26.73
Total	834,436.28	100.00	<b>1,036,088.70</b>	100.00	24.17

## DIRECTORS' REPORT

During the reporting period, the operating costs increased RMB201,652,000 by the increase range of 24.17% over the previous year, mainly attributable to the operating income growth of 20.02%. The increase in operating costs was higher than that of the operating income, primarily due to the increase in the operating costs of approximately 2% as a result of the rising raw materials price in 2008.

The consolidated gross profit margin for 2008 was 33.72%, down by 2.21 percentage points as compared to 35.93% over the previous year, predominantly as a result of the decrease of the gross profit margin of the machine tool products by 2.97 percentage points as follows:

- (1) The raw materials price increased by approximately 10% in 2008, resulting in the increase in operating costs of principal businesses by 2 percentage points.
- (2) Affected by the global financial crisis, the sales of general machine tool products for the second half of the year reduced significantly. In order to lower inventory and increase cash flows, the Company reduced the selling price of certain highly competitive products so as to increase sales. These are the crucial factors leading to the declining gross profit margin.

#### 4. Analysis of sales of major products of the Company:

Business or product	Turnover for 2007	Turnover for 2008	Unit: RMB'000
			Increase/ Decrease (%)
Business			
General facilities production	316,912	<b>336,912</b>	6.31
Specified facilities production	346,689	<b>542,788</b>	56.56
Transportation facilities production	73,809	–	–
Electric mechanical equipment production	72,052	<b>128,783</b>	78.74
Other production	166,853	<b>236,557</b>	41.78
Products			
Horizontal boring and milling machines	382,227	<b>444,738</b>	16.35
Floor-type boring and milling machines	443,345	<b>645,788</b>	45.66
Table-type boring and milling machines	78,008	<b>81,785</b>	4.81
Horizontal machine centers	56,040	<b>54,555</b>	(2.65)
Jig boring machines	10,349	–	–
Others	6,346	<b>18,173</b>	186.37
Total	<u>976,315</u>	<u><b>1,245,040</b></u>	<u>27.52</u>

#### 5. Major suppliers and customers

The total purchases from the top 5 suppliers for 2008 amounted to RMB183,235,000, representing 29.40% of the total purchase for the year. In particular, the largest supplier Siemens (German-based) accounted for 11.70% of the total purchase for the year; and the second largest supplier Kunming Sanhe Agricultural Production Information Co., Ltd. (昆明三禾農業生產資料有限公司) accounted for 5.94% of the total purchase for the year.

The total sales revenue of the top 5 customers for 2008 amounted to RMB160,936,000, representing 10.30% of the total sales revenue for the year.

## DIRECTORS' REPORT

### 6. Analysis of the material changes in asset structure and proportion during the reporting period

Unit: RMB'000

Item	Closing balance	Opening balance	Amount Increase/Decrease	Increase/Decrease (%)
Monetary assets	327,941.40	370,350.80	(42,409.40)	(11.45)
Bills receivable	63,855.30	134,784.30	(70,929.00)	(52.62)
Inventory	663,296.40	427,422.50	235,873.90	55.19
Construction in progress	29,926.30	46,097.50	(16,171.20)	(35.08)
Intangible assets	33,273.80	92,376.80	(59,103.00)	(63.98)
Other payables	12,724.70	64,694.80	(51,970.10)	(80.33)
Taxes payable	(3,832.10)	67,941.20	(71,773.30)	(105.64)
Bills payable	14,226.40	4,670.00	9,556.40	204.63
Short-term borrowings	70,000.00	–	70,000.00	–
Long-term borrowings	–	50,000.00	(50,000.00)	–
Contingent liabilities	13,804.00	9,117.40	4,686.60	51.40
Operating income	1,563,105.40	1,302,385.60	260,719.80	20.02
Investment income	15,050.60	28,042.70	(12,992.10)	(46.33)
Non-operating income	31,213.50	25,364.70	5,848.80	23.06
Non-operating expenses	4,314.20	10,904.60	(6,590.40)	(60.44)
Administrative expenses	155,594.60	116,126.80	39,467.80	33.99

- Monetary assets fell by 11.45% or RMB42,409,400 during the reporting period as compared to the same period last year, which mainly represented the distribution of cash bonus dividend of RMB114,711,000 for the year (based on the distribution of cash bonus dividend plan in 2007) by the parent company. In addition, the increase in the closing balance of inventory for 2008 was also the major reason for the decrease in monetary assets.
- Bills receivable decreased by RMB70,929,000 from the beginning of the period, primarily attributable to the increase in the percentage of bills receivable to settle the payment for purchase of goods in order to relieve the pressure on the monetary assets payments by the Company.
- Inventory increased by 55.19% during the reported period, mainly attributable to the significant decrease in the sales of general machine tool products for the second half of the year as a result of the global financial crisis.
- Construction in progress fell by 35.08% or RMB16,171,200 during the reporting period, mainly attributable to the completion of construction of the cast cleaning and processing base which commenced construction in 2007 and transfer to the fixed assets in 2008.
- Intangible assets decreased by RMB59,103,000 during the reporting period, due to the disposal of Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. during the reporting period amounting to RMB57,631,000.
- Other payables fell by 80.33% or RMB51,970,100, primarily due to the transfer of purchase amounts to accounts payable at the end of the year.
- Taxes payable decreased by 105.64% or RMB71,773,300, mainly due to: (1) the increase in the VAT paid for the purchase of raw materials during the reporting period, resulting in the decrease in VAT payables by RMB40,060,000 from the beginning of the year; (2) the shortage of income tax paid over the pre-paid income tax of the Company in 2007 by RMB31,758,000 and the shortage of pre-paid income tax over the income tax paid of the Company in 2008 by RMB3,684,000, resulting in the decrease in income tax payables by RMB28,074,000 from the beginning of the period.



## DIRECTORS' REPORT

- h. Bills payable grew by 204.63%, due to the increase in the percentage of bill payables to settle the payment for purchase of goods in respect of the purchase business in order to relieve the pressure on payment by its subsidiary Xi'an Ser Turbo Machinery Manufacturing Co., Ltd..
- i. The increase in short-term borrowings and decrease in the long-term borrowings were due to the conversion of long-term borrowings amounting to RMB50,000,000 into short-term borrowings during the reporting period in order to reduce the borrowing costs of the Company. In addition, the short-term borrowings for the production and operations of Xi'an Ser Turbo Machinery Manufacturing Co., Ltd. were increased by RMB20,000,000.
- j. Contingent liabilities grew by 51.40%, which represented the security deposit for product quality calculated at 1.2% of the sales revenue of the parent company. During the reporting period, the sales revenue grew by 20.20%, which led to the growth of 51.40% in contingent liabilities.
- k. The increase in operating income during the reporting period was due to the large amount of sales orders of CNC machine tool products carried forward from 2007 despite the significant decline in the sales of general machine tool products for the second half of the year as a result of the global financial crisis. Accordingly, the sales of CNC machine tool products still recorded growth.
- l. Investment income decreased by RMB12,992,100 from the previous year, mainly due to the gain from the recovery of financial investments for 2007 amounting to RMB24,382,000. Excluding this item, the investment income for 2008 grew by RMB11,390,000 over the previous year.
- m. Non-operating income rose by 23.06% or RMB5,848,800 from the previous year, primarily attributable to the VAT refund of 50% received for CNC machine tool products during the reporting period.
- n. Non-operating expenses fell by 60.44% or RMB6,590,400 from the previous year, mainly due to the penalty on the infrastructure project of Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. amounting to RMB8,236,000 for the previous year. Excluding this item, the non-operating expenses slightly increased from the previous year.
- o. Administrative expenses grew by 33.99% or RMB39,467,800 from the previous year, mainly as a result of the increase in the R&D expenses of new products of the parent company during the reporting period amounting to RMB32,293,000.

### 7. Analysis of material changes in major financial data during the reporting period

Unit: RMB'000

Item	Closing balance	Opening balance	Amount Increase/Decrease	Increase/Decrease(%)
Total assets	1,911,770.20	1,779,007.70	132,762.50	7.46
Operating profit	292,024.06	282,722.37	9,301.69	3.29
Net profit attributable to the holders of the Company	276,564.90	242,957.69	33,607.21	13.83
Net (decrease)/increase in cash and cash equivalents	(42,963.01)	227,397.28	(270,360.29)	(118.89)
Shareholders' equity	1,105,710.80	953,384.93	152,325.87	15.98

## DIRECTORS' REPORT

- a. Total assets increased by 7.46% or RMB132,762,500, due to the increase in operating income and net profits for the period.
- b. The increase in the operating profit was due to the increase in the sales revenue for the year.
- c. The increase in net profit for the reporting period was primarily attributable to the sales revenue growth of 20.02%. However, the growth was slower than 2007 as a result of the rising raw materials price.
- d. Net increase in the cash and cash equivalents was down by RMB270,360,000, mainly attributable to the significant decrease in the sales of general machine tool products for the second half of the year as a result of the global financial crisis. The net profit amounted to RMB251,478,000 but the closing inventory balance increased by RMB235,873,000. In addition, the distribution of cash bonus dividend and fixed assets investments amounted to RMB114,711,000 and RMB65,993,000 respectively. Accordingly, the net increase in the cash and cash equivalents during the reporting period fell by 118.89% over the previous year.

### **8. Analysis of cash flow structure and its material changes, and reasons for net profit fluctuation during the reporting period:**

Net cash flow from operating activities was RMB120,048,000, net cash outflow from investment activities was RMB(54,091,000), and net cash outflow from financing activities was RMB(107,393,000). Net cash flow from operating activities increased by RMB145,002,000 over the previous year, primarily attributable to the increase in opening inventory balance of RMB235,873,000 partially offset by the decrease in bill payables of RMB7,092,000. Net cash flow from investing activities decreased by RMB28,313,000, mainly due to the recovery of financial investments of RMB32,035,000 in 2007. Excluding this item, the net cash flow from the investing activities increased by RMB3,722,000; net cash flow from financing activities increased by RMB97,965,000, mainly attributable to the distribution of cash bonus dividend of RMB114,711,000 during the reported period.

### **9. Discussion and analysis of important issues relating to the operations of the Company, including the utilization of the Company's facilities, securing of purchase orders, product sales or inventory turnover and changes in the profile of key technicians**

The amount of new contracts for 2008 amounted to RMB1,669 million and 80.30% was attributable to CNC products. There was temporary inventory of certain horizontal boring and milling machines but no change in the profile of key technicians.

## DIRECTORS' REPORT

### 10. Review of operations and business analysis for major controlling companies and invested companies

Name	Nature of business	Major products or services	Registered capital	Unit: RMB'000	
				Total assets	Net profit/(loss)
Xi'an Ser Turbo Machinery Manufacturing Co., Ltd.	Manufacturing	Energy saving compressor and turbo machines	50,000	344,755	11,090
Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd.	Manufacturing	Laser prototyping machine	60,000	81,330	(1,408)
Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd.	Manufacturing	Intelligent electrical appliances	35,000	69,344	(2,412)
Winko Machines Co., Ltd.	Manufacturing	Intelligent color display computerized embroidery machine and rotary table	20,230	12,877	2,571
TOS Kunming Machine Tool Manufacturing Co., Ltd.	Manufacturing	Development, design, production and sales of self-produced machine tool series products and accessories	5,000,000 Euros	170,190	25,433
Kunji Transportation Co., Ltd.	Transportation	General cargo transportation	500	1,246	(35)
Kunming Kunji General Machine Co., Ltd.	Manufacturing	Development, design and sales of machine tool products and accessories	3,000	105,588	14,910
Fujian Kunji Conventional Machine Tool Co., Ltd.	Manufacturing	Development, design, production and sales of self-produced machine tool series products and accessories	5,000	9,669	(2,400)

## II. OUTLOOK ON FUTURE DEVELOPMENT OF THE COMPANY

In 2009, the PRC government has kicked off major reforms on the macro-economic adjustments in order to maintain steady growth of the domestic economy through implementing active fiscal policies and less tightened monetary policies in an effort to expand the domestic demand, accelerate the civil engineering and infrastructural facilities development, and environmental conservation, coupled with the implementation of key projects utilizing the new investments funds to stimulate the market sentiments, thereby creating extensive market opportunities for the machine tool industry. Capitalizing on the scientific development, the Company will continue to pursue the concepts of "extending its traditions, maintaining its features, turning challenges into opportunities, and growing and strengthening its capabilities" to thoroughly execute its work directions of "focused determination, proactive reform, structure adjustment, solid foundation, harmony promotion and scientific development", and execute the work tasks of the Company in comprehensive and sound manner based on the operating model of "consolidating and extending its traditional strengths and expanding new areas of growth":

## DIRECTORS' REPORT

1. The Company will actively explore new marketing strategies; strengthen the sales and marketing efforts; expand the emerging markets such as CNC gantry boring and milling machine tools; expand overseas sales; further improve the after-sales services system; reinforce the after-sales services and team building; and pursue horizontal and vertical development to increase customer satisfaction.
2. The Company will speed up the development of the R&D platform of the Company and reinforce the technology innovation capabilities of the Company; consolidate the upgrade and replacement of products with traditional strengths and the development of new products; focus on the training and development of technology expertise; and increase the sustainability of the Company.
3. Capitalizing on the favorable opportunities arising from the strong support from the state, provincial and municipal government on the equipment manufacturing industry, the Company will actively and prudently accelerate the implementation of the cast base and heavy equipment plant projects so as to strengthen the production capacity and market competitiveness of the Company's heavy and large-scale CNC products.
4. The Company will accelerate the improvement of processing procedures and restructuring of production flow of the products, accelerate the development of information technology, and enhance the planned production and management level and monitoring capabilities. Meanwhile, the Company will continue to improve the quality control system, achieve the performance excellence management model, strengthen the on-site fundamental management and procedural control, stabilize and enhance the quality of products.
5. Based on the growth strategies, the Company will establish a sound organization structure, improve and establish the computerized labor management system and remuneration assessment system, optimize the human resources structure, and stabilize the staff team and enhance of skill level of staff.
6. Operating objectives for 2009:

Item	Operating income	Unit: RMB'000	
		Net profit	
2008 operating results	1,563,105	276,565	
2009 operating objectives and plans	1,600,000	260,000	

# DIRECTORS' REPORT

## III. INVESTING ACTIVITIES

Information of invested companies

Name	Place of registration	Scope of business	Registered capital RMB'000	Investment Proportion	Nature	Date of investment	Relationship with the Company
Xi'an Ser Turbo Machinery Manufacturing Co., Ltd. ("Xi'an Ser")	Xi'an city	Design, development and sales of turbo machines, energy saving sintering fans, compressor equipment, research and re-modification of imported equipment and its parts, automated control system engineering, CNC engineering, mechanical and chemical equipment, meter technology development, whole machine production and sales	50,000	45.00%	Limited liability	2001.12	Subsidiary
Kunming Kunji General Machine Co., Ltd.	Kunming city	Development, design and sales of machine tool products and accessories	3,000	100.00%	Limited liability (wholly owned by legal person)	2007.10	Subsidiary
Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. ("Intelligent Electric Apparatus")	Xi'an city	Development, production and sales of electrical appliances, electric power and electronic engineering and products, and provision of technical services	35,000	78.03%	Limited liability	2002.12	Subsidiary
Winko Machines Co., Ltd. ("Winko")	Kunming city	Development, application and system integration of hardware and software; retail, wholesale and distribution of general machinery and electronic machines	20,230	96.74%	Limited liability	2002.11	Subsidiary
TOS Kunming Machine Tool Manufacturing Co., Ltd. ("TOS Kunming")	Kunming city	Development, design, production and sales of self-produced machine tool series products and accessories; development of high-tech products, transfer of self-developed technology, provision of technical services and technical advisory; provision of repairs and processing of machine tool products for third parties	5,000,000 Euros	50.00%	Limited liability	2005.4	Jointly controlled entity
Changsha Ser Turbo Equipment Co., Ltd. ("Changsha Ser")	Changsha city	Production and sales of centrifugal compressors, centrifugal blowers, sintering fans and its accessories	10,000	100%	Limited liability	2004.01	Subsidiary of Xi'an Ser
Hangzhou Ser Gas Engineering Co., Ltd. ("Hangzhou Ser")	Hanzhou city	Contracting: design, development, sales and technology support of gas equipment engineering, compressors, sintering fans, whole sintering fan equipment, low-temperature machines, automated control system equipment and its parts; wholesale and retail: mechanical and electrical products, building materials, hardware tools, metal materials; operation of import/export businesses; all legally valid projects not subject to review and approval	1,200	51.00%	Limited liability	2004.04	Subsidiary of Xi'an Ser
Kunji Transportation Co., Ltd. ("Kunji Transportation")	Kunming city	General cargo transportation;	500	100%	Limited liability	2006.10	Subsidiary
Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd. ("Xi'an Ruite")	Xi'an city	Laser prototyping machine	60,000	23.34%	Limited liability	2006	Associate
Fujian Kunji Conventional Machine Tool Co., Ltd.	Nanan city	Development, design, production and sales of self-produced machine tool series products and accessories	5,000	50.00%	Limited liability	2008	Subsidiary

# DIRECTORS' REPORT

## IV. RAISED FUND

### 1. Use of proceeds from raised fund

During the reporting period, there were no proceeds from new raised funds, nor any proceeds from previous raised funds being utilized for the year.

### 2. Use of proceeds from non-raised fund

During the reporting period, no proceeds from non-raised funds were used for investment projects.

## V. REASONS FOR AND IMPACTS OF THE CHANGE OF ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OR CORRECTIONS OF MATERIAL ACCOUNTING ERRORS

During the reporting period, there were no changes of accounting policies and accounting estimates or material accounting errors.

## VI. ORDINARY OPERATIONS OF THE BOARD

### 1. Board meeting and resolution

Session	Board meeting date	Resolution
37th meeting of the 5th session of the Board	21st February 2008	Approved the written resolution on the application for the listing and trading of certain selling restricted circulating shares held by Kunming Jinghua.
38th meeting of the 5th session of the Board	5th March 2008	Approved the resolution on continuing connected transactions.
39th meeting of the 5th session of the Board	11th April 2008	Approved the written resolution on connected transactions relating to the demolition of the four buildings leased from Kunming Kunji Group Co., Ltd. as casting workshops for reconstruction
40th meeting of the 5th session of the Board	24th April 2008	Approved the "Annual Report and Summary for 2007"
41st meeting of the 5th session of the Board	28th April 2008	Approved the written resolution on the "1st Quarterly Report for 2008"
42nd meeting of the 5th session of the Board	21st May 2008	Approved the written resolution on connected transactions with Yunnan CY Group Co., Ltd.
43rd meeting of the 5th session of the Board	16th July 2008	Approved the written resolution on the revised proof of the "Report on Special Remedies on Corporate Governance of Shenji Group Kunming Machine Tool Co., Ltd."
44th meeting of the 5th session of the Board	27th August 2008	Approved the "Interim Report and Summary for 2008"



## DIRECTORS' REPORT

Session	Board meeting date	Resolution
45th meeting of the 5th session of the Board	17th October 2008	Approved the written resolution on the "3rd Quarterly Report for 2008"
1st meeting of the 6th session of the Board	31st October 2008	Approved the election of chairman of the Board and vice chairman for the next term of the Board and appointment of operating personnel
2nd meeting of the 6th session of the Board	11th November 2008	Approved the written resolution on "Merger and Acquisition Management System Proposal"
3rd meeting of the 6th session of the Board	27th November 2008	Approved the written resolution on connected transactions relating to the disposal of the equity interests its subsidiary, Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd.
4th meeting of the 6th session of the Board	8th December 2008	Approved the written resolution on "Proposal on Adjustment of Bank Borrowings"

### 2. Implementation of resolutions at the shareholders' meeting by the Board

During the reporting period, the Board exercised the rights granted to them at the shareholders' meeting in a sound manner and all resolutions at the shareholders' meeting were duly executed.

### 3. Overall reporting on the performance of duties of Audit Committee of the Board

On 23rd April 2008, the Audit Committee held a meeting for the annual report for 2007 at which the annual report for 2007 and the profit distribution plan for 2007 were approved.

### 4. Overall reporting on the performance of duties of Remuneration and Assessment Committee of the Board

On 23rd April 2008, the Remuneration and Assessment Committee held a meeting to review and approve the resolution on the remuneration evaluation and implementation of the senior management officers, and the resolution on the remuneration of the directors and supervisors. Having diligently reviewed the remuneration of directors, supervisors, and senior management officers, the Remuneration and Assessment Committee of the Board considered that the remuneration of the senior management officers as disclosed in the annual report for 2007 was determined according to the implementation of the growth strategies and investment decisions as formulated by the Board and the completion of the operating objectives as framed by the Board.

## VII. PROFIT DISTRIBUTION PLAN OF THE COMPANY FOR 2008

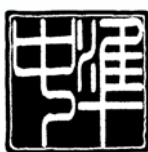
In accordance with the PRC accounting standards, in 2008, the Company recorded a net profit of RMB276,564,900. Pursuant to the requirements of the Articles of Association, the net profit realized by the Company shall be first transferred to the surplus reserves as to RMB26,695,850, resulting in the profit available for distribution of RMB414,246,950. In particular, the parent company recorded a net profit of RMB266,958,510 and an accumulated undistributed profit of RMB351,364,820. In accordance with the Hong Kong Financial Reporting Standards, the Company recorded a net profit of RMB276,565,000. After transferring RMB26,696,000 to the surplus reserves, the profit available for distribution is RMB412,598,000. The profit available for distribution in accordance with the PRC accounting standards amounted to RMB351,364,820.

## DIRECTORS' REPORT

Proposed distribution of profit for the year 2008: cash bonus dividend of RMB0.943 (tax inclusive) would be distributed for every 10 shares held based on the existing total share capital of 424,864,883 shares, totaling RMB40,064,760 in cash.

The resolution on the proposed distribution of profit for the year 2008 will be proposed at the 2008 annual general meeting for consideration and approval. The period for closure of register of members for H Shares would be set out in the separately published notice of annual general meeting by the Company in due course.

### VIII. CERTIFIED ACCOUNTANTS' SPECIAL STATEMENT OF THE CAPITAL APPROPRIATION BY THE CONTROLLING SHAREHOLDER AND OTHER RELATED PARTIES OF THE COMPANY



中準會計師事務所有限公司  
ZONZUN Accounting Office Ltd.

**Special Statement on the Capital Appropriation  
by the Controlling Shareholder and Other Related Parties of  
Shenji Group Kunming Machine Tool Co., Ltd.**  
Zonzunzhuanzi [2009] No.2025

**To all shareholders of Shenji Group Kunming Machine Tool Co., Ltd.,**

We have been engaged to audit the financial statements of Shenji Group Kunming Machine Tool Co., Ltd ("the Company") for 2008 and have issued the unqualified opinions in the audit report (Zonzunshenzi [2009] No.2153). In accordance with the requirements as stated in the "Notice of Standard Current Funds between Listed Companies and Related Parties and External Guarantees of Listed Companies" (Zheng Jian Fa [2003] No.56) as promulgated by the CSRC, we have performed a special audit on the capital appropriation by the largest shareholder and other related parties of the Company and the relevant details are explained as follows:

1. We are not aware of any non-operating capital appropriation incurred by the substantial shareholder of the Company and its affiliates.
2. We are not aware of any external guarantee incurred by the Company.
3. Other related parties transactions are as follows:
  - (1) The opening balance of operating capital appropriation by the substantial shareholder and its affiliates for 2008 amounted to RMB784,400; accumulated operating capital appropriation for the year amounted to RMB18,843,400; and the repayments and supply of goods amounted to RMB21,575,800. As at 31 December 2008, the operating capital appropriation by the substantial shareholder and its affiliates amounted to RMB3,516,800.
  - (2) The opening balance of the non-operating capital appropriation by the Company's subsidiaries and its affiliates for 2008 amounted to RMB16,155,900; interests arising from the capital movements for the year amounted to RMB216,800; with nil repayments. As at 31 December 2008, the non-operating capital appropriation by the Company's subsidiaries and its affiliates amounted to RMB25,372,700.
  - (3) No capital appropriation was incurred by the related natural persons and its controlled legal persons, other related parties and its affiliates.

## DIRECTORS' REPORT

We consider that save as the above capital appropriation by the largest shareholder and other related parties for 2008, we are not aware of any of the following circumstances that would jeopardize the interests of the Company under the "Notice of Standard Current Funds between Listed Companies and Related Parties and External Guarantees of Listed Companies" (Zheng Jian Fa [2003] No.56):

- 1) The controlling shareholder and other related parties of the Company require the Company to pay the interim expenses such as payroll advances, welfare, insurance and advertising expenses, and share the production cost and other expenses;
- 2) Provide guarantees for the loans from banks and non-financial institutions to the related parties;
- 3) Appoint the controlling shareholder and other related parties of the Company to engage in securities trading;
- 4) Issue commercial acceptance bills in respect of fraudulent business transactions for the controlling shareholder and other related parties;
- 5) Settle the loans for the controlling shareholder and other related parties of the Company.

*Appendix:* Table of non-operating capital appropriation and transactions with other related parties of the Company for 2008

### ZONZUN Accounting Office Ltd.

*Chinese Certified Public Accountant:* Han Feng  
*Chinese Certified Public Accountant:* Cheng Weiguo

Beijing, the PRC

22nd April 2009

### Table of non-operating capital appropriation and transactions with other related parties of the Company for 2008

*Unit: RMB*

Item	Name of shareholders/ controlling parties	Relationship with the Company	Accounting items of the Company subject to audit	Opening balance of capital appropriation for 2008	Accumulated capital appropriation incurred (exclusive of interests) for 2008	Interests of capital appropriation for 2008 (if any)	Accumulated repayment incurred for 2008	Closing balance of capital appropriation for 2008	Purpose of capital appropriation	Nature of capital appropriation
Substantial shareholder and its affiliates	-	-	-	-	-	-	-	-	-	-
Sub-total	-	-	-	-	-	-	-	-	-	-

## DIRECTORS' REPORT

Transactions with other related parties	Name of shareholders/controlling parties	Relationship with the Company	Accounting items of the Company subject to audit	Opening balance of capital appropriation for 2008	Accumulated capital appropriation incurred (exclusive of interests) for 2008	Interests of capital appropriation for 2008 (if any)	Accumulated repayment incurred for 2008	Closing balance of capital appropriation for 2008	Purpose of capital appropriation	Nature of capital appropriation
Substantial shareholder and its affiliates	Yunnan CY (Group) Company Products Trading Centre	Affiliate of the substantial shareholder	Accounts payable	4,300.00	-	-	4,300.00	-	Purchase of goods	Operation
	Yunnan CY (Group) Company Products Trading Centre	Affiliate of the substantial shareholder	Advance from customers	286,000.00	-	-	295,000.00	(9,000.00)	Purchase of goods	Operation
	Shenji Group Import and Export Co., Ltd.	Affiliate of the substantial shareholder	Advance from customers	483,160.00	21,575,840.00	-	18,533,200.00	3,525,800.00	Purchase of goods	Operation
	Yunnan CY (Group) Company Jinhui Spraying Factory	Affiliate of the substantial shareholder	Accounts payable	10,929.00	-	-	10,929.00	-	Purchase of goods	Operation
	Sub-total			784,389.00	21,575,840.00	-	18,843,429.00	3,516,800.00		
Company's subsidiaries and their respective affiliates	Winko Machines Co., Ltd.	Controlling subsidiary	Other receivables	14,155,881.50	-	-	-	14,155,881.50	Temporary payment	Non-operations
	Xi'an Ser Turbo Machinery Manufacturing Co., Ltd.	Subsidiary	Dividends receivable	2,000,000.00	9,000,000.00	216,825.00	-	11,216,825.00	Dividend and interest	Non-operations
	Sub-total			16,155,881.50	9,000,000.00	216,825.00	-	25,372,706.50		
Related natural persons and its controlled legal persons				-	-	-	-	-		
Sub-total				-	-	-	-	-		
Other related persons and their subsidiaries				-	-	-	-	-		
Sub-total				-	-	-	-	-		
Total				<u>15,371,492.50</u>	<u>(12,575,840.00)</u>	<u>216,825.00</u>	<u>(18,843,429.00)</u>	<u>21,855,906.50</u>		

### IX. DETAILS OF AND INDEPENDENT OPINIONS ON THE EXTERNAL GUARANTEE EXPRESSED BY THE INDEPENDENT DIRECTORS

For the details of and independent opinions on the external guarantee of the Company for 2008 expressed by the independent directors, we conducted a due diligence investigation on the external guarantee of the Company and its subsidiaries in accordance with the requirements of the "Notice of Standard Current Funds between Listed Companies and Related Parties and External Guarantees of Listed Companies" (Zheng Jian Fa [2003] No.56) as promulgated by the CSRC. The results of the due diligence were as follows:

No external guarantee was incurred during the reporting period, nor any other guarantee incurred prior to and subsisting during the reporting period.

Independent non-executive directors: Wayne Yu  
Liu Minghui  
Chen Ying  
Li Dongru

22nd April 2009

# SUPERVISORY COMMITTEE'S REPORT

## I. WORK REVIEW OF THE BOARD OF SUPERVISORS

<b>Meetings held</b>	<b>Resolutions proposed at the meetings of the Supervisory Committee</b>
The 8th meeting of the 5th session of the Board of Supervisors	Reviewed and approved the continuing connected transactions entered into with the subsidiary of Shenji Group on the export and distribution of the Company's machine products among others.
The 9th meeting of the 5th session of the Board of Supervisors	Reviewed and approved the 2007 Work Report of Board of Supervisors and all the resolutions proposed at the 40th meeting of the 5th session of the Board.
The 10th meeting of the 5th session of the Board of Supervisors	Reviewed the written resolution on the 1st quarterly report for 2008.
The 11th meeting of the 5th session of the Board of Supervisors	Reviewed the Interim Report and the Summary for 2008.
The 1st meeting of the 6th session of the Board of Supervisors	Reviewed the election of Mr. Shao Li as the chairman of the Board of Supervisors.

## II. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON THE COMPANY'S COMPLIANCE IN OPERATIONS

The Board of Supervisors attended all general shareholders' meetings and board meetings, and supervised the procedures of such meetings held, resolutions to be reviewed and approved, procedures of decision-making, implementation of resolutions, occurrence of connected transactions, undertaking of duties by the senior management officers and functioning of internal management systems. The Board of Supervisors considered that, the Board, all Directors and senior management officers had duly exercised all resolutions passed at the general shareholders' meetings and the board meetings; all decisions-making procedures were in compliance with the laws and Articles of Associations; and all management systems were effectively in force. The Company's internal control systems were continuously improving. During the supervision and inspection process, none of the Board, Directors or any senior management officers were found to have breached any laws or regulations, or infringed upon the interests of the Company and its shareholders.

## III. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON THE REVIEW OF THE COMPANY'S FINANCIAL CONDITIONS

During the reporting period, the Board of Supervisors of the Company diligently examined the Company's 2008 Annual Report and auditors' reports prepared by the domestic and foreign accounting firms. The Board of Supervisors considered that the Company's 2008 Annual Financial Report had truly and fairly reflected the financial conditions and operating results of the Company. The Board of Supervisors consented to the auditors' reports prepared by the auditors.

## IV. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON THE USE OF PROCEEDS FROM THE LATEST FUNDRAISING

During the reporting period, no changes were made to the proposed use of proceeds raised.

## SUPERVISORY COMMITTEE'S REPORT

### V. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON THE COMPANY'S ACQUISITION AND SALE OF ASSETS

The Board of Supervisors diligently examined the transfers of assets that arose during the reporting period and considered that such transfers of assets were all conducted on an arm's length basis and on reasonable commercial terms, and were in the interest of the Company and its shareholders.

During the reporting period, there was no major acquisition or sale of assets except for the Company's disposal of all the 78.02% equity interests held in Intelligent Electric Apparatus.

### VI. INDEPENDENT OPINIONS OF THE BOARD OF SUPERVISORS ON THE COMPANY'S CONNECTED TRANSACTIONS

The Board of Supervisors diligently examined the connected transactions that arose during the reporting period and considered that such connected transactions were all conducted on an arm's length basis and on reasonable commercial terms, and were in the interests of the Company and its shareholders.



## SIGNIFICANT EVENTS

### I. PRE-EMPTIVE RIGHTS

Since there is no provision for pre-emptive rights under the Company's Articles of Association, the Company did not have any arrangement for the pre-emptive rights scheme during the reporting period.

### II. WARRANTS AND OTHERS

Neither the Company nor its subsidiaries issued any warrants, convertible securities, options or other securities with similar rights, nor did any person exercise any rights as stated above.

### III. PURCHASE, SALE AND REDEMPTION OF SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any securities issued by the Company during reporting period.

### IV. BANK LOANS, OVERDRAFT AND OTHER BORROWINGS

Details of bank loans, overdrafts and other borrowings as at 31st December 2008 are set out in the Notes to the financial statements.

### V. CONTINGENT LIABILITIES

As at 31st December 2008, the Group did not have any significant contingent liabilities.

### VI. MAJOR LITIGATIONS AND ARBITRATIONS

There was no major litigation or arbitration in the reporting period.

### VII. PURCHASE AND DISPOSAL OF ASSETS OR MERGER AND ACQUISITION ACTIVITIES DURING THE REPORTING PERIOD

The resolutions considered and approved at the 38th meeting of the 5th session of the Board were as follows: the disposal of the 78.02% equity interests in Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. held by the Company, which were tradable on the Yunnan Equity Exchange Co., Ltd. with reference to the asset appraisal value. On 22nd May 2008, the Company transferred the 78.02% equity interests in Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. by way of open tender on the Yunnan Equity Exchange Co., Ltd. where the register of members was closed on 19th June 2008. In June 2008, the Company received a Notice of Litigation (XMSCZ No.210 [2008]) issued by Shaanxi Xi'an Intermediate People's Court, pursuant to which Mr. Zheng Shiquan, the natural person of the Company's controlling subsidiary Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. filed a lawsuit with Shaanxi Xi'an Intermediate People's Court against Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd., seeking a court order to dissolve Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. The Company, as the shareholder of Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd., was also involved as the third-party in the case and was served with a writ of summons by Xi'an Intermediate People's Court, pursuant to which the evidence exchange date of 14th July 2008. On 18th June 2008, the Company published the announcement on suspending the transfer of 78.02% equity interests in Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. by way of open tender on the Yunnan Equity Exchange Co., Ltd.. On 14th July 2008, the Company appeared in court to exchange evidences. Upon receiving the legal opinions issued by Yunnan Qinye Attorneys as duly appointed by the Company, the Company resumed the disposal of equity interests in its subsidiary Intelligent Electric Apparatus by way of open tender on the Yunan Equity Exchange Co., Ltd. on 18th July 2008.

In October 2008, the Company received the Civil Ruling (XMSCZ No. 210 [2008]) issued by Shaanxi Xi'an Intermediate People's Court, allowing Mr. Zheng Shiquan, the plaintiff, to withdraw the lawsuit against Intelligent Electric Apparatus. On 15th October 2008, the Company announced that to its knowledge, Mr. Zheng Shiquan, the shareholder of Intelligent Electric Apparatus proposed to transfer its equity interests to

## SIGNIFICANT EVENTS

Xi'an Jiaotong University Technology Achievement Transfer Co., Ltd. and by then the share transfer had been completed, and Xi'an Jiaotong University Technology Achievement Transfer Co., Ltd. the new shareholder of Intelligent Electric Apparatus, agreed to the disposal of 78.02% equity interests held in Intelligent Electric Apparatus by way of open tender on the Yunnan Equity Exchange Co., Ltd.. On 24th October 2008, the Company again transferred 78.02% equity interests in Intelligent Electric Apparatus by way of open tender on the Yunnan Equity Exchange Co., Ltd. at a consideration of RMB8,546,900 (based on the asset appraisal value). On 4th December 2008, the Company, as the seller, signed a Share Subscription Agreement with the only bidder, Xi'an Jiaotong University Science & Technology Park Co., Ltd. to transfer the entire 78.02% equity interests held in Intelligent Electric Apparatus for a cash consideration of RMB8,546,900. Since then, the Company did not hold any equity interests in Intelligent Electric Apparatus.

Save as disclosed above, there were no other purchases or sales of assets, nor merger and acquisition activities.

## VIII. CONNECTED TRANSACTIONS DURING THE REPORTING PERIOD

### 1. Connected transactions in the course of ordinary business

1. The Company entered into distribution agreements with Shenyang Machine Tool Import & Export Co., Ltd. ("Shenji EXIM") and Yunnan Yunji Group Import & Export Co., Ltd. ("Yunji EXIM") respectively in respect of certain machine tool products. Pursuant to the agreements, the Company agreed to authorize Shenji EXIM and Yunji EXIM to distribute and export certain machine tool products from 1st April 2008 to 31st December 2010, effective from the date of the passing of the resolution by the independent shareholders at the EGM held on 13th June 2008. The annual caps were RMB40,000,000, RMB50,000,000, and RMB60,000,000 for Shenji EXIM respectively and RMB10,000,000, RMB15,000,000, and RMB20,000,000 for Yunji EXIM respectively. Such transactions were conducted on a regular and continuing basis in the ordinary and usual course of business of the Company as an effort to expand overseas market leveraging on the existing overseas distribution network of the export and import companies. The Directors of the Company (including four independent non-executive directors) reviewed such transactions and considered that: i) the distribution agreements were entered into on normal commercial terms and conditions in the ordinary and usual course of business of the Company, negotiated on an arm's length basis and at prices and terms no less favorable than those charged and offered to other distributors of the Company (independent third parties); ii) the terms of the distribution agreements were fair, reasonable and in the interests of the Company and its shareholders as a whole.
2. On 12th May 2008, the Company entered into an agreement (the "Agreement") with Kunming Kunji Group ("Kunji Group"), pursuant to which the Company would demolish the buildings it leased from Kunji Group and used as casting workshops for reconstruction. In return, the Company agreed to pay a one-off compensation of RMB1,949,943 to Kunji Group. The Directors of the Company (including four independent non-executive directors) reviewed the Agreement and considered that: i) the Agreement was entered into on normal commercial terms and conditions; ii) the compensation price determined based on the asset appraisal report was fair, reasonable and favorable to the Company's business growth, and in the interests of the Company and its shareholders as a whole.
3. On 28th May 2008, the Company entered into an agreement (the "Agreement") with Yunnan CY Group Co., Ltd. Products Trading Center, pursuant to which the Company agreed to sell a TJK6920 floor-type boring and milling machine to Yunnan CY Group Co., Ltd. Products Trading Center. The Directors of the Company (including four independent non-executive directors) reviewed the Agreement and considered that: i) the Agreement was entered into on normal commercial terms and conditions in the ordinary and usual course of business of the Company, with the selling price negotiated on an arm's length basis; ii) the connected transaction was fair, reasonable and favorable to the Company's business growth and in the interests of the Company and its shareholders as a whole.

# SIGNIFICANT EVENTS

## IX. BANKRUPTCY AND LIQUIDATION MATTERS

The Company did not experience any bankruptcy nor liquidation matters.

## X. ANALYSIS OF OTHER MAJOR MATTERS AND ITS IMPACTS AND SOLUTIONS

The Company did not have interests in other listed companies nor in any invested financial institutions.

## XI. MATERIAL CONTRACTS AND THEIR PERFORMANCE

### 1. Escrow agency, contracting and lease matters

(1) *Escrow agency*

There was no escrow agency of the Company during the year.

(2) *Contracting*

There was no contracting of the Company during the year.

(3) *Lease*

There was no lease of the Company during the year.

### 2. Guarantee

There was no guarantee of the Company during the year.

### 3. Entrusted investment

There was no entrusted investment of the Company during the year.

### 4. Other material contracts

There was no other material contract of the Company during the year.

### 5. Cash bonus distribution of the Company over the past three years (Unit: RMB)

Year	Net profit for the year	Undistributed profit at the end of the year	Cash bonus dividend amount	Cash bonus dividend to net profit
2006	91,348,518.31	35,651,409.35	0	0
2007	211,293,639.21	225,815,684.64	114,713,518.41	54.29%
2008	266,958,506.12	351,364,820.13	40,064,758.47	15.00%

# SIGNIFICANT EVENTS

## XII. PERFORMANCE OF COMMITMENTS

1. Shenyang Machine Tool (Group) Co., Ltd. and Yunnan State-owned Assets Operation Co., Ltd. undertook that the shares held by them would not be sold through the stock exchange for trading from listing to 31st December 2010. As at the end of the reporting period, the shares held by the above shareholders were not tradable.
2. Shenyang Machine Tool (Group) Co., Ltd. and Yunnan State-owned Assets Operation Co., Ltd. undertook that the resolution on the transfer of capital reserves to new shares be proposed and approved at the general meeting within one year after the completion of share reform on the basis of no less than five new shares for every 10 shares held. Such resolution was approved at the general meeting and relevant class meetings for 2006 held on 29th June 2007 and the transfer was completed.
3. Shenyang Machine Tool (Group) Co., Ltd. and Yunnan State-owned Assets Operation Co., Ltd. undertook that the resolution on the distribution of profits of no less than 50% of profits in the form of cash bonus dividend be proposed and approved at the general meeting if the performance of the Company in 2006 or 2007 fulfils the conditions for distribution of profits to shareholders. Such distribution of profits was completed in July 2008.
4. Shenyang Machine Tool (Group) Co., Ltd. undertook that it would provide full support to the business development of the Company in terms of technology, corporate management and resources and would consolidate the relevant resources and markets leverage on its own unique strengths based on the principles and models favorable to accelerating the growth of the Company within two years after the share transfer and share reform with a view to develop Kunming Machine Tool as the important platform for technological upgrade, business expansion and sector growth to provide comprehensive support and facilitate the sustainable and healthy development of the Company. Currently, Shenyang Machine Tool (Group) Co., Ltd. has introduced production management officers to the Company in order to facilitate the increase in the production management capabilities and provide convenience for the exports of the Company in terms of market expansion.

## XIII. APPOINTMENT AND REMOVAL OF AUDITORS

Appointment of new auditors:	No
Domestic auditor	Current auditors engaged ZONZUN Accounting Office Ltd.
Term of domestic auditor	2 years
Foreign auditor	KPMG (HKCPA)
Term of foreign auditor	2 years

## XIV. PENALTIES ON THE COMPANY, ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS, SHAREHOLDERS AND BENEFICIAL CONTROLLER OF THE COMPANY, AND RECTIFICATION ISSUES

During the reporting period, there were no penalties on the Company, its Directors, supervisors and senior management officers.

## XV. DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT OFFICERS, AND SHAREHOLDERS HOLDING OVER 5% SHARES OF THE COMPANY INVOLVED IN IRREGULAR TRADING OF SHARES OF THE COMPANY AND DISCLOSURE OF THE RECOVERY OF SUCH GAIN ARISING FROM SUCH IRREGULAR TRADING

During the reporting period, no Directors, supervisors, senior management and shareholders holding over 5% shares of the Company were involved in the irregular trading of the shares of the Company.

## SIGNIFICANT EVENTS

### XVI. PUBLIC FLOAT

Based on the information that is publicly available to the Company and to the knowledge of the Directors, the Company has, during the year and up to the date of this report, maintained a public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

### XVII. OTHER SIGNIFICANT EVENTS

According to the resolution on the liquidation of Winko Machines Co., Ltd. proposed at the 32nd meeting of the 5th session of the Board of the Company, the Company recommended Winko Machines Co., Ltd. to convene a general meeting and such meeting was held on 30th June 2008 to consider and approve the resolution on dissolution and liquidation. Meanwhile, the Company published an announcement in respect of such matter. Currently, the liquidation team is undertaking the liquidation pursuant to requirements of the relevant laws and regulations.

### XVIII. INFORMATION DISCLOSURE

<b>Event</b>	<b>Publishing newspaper</b>	<b>Publishing date</b>	<b>Website</b>
Announcement on the results of the 36th meeting of the 5th session of the Board	China Securities Daily, Shanghai Securities News and Securities Times	2nd January 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement on the performance of commitment of shareholders of non-circulating shares as stated in the Share Reform Agreement	China Securities Daily, Shanghai Securities News and Securities Times	2nd January 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement from the Board	China Securities Daily, Shanghai Securities News and Securities Times	3rd January 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement on positive profit alert	China Securities Daily, Shanghai Securities News and Securities Times	31st January 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement on the trading of selling restricted circulating shares	China Securities Daily, Shanghai Securities News and Securities Times	28th February 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement from the Board	China Securities Daily, Shanghai Securities News and Securities Times	3rd March 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>



## SIGNIFICANT EVENTS

Event	Publishing newspaper	Publishing date	Website
Announcement on the performance of holders of non-circulating shares commitment in relation to the Share Reform	China Securities Daily, Shanghai Securities News and Securities Times	1st April 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement on the results of the 38th meeting of the 5th session of the Board	China Securities Daily, Shanghai Securities News and Securities Times	8th April 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement on continuing connected transactions	China Securities Daily, Shanghai Securities News and Securities Times	8th April 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement on the results of the 40th meeting of the 5th session of the Board	China Securities Daily, Shanghai Securities News and Securities Times	25th April 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement of the results of the 9th meeting of the 5th session of the Supervisory Committee	China Securities Daily, Shanghai Securities News and Securities Times	25th April 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Notice of the 1st session of EGM	China Securities Daily, Shanghai Securities News and Securities Times	25th April 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Notice of 2007 AGM	China Securities Daily, Shanghai Securities News and Securities Times	25th April 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement on the connected transactions relating to the compensation for housing demolition	China Securities Daily, Shanghai Securities News and Securities Times	15th May 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement from the Board	China Securities Daily, Shanghai Securities News and Securities Times	22nd May 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>



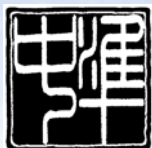
## SIGNIFICANT EVENTS

Event	Publishing newspaper	Publishing date	Website
Announcement on the results of the 42nd meeting of the 5th session of the Board	China Securities Daily, Shanghai Securities News and Securities Times	28th May 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement on connected transactions	China Securities Daily, Shanghai Securities News and Securities Times	5th June 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement from the Board	China Securities Daily, Shanghai Securities News and Securities Times	11th June 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement on the results of the 1st session of EGM for 2008	China Securities Daily, Shanghai Securities News and Securities Times	14th June 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement on the results of 2007 AGM	China Securities Daily, Shanghai Securities News and Securities Times	14th June 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement from the Board	China Securities Daily, Shanghai Securities News and Securities Times	19th June 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement on the implementation of profit distribution of A Shares for 2007	China Securities Daily, Shanghai Securities News and Securities Times	25th June 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement from the Board	China Securities Daily, Shanghai Securities News and Securities Times	3rd July 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement from the Board	China Securities Daily, Shanghai Securities News and Securities Times	18th July 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement on positive results alert	China Securities Daily, Shanghai Securities News and Securities Times	25th July 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>

## SIGNIFICANT EVENTS

Event	Publishing newspaper	Publishing date	Website
Report on special remedies on corporate governance	China Securities Daily, Shanghai Securities News and Securities Times	26th July 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement on the results of the board meeting	China Securities Daily, Shanghai Securities News and Securities Times	13th September 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Notice of the 2nd session of the EGM for 2008	China Securities Daily, Shanghai Securities News and Securities Times	13th September 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement from the Board	China Securities Daily, Shanghai Securities News and Securities Times	15th October 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement from the Board	China Securities Daily, Shanghai Securities News and Securities Times	24th October 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement on the results of the 2nd session of the EGM for 2008	China Securities Daily, Shanghai Securities News and Securities Times	1st November 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
1st meeting of the 6th session of the Board	China Securities Daily, Shanghai Securities News and Securities Times	1st November 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
1st meeting of the 6th session of the Supervisory Committee	China Securities Daily, Shanghai Securities News and Securities Times	1st November 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement from the Board	China Securities Daily, Shanghai Securities News and Securities Times	5th December 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>
Announcement on connected transactions	China Securities Daily, Shanghai Securities News and Securities Times	6th December 2008	<a href="http://www.sse.com.cn">http://www.sse.com.cn</a> ; <a href="http://www.hkex.com.hk">http://www.hkex.com.hk</a> ; <a href="http://www.kmtcl.com.cn">www.kmtcl.com.cn</a>

# AUDITOR'S REPORT



中准會計師事務所有限公司  
ZONZUN Accounting Office Ltd.

## Auditor's Report

zonzunshenzi (2009) No.2153

### To all shareholders of Shenji Group Kunming Machine Tool Co., Ltd.,

We have audited the accompanying financial statements of Shenji Group Kunming Machine Tool Co., Ltd. (the "Company or Kunming Machine Tool"), which comprise the consolidated balance sheet and balance sheet as at 31st December 2008, the consolidated income and profit appropriation statement, income and profit appropriation statement, the consolidated statement of changes in equity, the statement of changes in equity, and consolidated cash flow statement and cash flow statement for the year then ended, and notes to the financial statements.

### 1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable in the circumstances.

### 2. AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China's Auditing Standards for the Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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 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 Company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, 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.

### 3. OPINION

In our opinion, the financial statements comply with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises and present fairly, in all material respects, the financial position of the Company as at 31st December 2008, the results of operations and cash flows of the Company for the year then ended.

**ZONZUN Accounting Office Ltd.**

*Chinese Certified Public Accountant: Han Feng*  
*Chinese Certified Public Accountant: Cheng Weiguo*

Beijing, PRC  
22nd April 2009

# CONSOLIDATED BALANCE SHEET

As at 31st December 2008

Unit: Shenji Group Kunming Machine Tool Company Limited

Unit: RMB

Item	Note	Closing balance	Opening balance
<b>Current Assets:</b>			
Monetary assets		327,941,401.88	370,350,788.42
Settlement reserve		—	—
Loans to other banks		—	—
Trading financial assets		—	—
Bills receivable		63,855,343.27	134,784,345.56
Accounts receivable		185,708,633.74	156,028,111.50
Prepayments		50,945,269.94	41,436,623.72
Premiums receivable		—	—
Reinsurance accounts receivable		—	—
Reinsurance contract reserve receivable		—	—
Interests receivable		—	—
Dividends receivable		—	—
Other receivables		15,790,025.36	21,434,300.74
Purchase and sell-back of financial assets		—	—
Inventories		663,296,357.16	427,422,511.57
Non-current assets due within one year		—	—
Other current assets		—	—
<b>TOTAL CURRENT ASSETS</b>		<b><u>1,307,537,031.35</u></b>	<b><u>1,151,456,681.51</u></b>
<b>NON-CURRENT ASSETS:</b>			
Loans and advances granted		—	—
Available-for-sale financial assets		—	—
Held-to-maturity investment		—	—
Long-term receivables		—	—
Long-term equity investment		53,205,605.05	44,320,560.29
Real estate held for investment		—	—
Fixed assets		442,941,475.00	401,740,740.81
Construction-in-progress		29,926,270.49	46,097,502.88
Project materials		—	—
Disposal of fixed assets		—	—
Productive biological assets		—	—
Oil assets		—	—
Intangible assets		33,273,841.17	92,376,761.28
Development cost		—	—
Goodwill		7,296,277.00	7,296,277.00
Long-term deferred expenditures		328,967.70	163,127.70
Deferred income tax assets		37,260,775.74	35,556,034.52
Other non-current assets		—	—
<b>TOTAL NON-CURRENT ASSETS</b>		<b><u>604,233,212.15</u></b>	<b><u>627,551,004.48</u></b>
<b>TOTAL ASSETS</b>		<b><u>1,911,770,243.50</u></b>	<b><u>1,779,007,685.99</u></b>

# CONSOLIDATED BALANCE SHEET

As at 31st December 2008

Unit: Shenji Group Kunming Machine Tool Company Limited

Item	Note	Closing balance	Opening balance
<i>Unit: RMB</i>			
<b>CURRENT LIABILITIES:</b>			
Short-term loans		70,000,000.00	0
Borrowings from central bank		-	-
Deposits from customers and deposits from banks received		-	-
Loans from other banks		-	-
Trading financial liabilities		-	-
Bills payable		14,226,445.60	4,670,000.00
Accounts payable		206,953,402.63	130,879,524.76
Advances from customers		433,644,514.95	432,062,138.47
Gain on disposal of re-purchased financial assets		-	-
Fees and commissions payable		-	-
Accrued salary		36,753,791.91	42,071,636.57
Taxes payable		(3,832,135.14)	67,941,177.43
Interests payable		-	-
Dividends payable		344,092.75	1,176,869.81
Other payables		12,724,709.38	64,694,849.97
Reinsurance accounts payables		-	-
Insurance contract reserve payable		-	-
Agency securities trading		-	-
Agency securities underwriting		-	-
Non-current liabilities due within one year		-	-
Other current liabilities		-	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>770,814,822.08</b>	<b>743,496,197.01</b>
<b>NON-CURRENT LIABILITIES:</b>			
Long-term borrowings		0	50,000,000.00
Bonds payable		-	-
Long-term payables		2,771,717.30	10,184,926.40
Specific payables		8,100,000.00	8,100,000.00
Contingent liabilities		13,803,999.97	9,117,430.70
Deferred income tax liabilities		-	-
Other non-current liabilities		10,568,903.51	4,724,203.71
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>35,244,620.78</b>	<b>82,126,560.81</b>
<b>TOTAL LIABILITIES</b>		<b>806,059,442.86</b>	<b>825,622,757.82</b>
<b>Shareholders' equity:</b>			
Share capital		424,864,883.00	424,864,883.00
Capital reserve		133,519,541.72	133,519,541.72
Less: treasury shares		-	-
Surplus reserve		68,599,140.08	41,903,289.47
Common risk provision		-	-
Undistributed profits		414,246,947.45	279,091,413.76
Foreign currency translation difference		-	-
<b>Total equity attributable to the holders of the parent company</b>		<b>1,041,230,512.25</b>	<b>879,379,127.95</b>
Minority interests		64,480,288.39	74,005,800.22
<b>TOTAL EQUITY</b>		<b>1,105,710,800.64</b>	<b>953,384,928.17</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,911,770,243.50</b>	<b>1,779,007,685.99</b>

Legal representative of the Company: Mr. Gao Minghui, Chief Financial Officer: Mr. Pi Jianguo, Prepared by: Ms. Zhao Qiongfeng

# BALANCE SHEET OF THE PARENT COMPANY

As at 31st December 2008

Unit: Shenji Group Kunming Machine Tool Company Limited

Unit: RMB

Item	Note	Closing balance	Opening balance
<b>Current Assets:</b>			
Monetary assets		279,084,078.67	322,698,506.89
Trading financial assets		—	—
Bills receivable		44,172,517.90	88,342,942.50
Accounts receivable		156,220,714.18	115,021,074.71
Prepayments		21,710,636.73	9,544,865.11
Interests receivable		—	—
Dividends receivable		11,000,000.00	2,000,000.00
Other receivables		42,864,973.59	21,760,471.53
Inventories		439,415,513.71	285,715,585.15
Non-current assets due within one year		—	—
Other current assets		—	—
<b>TOTAL CURRENT ASSETS</b>		<b>994,468,434.78</b>	<b>845,083,445.89</b>
<b>NON-CURRENT ASSETS:</b>			
Available-for-sale financial assets		—	—
Held-to-maturity investment		—	—
Long-term receivables		—	—
Long-term equity investment		80,898,870.90	77,493,826.14
Real estate held for investment		—	—
Fixed Assets		381,727,586.57	334,862,588.72
Construction-in-progress		29,926,270.49	44,346,100.88
Project materials		—	—
Disposal of fixed assets		—	—
Productive biological assets		—	—
Oil assets		—	—
Intangible Assets		20,294,842.49	21,507,860.15
Development cost		—	—
Goodwill		—	—
Long-term deferred expenditures		206,250.00	—
Deferred income tax assets		39,011,311.24	37,492,215.28
Other non-current assets		—	—
<b>TOTAL NON-CURRENT ASSETS</b>		<b>552,065,131.69</b>	<b>515,702,591.17</b>
<b>TOTAL ASSETS</b>		<b>1,546,533,566.47</b>	<b>1,360,786,037.06</b>
<b>CURRENT LIABILITIES:</b>			
Short-term borrowings		50,000,000.00	—
Trading financial liabilities		—	—
Bills payable		—	—
Accounts payable		153,246,174.66	61,554,083.95
Advances from customers		264,430,731.01	309,550,464.02
Accrued salary		35,004,475.78	39,106,679.99
Taxes payable		5,180,393.38	45,700,000.56
Interests payable		—	—
Dividends payable		—	—
Other payables		33,352,954.85	11,947,285.05
Non-current liabilities due within one year		—	—
Other current liabilities		—	—
<b>TOTAL CURRENT LIABILITIES</b>		<b>541,214,729.68</b>	<b>467,858,513.57</b>



# BALANCE SHEET OF THE PARENT COMPANY

As at 31st December 2008

Unit: Shenji Group Kunming Machine Tool Company Limited

Item	Note	Closing balance	Opening balance
<i>Unit: RMB</i>			
<b>NON-CURRENT LIABILITIES:</b>			
Long-term borrowings		–	50,000,000
Bonds payable		–	–
Long-term payables		2,771,717.30	2,984,926.40
Specific payables		–	–
Contingent liabilities		13,629,831.05	9,114,994.55
Deferred income tax liabilities		–	–
Other non-current liabilities		10,568,903.51	4,724,203.71
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>26,970,451.86</b>	<b>66,824,124.66</b>
<b>TOTAL LIABILITIES</b>		<b>568,185,181.54</b>	<b>534,682,638.23</b>
<b>Shareholders' equity:</b>			
Share capital		424,864,883.00	424,864,883.00
Capital reserve		133,519,541.72	133,519,541.72
Less: treasury shares		–	–
Surplus reserve		68,599,140.08	41,903,289.47
Undistributed profits		351,364,820.13	225,815,684.64
Foreign currency translation difference		–	–
<b>TOTAL EQUITY</b>		<b>978,348,384.93</b>	<b>826,103,398.83</b>
<b>TOTAL LIABILITIES AND EQUITY</b>		<b>1,546,533,566.47</b>	<b>1,360,786,037.06</b>

Legal representative of the Company: Mr. Gao Minghui, Chief Financial Officer: Mr. Pi Jianguo, Prepared by: Ms. Zhao Qiongfeng

# CONSOLIDATED INCOME STATEMENT

For the year ended 31st December 2008

Item	Note	Unit: RMB	
		Current period	Prior period
<b>1. Total operating income</b>		<b>1,563,105,398.47</b>	<b>1,302,385,627.67</b>
Including: Operating income		1,563,105,398.47	1,302,385,627.67
Interest income		–	–
Premium earned		–	–
Fee and commission income		–	–
<b>2. Total operating costs</b>		<b>1,036,088,704.18</b>	<b>834,436,283.95</b>
Including: Operating costs		–	–
Interest expense		–	–
Fee and commission expenses		–	–
Premium refunded		–	–
Net compensation expenses		–	–
Net insurance contract reserve withdrawn		–	–
Premium bonus expenses		–	–
Reinsurance expenses		–	–
Business tax and additions		1,299,127.90	2,816,838.63
Selling expenses		69,693,273.58	61,881,625.26
Administrative expenses		155,594,573.36	116,126,778.56
Finance expenses		2,020,850.24	4,691,828.43
Losses on impairment of assets		21,435,436.33	27,752,638.68
Add: gain on fair value change (“–” for loss)		–	–
Investment income (“–” for loss)		15,050,623.31	28,042,739.41
Including: Investment income from associates and joint ventures		12,185,052.56	4,978,835.82
Exchange gain (“–” for loss)		–	–
<b>3. Operating profits (“–” for loss)</b>		<b>292,024,056.18</b>	<b>282,722,373.57</b>
Add: Non-operating income		31,213,468.60	25,364,687.69
Less: Non-operating expenses		4,314,181.72	10,904,625.54
Including: Net loss on disposal of non-current assets		3,772,353.78	1,874,551.53
<b>4. Total profits (“–” for loss)</b>		<b>318,923,343.07</b>	<b>297,182,435.72</b>
Less: Income tax expenses		37,803,229.17	45,703,949.40
<b>5. Net profits (“–” for loss)</b>		<b>281,120,113.89</b>	<b>251,478,486.32</b>
Net profit attributable to the equity holders’ of the parent company		276,564,904.31	242,957,688.27
Minority interests		4,555,209.58	8,520,798.05
<b>6. Earnings per share</b>			
(1) Basic EPS		0.65	0.57
(2) Diluted EPS		0.65	0.57

Legal representative of the Company: Mr. Gao Minghui, Chief Financial Officer: Mr. Pi Jianguo, Prepared by: Ms. Zhao Qionghen

# PROFIT APPROPRIATION STATEMENT OF THE COMPANY

For the year ended 31st December 2008

Item	Note	Unit: RMB	
		Current period	Prior period
<b>1. Operating income</b>		<b>1,245,039,679.38</b>	<b>941,950,867.26</b>
Less: operating costs		780,628,160.96	568,723,160.27
Business tax and additions		–	–
Selling expenses		58,374,685.93	48,040,340.05
Administrative expenses		135,008,764.17	95,156,609.26
Finance expenses		1,252,382.12	3,292,789.00
Losses on impairment of assets		16,530,366.56	31,812,543.85
Add: gain on fair value change (“–” for loss)		–	–
Investment income (“–” for loss)		21,860,150.24	27,410,028.42
Including: Investment income from associates and joint ventures		12,185,052.56	4,978,835.82
<b>2. Operating profits (“–” for loss)</b>		<b>275,105,469.88</b>	<b>222,335,453.25</b>
Add: Non-operating income		27,379,989.62	21,673,381.29
Less: Non-operating expenses		4,013,918.17	1,869,371.71
Including: Net loss on disposal of non-current assets		3,522,355.84	1,710,266.11
<b>3. Total profits (“–” for loss)</b>		<b>298,471,541.33</b>	<b>242,139,462.83</b>
Less: Income tax expenses		31,513,035.21	30,845,823.62
<b>4. Net profits (“–” for loss)</b>		<b>266,958,506.12</b>	<b>211,293,639.21</b>

Legal representative of the Company: Mr. Gao Minghui, Chief Financial Officer: Mr. Pi Jianguo, Prepared by: Ms. Zhao Qiongfeng

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2008

Unit: Shenji Group Kunming Machine Tool Company Limited

Item	Note	Current period	Unit: RMB Prior period
<b>1. Cash flows from operating activities:</b>			
Cash received from sale of goods or rendering of services		1,750,300,850.04	1,628,780,814.43
Net increase in deposits from customers and deposits from other banks		-	-
Net increase in borrowings from central bank		-	-
Net increase in loans from other financial institutions		-	-
Cash premiums received from existing insurance contracts		-	-
Net cash received from reinsurance business		-	-
Net increase in deposit and investment from the insured		-	-
Net increase in the disposal of trading financial assets		-	-
Cash from interest, fee and commission received		-	-
Net increase in loans from other banks		-	-
Net increase in loans of repurchased business		-	-
Refund of tax received		27,532,052.68	17,112,395.96
Other cash received relating to operating activities		13,543,151.99	14,198,378.51
Sub-total of cash inflows from operating activities		<u>1,791,376,054.71</u>	<u>1,660,091,588.90</u>
Cash paid for purchase of goods and services		1,225,085,145.08	1,079,713,092.83
Net increase in customer loans and advances		-	-
Net increase in deposits with central bank and other banks		-	-
Cash compensations paid for existing insurance contracts		-	-
Cash paid for interest, fee and commission		-	-
Cash paid for premium bonus		-	-
Cash paid to and on behalf of employees		202,810,199.24	140,926,293.74
Taxes paid		179,993,844.26	112,690,596.30
Other cash paid relating to operating activities		63,439,012.04	61,711,306.11
Sub-total of cash outflows from operating activities		<u>1,671,328,200.62</u>	<u>1,395,041,288.98</u>
Net cash flows from operating activities		<u>120,047,854.09</u>	<u>265,050,299.92</u>
<b>2. Cash flows from investing activities:</b>			
Cash received from recovery of investment		-	105,322,478.67
Cash received from return on investment		3,453,213.29	69,041.10
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		2,268,673.87	2,021,747.98
Net cash received from disposal of subsidiaries and other business units		6,680,484.19	(1,367,894.02)
Other cash received relating to investing activities		-	-
Sub-total of cash inflows from investing activities		<u>12,402,371.35</u>	<u>106,045,373.73</u>
Cash paid to acquire fixed assets, intangible assets and long-term assets		65,993,192.83	81,783,013.67
Cash paid for investment		500,000.00	50,000,000.00
Net increase in pledged loans		-	-
Net cash paid to acquire subsidiaries and other business units		-	-
Other cash paid relating to investing activities		-	39,739.30
Sub-total of cash outflows from investing activities		<u>66,493,192.83</u>	<u>131,822,752.97</u>
Net cash flows from investing activities		<u>(54,090,821.48)</u>	<u>(25,777,379.24)</u>

# CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31st December 2008

Unit: Shenji Group Kunming Machine Tool Company Limited

Item	Note	Current period	Unit: RMB Prior period
<b>3. Cash flows from financing activities:</b>			
Cash received from capital contribution		2,500,000.00	–
Including: Cash received from investment of minority shareholders of subsidiaries		–	–
Cash from borrowings		70,000,000.00	55,000,000.00
Cash received from bond issuance		–	–
Other cash received relating to financing activities		<u>324,493.46</u>	–
Sub-total of cash inflows from financing activities		<u>72,824,493.46</u>	<u>55,000,000.00</u>
Cash repayments for amounts borrowed		50,000,000.00	60,000,000.00
Cash paid for distribution of dividends, profits or repayment of interest expenses		130,196,933.65	4,428,202.39
Including: Dividends and profits paid by subsidiaries to minority shareholders		–	–
Other cash paid relating to financing activities		<u>20,585.92</u>	–
Sub-total of cash outflows from financing activities		<u>180,217,519.57</u>	<u>64,428,202.39</u>
Net cash flows from financing activities		<u>(107,393,026.11)</u>	<u>(9,428,202.39)</u>
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b><u>(1,527,016.07)</u></b>	<b><u>(2,447,439.44)</u></b>
<b>5. Net increase in cash and cash equivalents</b>		<b><u>(42,963,009.57)</u></b>	<b><u>227,397,278.85</u></b>
Add: Cash and cash equivalents at the beginning of the period		<u>370,904,411.45</u>	<u>143,507,132.60</u>
<b>6. Cash and cash equivalents at the end of the period</b>		<b><u>327,941,401.88</u></b>	<b><u>370,904,411.45</u></b>

Legal representative of the Company: Mr. Gao Minghui, Chief Financial Officer: Mr. Pi Jianguo, Prepared by: Ms. Zhao Qiongfeng

# CASH FLOW STATEMENT OF THE PARENT COMPANY

For the year ended 31st December 2008

Item	Note	Unit: RMB	
		Current period	Prior period
<b>1. Cash flows from operating activities:</b>			
Cash received from sale of goods or rendering of services		1,318,585,444.46	1,327,709,234.29
Tax refund received		26,293,607.79	16,227,273.85
Other cash received relating to operating activities		8,629,117.78	4,158,047.62
Sub-total of cash inflows from operating activities		1,353,508,170.03	1,348,094,555.76
Cash paid for purchase of goods and services		893,649,708.98	843,697,132.48
Cash paid to and on behalf of employees		163,254,682.80	125,171,680.65
Taxes paid		135,433,426.94	91,987,626.12
Other cash paid relating to operating activities		33,692,435.23	42,801,626.92
Sub-total of cash outflows from operating activities		1,226,030,253.95	1,103,658,066.17
Net cash flows from operating activities		127,477,916.08	244,436,489.59
<b>2. Cash flows from investing activities:</b>			
Cash received from recovery of investment		–	105,322,478.67
Cash received from return on investment		3,453,213.29	69,041.10
Net cash received from disposal of fixed assets, intangible assets and other long-term assets		896,434.05	1,951,150.00
Cash received from disposal of subsidiaries and other business units		8,501,892.19	–
Other cash received relating to investing activities		–	–
Sub-total of cash inflows from investing activities		12,851,539.53	107,342,669.77
Cash paid to acquire fixed assets, intangible assets and long-term assets		61,600,911.17	71,088,793.44
Cash paid for investment		2,500,000.00	53,000,000.00
Cash paid to acquire subsidiaries and other business units		–	–
Other cash paid relating to investing activities		–	–
Sub-total of cash outflows from investing activities		64,100,911.17	124,088,793.44
Net cash flows from investing activities		(51,249,371.64)	(16,746,123.67)
<b>3. Cash flows from financing activities:</b>			
Cash received from capital contribution		–	–
Cash from borrowings		50,000,000.00	50,000,000.00
Other cash received relating to financing activities		–	–
Sub-total of cash inflows from financing activities		50,000,000.00	50,000,000.00
Cash repayment paid for amount borrowed		50,000,000.00	40,000,000.00
Cash paid for distribution of dividends, profits or repayment of interest expenses		118,315,956.59	3,141,708.73
Other cash paid relating to financing activities		–	–
Sub-total of cash outflows from financing activities		168,315,956.59	43,141,708.73
Net cash flows from financing activities		(118,315,956.59)	6,858,291.27
<b>4. Effect of foreign exchange rate changes on cash and cash equivalents</b>		<b>(1,527,016.07)</b>	<b>(2,447,439.44)</b>
<b>5. Net increase in cash and cash equivalents</b>		<b>(43,614,428.22)</b>	<b>232,101,217.75</b>
Add: Cash and cash equivalents at the beginning of the period		322,698,506.89	90,597,289.14
<b>6. Cash and cash equivalents at the end of the period</b>		<b>279,084,078.67</b>	<b>322,698,506.89</b>

Legal representative of the Company: Mr. Gao Minghui, Chief Financial Officer: Mr. Pi Jianguo, Prepared by: Ms. Zhao Qiongfeng



# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2008

Unit: RMB

Item	Current Year							Minority interest	Total shareholders' equity
	Attributable to the equity holders of the parent company								
	Share capital	Capital reserve	Less: treasury shares	Surplus reserve	Common risk reserve	Undistributed profit	Others		
<b>1. Closing balance of prior year</b>	<b>424,864,883.00</b>	<b>133,519,541.72</b>	-	<b>41,903,289.47</b>	-	<b>279,091,413.76</b>	-	<b>74,005,800.22</b>	<b>953,384,928.17</b>
Add: Retrospective adjustment arising from consolidation of jointly controlled entities	-	-	-	-	-	-	-	-	-
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-
Prior period adjustment	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
<b>2. Opening balance of current year</b>	<b>424,864,883.00</b>	<b>133,519,541.72</b>	-	<b>41,903,289.47</b>	-	<b>279,091,413.76</b>	-	<b>74,005,800.22</b>	<b>953,384,928.17</b>
<b>3. Changes during the year ("-" for decrease)</b>	-	-	-	<b>26,695,850.61</b>	-	<b>135,155,533.69</b>	-	<b>(9,525,511.83)</b>	<b>152,325,872.47</b>
(1) Net profits	-	-	-	-	-	276,564,904.31	-	4,555,209.58	281,120,113.89
(2) Gain or loss directly recognized in shareholders' equity	-	-	-	-	-	-	-	-	-
(i) Net changes in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	-
(ii) Effect of changes in other shareholders' equity of invested companies under equity method	-	-	-	-	-	-	-	-	-
(iii) Income tax implication on items recognized in shareholders' equity	-	-	-	-	-	-	-	-	-
(iv) Others	-	-	-	-	-	-	-	-	-
Sub-total of (1) and (2)	-	-	-	-	-	276,564,904.31	-	4,555,209.58	281,120,113.89
(3) Capital contribution and reduction by equity holders	-	-	-	-	-	-	-	(3,080,721.41)	(3,080,721.41)
(i) Capital contribution by equity holders	-	-	-	-	-	-	-	-	-
(ii) Share-based payments recognized in shareholders' equity	-	-	-	-	-	-	-	-	-
(iii) Others	-	-	-	-	-	-	-	(3,080,721.41)	(3,080,721.41)
(4) Profit distribution	-	-	-	26,695,850.61	-	(141,409,370.61)	-	(11,000,000.00)	(125,713,520.00)
(i) Transfer to surplus reserve	-	-	-	26,695,850.61	-	(26,695,850.61)	-	-	-
(ii) Transfer to common risk reserve	-	-	-	-	-	-	-	-	-
(iii) Transfer to equity holders (or shareholders)	-	-	-	-	-	(114,713,520.00)	-	(11,000,000.00)	(125,713,520.00)
(iv) Others	-	-	-	-	-	-	-	-	-
(5) Shareholders' equity internally carried forward	-	-	-	-	-	-	-	-	-
(i) Transfer from capital reserve to increase share capital	-	-	-	-	-	-	-	-	-
(ii) Transfer from surplus reserve to increase share capital	-	-	-	-	-	-	-	-	-
(iii) Losses offset by surplus reserve	-	-	-	-	-	-	-	-	-
(iv) Others	-	-	-	-	-	-	-	-	-
<b>4. Closing balance of current period</b>	<b>424,864,883.00</b>	<b>133,519,541.72</b>	-	<b>68,599,140.08</b>	-	<b>414,246,947.45</b>	-	<b>64,480,288.39</b>	<b>1,105,710,800.64</b>

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31st December 2008

Unit: RMB

Item	Prior year							Minority interest	Total shareholders' equity
	Attributable to the equity holders of the parent company								
	Share capital	Capital reserve	Less: treasury shares	Surplus reserve	Common risk reserve	Undistributed Profit	Others		
<b>1. Closing balance of prior year</b>	<b>245,007,400.00</b>	<b>313,377,024.72</b>	-	<b>20,773,925.55</b>	-	<b>57,263,089.40</b>	-	<b>71,314,916.98</b>	<b>707,736,356.65</b>
Add: Retrospective adjustment arising from consolidation of jointly controlled entities	-	-	-	-	-	-	-	-	-
Add: Changes in accounting policies	-	-	-	-	-	-	-	-	-
Prior period adjustment	-	-	-	-	-	-	-	-	-
Others	-	-	-	-	-	-	-	-	-
<b>2. Opening balance of current year</b>	<b>245,007,400.00</b>	<b>313,377,024.72</b>	-	<b>20,773,925.55</b>	-	<b>57,263,089.40</b>	-	<b>71,314,916.98</b>	<b>707,736,356.65</b>
<b>3. Changes during the year ("-" for decrease)</b>	<b>179,857,483.00</b>	<b>(179,857,483.00)</b>	-	<b>21,129,363.92</b>	-	<b>221,828,324.36</b>	-	<b>2,690,883.24</b>	<b>245,648,571.52</b>
(1) Net profits	-	-	-	-	-	242,957,688.27	-	8,520,798.05	251,478,486.32
(2) Gain or loss directly recognized in shareholders' equity	-	-	-	-	-	-	-	-	-
(i) Net changes in fair value of available-for-sale financial assets	-	-	-	-	-	-	-	-	-
(ii) Effect of changes in other shareholders' equity of invested companies under equity method	-	-	-	-	-	-	-	-	-
(iii) Income tax implication on items recognized in shareholders' equity	-	-	-	-	-	-	-	-	-
(iv) Others	-	-	-	-	-	-	-	-	-
Sub-total of (1) and (2)	-	-	-	-	-	242,957,688.27	-	8,520,798.05	251,478,486.32
(3) Capital contribution and reduction by equity holders	-	-	-	-	-	-	-	(5,829,914.81)	(5,829,914.81)
(i) Capital contribution by equity holders	-	-	-	-	-	-	-	-	-
(ii) Share-based payments recognized in shareholders' equity	-	-	-	-	-	-	-	-	-
(iii) Others	-	-	-	-	-	-	-	(5,829,914.81)	(5,829,914.81)
(4) Profit distribution	-	-	-	21,129,363.92	-	(21,129,363.92)	-	-	-
(i) Transfer to surplus reserve	-	-	-	21,129,363.92	-	(21,129,363.92)	-	-	-
(ii) Transfer to common risk reserve	-	-	-	-	-	-	-	-	-
(iii) Transfer to equity holders (or shareholders)	-	-	-	-	-	-	-	-	-
(iv) Others	-	-	-	-	-	-	-	-	-
(5) Shareholders' equity internally carried forward	179,857,483.00	(179,857,483.00)	-	-	-	-	-	179,857,483.00	179,857,483.00
(i) Transfer from capital reserve to increase share capital	179,857,483.00	(179,857,483.00)	-	-	-	-	-	179,857,483.00	179,857,483.00
(ii) Transfer from surplus reserve to increase share capital	-	-	-	-	-	-	-	-	-
(iii) Losses offset by surplus reserve	-	-	-	-	-	-	-	-	-
(iv) Others	-	-	-	-	-	-	-	-	-
<b>4. Closing balance of current period</b>	<b>424,864,883.00</b>	<b>133,519,541.72</b>	-	<b>41,903,289.47</b>	-	<b>279,091,413.76</b>	-	<b>74,005,800.22</b>	<b>953,384,928.17</b>

Legal representative of the Company: Mr. Gao Minghui, Chief Financial Officer: Mr. Pi Jianguo, Prepared by: Ms. Zhao Qiongfeng

# STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

For the year ended 31st December 2008

Unit: RMB

Item	Current year					Total shareholders' equity
	Share capital	Capital reserve	Less: treasury shares	Surplus reserve	Undistributed profit	
<b>1. Closing balance of prior year</b>	<b>424,864,883.00</b>	<b>133,519,541.72</b>	-	<b>41,903,289.47</b>	<b>225,815,684.64</b>	<b>826,103,398.83</b>
Add: Changes in accounting policies	-	-	-	-	-	-
Prior period adjustment	-	-	-	-	-	-
Others	-	-	-	-	-	-
<b>2. Opening balance of current year</b>	<b>424,864,883.00</b>	<b>133,519,541.72</b>	-	<b>41,903,289.47</b>	<b>225,815,684.64</b>	<b>826,103,398.83</b>
<b>3. Changes during the year</b>						
<b>("-" for decrease)</b>	-	-	-	<b>26,695,850.61</b>	<b>125,549,135.49</b>	<b>152,244,986.10</b>
(1) Net profits	-	-	-	-	266,958,506.12	266,958,506.12
(2) Gain or loss directly recognized in shareholders' equity						
(i) Net changes in fair value of available-for-sale financial assets	-	-	-	-	-	-
(ii) Effect of changes in other shareholders' equity of invested companies under equity method	-	-	-	-	-	-
(iii) Income tax implication on items recognized in shareholders' equity	-	-	-	-	-	-
(iv) Others	-	-	-	-	-	-
Sub-total of (1) and (2)	-	-	-	266,958,506.12	266,958,506.12	-
(3) Capital contribution and reduction by equity holders						
(i) Capital contribution by equity holders	-	-	-	-	-	-
(ii) Share-based payments recognized in shareholders' equity	-	-	-	-	-	-
(iii) Others	-	-	-	-	-	-
(4) Profit distribution						
(i) Transfer to surplus reserve	-	-	-	26,695,850.61	(141,409,370.61)	(114,713,520.00)
(ii) Transfer to equity holders (or shareholders)	-	-	-	-	(26,695,850.61)	-
(iii) Others	-	-	-	-	(114,713,520.00)	(114,713,520.00)
(5) Shareholders' equity internally carried forward						
(i) Transfer from capital reserve to increase share capital	-	-	-	-	-	-
(ii) Transfer from surplus reserve to increase share capital	-	-	-	-	-	-
(iii) Losses offset by surplus reserve	-	-	-	-	-	-
(iv) Others	-	-	-	-	-	-
<b>4. Closing balance of current period</b>	<b>424,864,883.00</b>	<b>133,519,541.72</b>	-	<b>68,599,140.08</b>	<b>351,364,820.13</b>	<b>978,348,384.93</b>

# STATEMENT OF CHANGES IN EQUITY OF THE PARENT COMPANY

For the year ended 31st December 2008

Unit: RMB

Item	Prior year					Total shareholders' equity
	Share capital	Capital reserve	Less: treasury shares	Surplus reserve	Undistributed profit	
<b>1. Closing balance of prior year</b>	<b>245,007,400.00</b>	<b>313,377,024.72</b>	<b>-</b>	<b>20,773,925.55</b>	<b>35,651,409.35</b>	<b>614,809,759.62</b>
Add: Changes in accounting policies						
Prior period adjustment	-	-	-	-	-	-
Others	-	-	-	-	-	-
<b>2. Opening balance of current year</b>	<b>245,007,400.00</b>	<b>313,377,024.72</b>	<b>-</b>	<b>20,773,925.55</b>	<b>35,651,409.35</b>	<b>614,809,759.62</b>
<b>3. Changes during the year ("-" for decrease)</b>	<b>179,857,483.00</b>	<b>(179,857,483)</b>	<b>-</b>	<b>21,129,363.92</b>	<b>190,164,275.29</b>	<b>211,293,639.21</b>
(1) Net profits	-	-	-	-	211,293,639.21	211,293,639.21
(2) Gain or loss directly recognized in shareholders' equity	-	-	-	-	-	-
(i) Net changes in fair value of available-for-sale financial assets	-	-	-	-	-	-
(ii) Effect of changes in other shareholders' equity of invested companies under equity method	-	-	-	-	-	-
(iii) Income tax implication on items recognized in shareholders' equity	-	-	-	-	-	-
(iv) Others	-	-	-	-	-	-
Sub-total of (1) and (2)	-	-	-	-	211,293,639.21	211,293,639.21
(3) Capital contribution and reduction by equity holders	-	-	-	-	-	-
(i) Capital contribution by equity holders	-	-	-	-	-	-
(ii) Share-based payments recognized in shareholders' equity	-	-	-	-	-	-
(iii) Others	-	-	-	-	-	-
(4) Profit distribution	-	-	-	21,129,363.92	(21,129,363.92)	-
(i) Transfer to surplus reserve	-	-	-	21,129,363.92	(21,129,363.92)	-
(ii) Transfer to equity holders (or shareholders)	-	-	-	-	-	-
(iii) Others	-	-	-	-	-	-
(5) Shareholders' equity internally carried forward	179,857,483.00	(179,857,483.00)	-	-	-	-
(i) Transfer from capital reserve to increase share capital	179,857,483.00	(179,857,483.00)	-	-	-	-
(ii) Transfer from surplus reserve to increase share capital	-	-	-	-	-	-
(iii) Losses offset by surplus reserve	-	-	-	-	-	-
(iv) Others	-	-	-	-	-	-
<b>4. Closing balance of current period</b>	<b>424,864,883.00</b>	<b>133,519,541.72</b>	<b>-</b>	<b>41,903,289.47</b>	<b>225,815,684.64</b>	<b>826,103,398.83</b>

Legal representative of the Company: Mr. Gao Minghui, Chief Financial Officer: Mr. Pi Jianguo, Prepared by: Ms. Zhao Qiongfeng

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## I. CORPORATE INFORMATION

Shenyang Group Kunming Machine Tool Co. Ltd (“the Company”) was changed name from Jiaoda Kunji High-Tech Co. Ltd (“JKHT”). On 29th June 2007, at the 2006 AGM of JKHT the resolution of changing the company name as “Shenyang Group Kunming Machine Tool Co. Ltd” from “Jiaoda Kunji High-Tech Co. Ltd”. On 10th September 2007, the new business certification was issued by Yunnan Province Industrial and Commercial Bureau. Application documents of changing the company name were submitted to Companies Registry in Hong Kong, where the Registry Certification of changing overseas company’s name was issued in October 2007. In October 2007, the Company disclosed the Announcement on the change of the name of the Company and short name of H Shares.

Jiaoda Kunji High-Tech Co., Ltd. (formerly known as Kunming Machine Tool Co., Ltd.) was established in the People’s Republic of China as a sino-foreign joint stock limited company as part of the reorganization of a state-owned enterprise known as Kunming Machine Tool Plant (“KMTP”). Pursuant to the reorganization, the operations, assets and liabilities of KMTP were divided between the Company and Kunming Kunji Group Company (“Kunji Group Company”). The Company was established on 19th October 1993. The Company’s A Shares and H Shares have been listed on the Shanghai Securities Exchange in Shanghai and the Stock Exchange of Hong Kong Limited in Hong Kong respectively. The Company is engaged principally in the design, development, production and sale of machine tool products and parts, IT products, high power products, integrated optical, mechanical and electrical products; development of high-tech products; transfer of proprietary technical know-how; provision of technical services and technical advisory services.

On 25th December 2000, Xian Jiaotong University Industrial (Group) Incorporation (“Jiaotong Group”) entered into an agreement with Yunnan Provincial People’s Government (“Yunnan Government”), the Company’s former controlling shareholder, whereby Yunnan Government would transfer a 29% interest of 71,052,146 state-owned shares in the Company to Jiaotong Group. The Ministry of Finance signed approval of state-owned shares transfer of Jiaoda Kunji High-tech Co., Ltd. (Cai Qi [2001] No. 283), and approved the share transfer. Upon completion of share transfer procedure on 5th June 2001, Jiaotong Group became substantial shareholder of the Company.

Pursuant to the resolution approved at the extraordinary general meeting of the Company held on 31st December 2001, after the assets restructuring, the core business of Company was changed to high-tech and diversified production from traditional machinery manufacturing.

Pursuant to the approval by Industry and Commerce Administration Bureau, since 29th March 2002, the Company has completed the industry and commerce procedures on the change of name and officially used the new company name as “Jiaoda Kunji High Tech Co., Ltd.”.

On 15th September 2005, Xian Jiaotong University Industrial (Group) Incorporation and Shenyang Machine Tool (Group) Co., Ltd. entered into an agreement regarding transfer of shares. Shenyang Machine Tool (Group) Co., Ltd. agreed to purchase 71,052,146 shares of Jiaoda High-tech Co., Ltd. held by Xi’an Jiaotong University Industrial (Group) Incorporation, representing 29% of the total shares of the Company. The transaction was approved by State-owned Assets Supervision and Administration Committee under the State Council and China Securities Regulation Committee. On 1st December 2006, the register of equity transfer was completed and Shenyang Group became the largest shareholder of the Company.

On 4th April 2006, pursuant to the approval of Yunnan Government and Yunnan State-owned Assets Supervision and Administration Committee, Yunnan Committee issued a written reply to agree Yunnan Government transfer its 31,345,600 shares of the Company (representing 12.79% total issued shares) to Yunnan State-owned Assets Operation Co., Ltd. at nil consideration based on the date of 31st December 2005. The share transfer was approved by the State-owned Assets Supervision and Administration Committee. The transfer was completed on 19th January 2007.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## I. GENERAL (Continued)

On 25th January 2007, the Ministry of Commerce, the PRC issued the "Written Reply Regarding Jiaoda Kunji High-Tech Co., Ltd. Transfer of Shares and Increase Shares" (Shuangzipi [2007] No.133) to approve the Share Reform Proposal of the Company. The Company increased shares to all shareholders whose name appear on the Company's register of members on the 26th February 2007 by transferring capital reserves on a basis of 1.5606 shares for every existing 10 shares. The total increased share capital was 38,235,855 shares, of which, 28,091,955 shares were A Shares, and 10,143,900 shares were H Shares. On 5th March 2007, the holders of non-circulating shares of the Company used their 18,728,355 shares as consideration shares to pay to the holders of circulating A Shares on a basis of 2.7 shares for every 10 shares. The new A Shares were listed on 7th March 2007. Of 18,728,355 shares, Shenyang Machine Tool (Group) Co., Ltd. disbursed 11,088,398 shares; Yunnan State-owned Assets Operation Co., Ltd. disbursed 4,891,787 shares, and Jinghua Company disbursed 2,748,170 shares to the holders of circulating A Shares. After implementation of the consideration arrangement, non-circulating shares held by the holders of non-circulating shares of the Company became tradable and listed.

In April 2007, two shareholders of the Company, Shenyang Machine Tool (Group) Co., Ltd. and Yunnan State-owned Assets Operation Co., Ltd. jointly proposed the Share Increase Proposal (the "Share Increase") (New Shares will be issued to all shareholders of the Company by transferring capital reserve on a basis of 5 New Shares for every 10 Shares based on 283,243,255 total share capital). The Share Increase was approved at the 21st meeting of the 5th session of the Board held on 18th April 2007 and the resolution was submitted to 2006 annual general meeting and class general meetings held on 29th June 2007 respectively.

On 15th August 2007, pursuant to the approval of Share Increase Proposal by Minister of Commerce, the share capital of the Company was added to 424,864,883 shares from 283,243,255 shares. The registered capital was added to RMB424,864,883 from RMB283,243,255.

The place of registration of the Company is 23 Ciba Road, Kunming City, Yunnan Province. The business registration number is 530000400000458.

## II. BASIS OF PREPARATION OF FINANCIAL STATEMENTS

The financial statements have been prepared on the basis of the recognition and measurement of the transactions and matters incurred in accordance with the "Accounting Standards for Business Enterprises" since 1st January 2007.

## III. STATE OF COMPLIANCE

The financial statements have been prepared in conformity with the requirements of the Accounting Standards for Business Enterprises and truly and completely reflect the Company's financial condition, operating results, cash flows and other financial information during the reporting period.

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY

### 1. Accounting year

The accounting year of the Company commences on 1st January and ends on 31st December each year.

### 2. Reporting currency

The reporting currency of the Company is Renminbi ("RMB").



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

### 3. Accounting principles and basis of measurement

Recognition, measurement and reporting are based upon accrual system. The Company should generally apply the historical cost as measurement basis in preparing financial statements. If other measurement bases are applied such as replacement cost, net realizable value, present value, fair value, the Company is required to demonstrate that the accounting elements can be measured reliably in those bases.

### 4. Cash and cash equivalents

Cash equivalents are defined as short-term (with maturity of generally three months from the date of purchase) highly liquid investments that readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 5. Foreign currency translation

Transactions in foreign currencies are translated by spot exchange rate on the transaction date upon initial recognition. On balance sheet date, items in foreign currencies are translated into RMB at the spot exchange rate on the day. Exchange differences arising from differences between the spot exchange rate on the day and that upon initial recognition or that on the balance sheet date are recognized as expenses in profit and loss for the current period. Non-monetary items in foreign currencies carried at historical cost are still measured at amount of recording currency translated at the spot exchange rate on the day during which the transaction takes place. Non-monetary items in foreign currencies carried at fair value are translated at spot exchange rate on the date of which the fair value is determined. Differences between the amount of recording currency after translation and that before translation are accounted as changes in fair value (inclusive of changes on exchange rate) and included in profit and loss of the current period. Differences between foreign currency borrowings related with the acquisition and production of assets eligible for capitalization are recognized in accordance with the principle of borrowing cost.

### 6. Financial instruments measurement

#### (1) *Classification of financial assets and financial liabilities*

At initial recognition, all financial assets are classified into four categories:

- 1) financial assets recognized at fair value with changes recognized through profit or loss include trading financial assets and financial assets which are designated by the Group upon recognition at fair value and their changes recognized through profit or loss;
- 2) held-to-maturity assets;
- 3) accounts receivable;
- 4) available-for-sale financial assets.

At initial recognition, all financial liabilities are classified into two categories:

- 1) financial liabilities recognized at fair value with changes recognized through profit or loss include trading financial liabilities and financial liabilities which are designated by the Group upon recognition at fair value and their changes recognized through profit or loss;
- 2) other financial liabilities.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

### 6. Financial instruments measurement

#### (2) *Recognition and measurement*

All financial assets and financial liabilities are recognized, when and only when, the Group, as appropriate, becomes a party to the contractual provisions of the instrument.

At initial recognition, all financial assets are measured at fair value. After initial recognition, the four financial assets are measured in different ways.

- 1) financial assets at fair value through profit or loss are recognized at fair value at initial recognition, related transaction costs are considered as profit or loss. During holding financial assets, interest or cash bonus are considered as investment revenue. Accounts in balance sheet are measured in fair value. Gain or loss from change of fair value is measured as profit or loss. When disposal of financial assets, the balance between fair value and initial recognition are considered as investment revenue, and adjust profit or loss with change of fair value;
- 2) available-for-sale financial assets are measured at fair value plus transaction cost that are directly attributable to the acquisition or issue of the finance asset. The accounts in balance sheet are measure at fair value. Gain or loss from change of fair value shall be classified as capital reserves. The difference between carrying value and book value shall be classified as investment revenue, and the amount of capital reverse previously which is gain or loss from change of fair value transfer into investment revenue;
- 3) receivables from good sales or service are recognized in agreement or quota price. When receiving or disposing the receivable, the difference between carrying value and book value shall be recognized as profit or loss;
- 4) the investments which will be held to their maturity are measured at fair value of the investment and transaction cost at initial recognition. The investments shall be measured on the basis of the post-amortization costs by adopting the actual interest rate method in subsequent measurement; The balance between the carrying amount and the fair value shall be computed into the investment revenue when investment is disposed.

For the financial liabilities measured at their fair values and of which the variation is recorded into the profits and losses of the current period, they shall be measured at their fair values, and the transaction cost may be recorded into the profits and losses of the current period; in subsequent measurement, they shall be measured at fair value.

#### (3) *Fair value measurement of financial assets and liabilities*

The fair value of financial assets and liabilities is based on their quoted market price in an active market at the valuation date. If a quoted market price is not available, the fair value of the financial assets is established using valuation techniques. The fair value of initial or original financial assets, or bearing financial liabilities, is determined by market transaction price.

#### (4) *Impairment test of provision on financial assets*

An enterprise shall carry out an inspection, on the balance sheet day, on the carrying amount of the financial assets other than those measured at their fair values and of which the variation is recorded into the profits and losses of the current period. Where there is any objective evidence proving that such financial asset has been impaired, an impairment provision shall be made. An impairment test shall be made on the financial assets with significant single amounts. With regard to the financial assets with insignificant single amounts, an independent impairment test may be carried out, or they may be included in a combination of financial assets with similar credit risk features so as to carry out an impairment-related test.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

### 6. Financial instruments measurement *(Continued)*

#### (4) *Impairment test of provision on financial assets (Continued)*

For loans and receivables, held-to-maturities investments, difference between current value of the predicted future cash flow and book value should make provision on impairment loss. If there is any objective evidence proving that the value of the said financial asset has been restored, the recognized impairment loss should be reversed and be recorded into the profits and losses of the current period.

Where a available-for-sale financial asset is impaired, even if the recognition of the financial asset has not been terminated, the accumulative losses arising from the decrease of the fair value of the owner's equity which was directly included shall be transferred out and recorded into the profits and losses of the current period. As for the available-for-sale debt instruments whose impairment-related losses have been recognized, if, within the accounting period thereafter, the fair value has risen and are objectively related to the subsequent events that occur after the originally impairment-related losses were recognized, the originally recognized impairment-related losses shall be reversed and be recorded into the profits and losses of the current period. The impairment-related losses incurred to available-for-sale equity instrument investment shall not be reversed through profits and losses.

#### (5) *Financial assets transfer and recognition*

If the group transfers substantially all the risks and rewards of ownership of the financial asset, the group shall derecognize the financial asset. If the group retains substantially all the risks and rewards of ownership of the financial asset, the group shall continue to recognize the financial asset. The Group neither transfers nor retains substantially all the risks and rewards of ownership of the financial asset, if the group has not retained control, it shall derecognized the financial asset; if the entity has retained control, it shall continue to recognize the financial asset to the extent of its continuing involvement in the financial asset, and corresponsive financial liabilities.

On derecognition of a financial asset in its entirety, the difference between: (a) the carrying amount and (b) the sum of (i) the consideration received (including any new asset obtained less any new liability assumed); and (ii) any cumulative gain or loss that had been recognized directly in equity shall be recognized in profit or loss. If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset shall be allocated between the part that continues to be recognized and the part that is derecognized, based on the relative fair values of those parts on the date of the transfer. The difference between: (a) the carrying amount allocated to the part derecognized and (b) the sum of (i) the consideration received for the part; and (ii) any cumulative gain or loss allocated to it that had been recognized directly in equity; shall be recognized in profit or loss.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY (Continued)

### 7. Provision for bad debt on receivables

- (1) Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market, including bills receivable, accounts receivable, prepayments, other receivables, and long-term receivables.
- (2) Measurement: An impairment test shall be made on the receivable account with significant single amounts. Where there is any objective evidence proving that such financial asset has been impaired, an impairment provision shall be made. The carrying amount of receivable shall be written down to the current value of the predicted future cash flow, and the amount as written down shall be recognized as loss of the impairment of the receivable. For the single non significant receivables and tested non impairment receivables, the provision of bad debts is measured on the provision method based on aging analysis.
- (3) Recognition criteria for bad debt: a. the irrecoverable amount of a debtor who has gone bankrupt or has died and has insufficient asset or estate to repay; b. the irrecoverable amount, demonstrated by sufficient evidence, of a debtor who does not comply with his/her repayment obligation over three years.
- (4) Accounting basis of bad debt losses: allowance method

Allowance and applicable rate:

An impairment test shall be made on the receivable account with significant single amounts. Where there is any objective evidence proving that such asset has been impaired, an impairment provision shall be made. The carrying amount of receivable shall be written down to the current value of the predicted future cash flow, and the amount as written down shall be recognized as loss of the impairment of the receivable. For the single non significant receivables and tested non impairment receivables, the provision of bad debts is measured on the provision method based on amount in the balance sheet and account's aging analysis.

<b>Accounts aged</b>	<b>Applicable rate</b>
Within 1 year	5%
1-2 years	50%
Over 2 years	100%

- (5) Derecognition in bad debt on receivables: The Company should derecognize bad debt on receivable when: (1) the irrecoverable amount of debtor who has gone bankrupt or has died and has insufficient asset to repay; (2) the irrecoverable amount, demonstrated by sufficient evidence, of a debtor who does not comply with his/her repayment obligation over three years. Save above irrecoverable receivables should be derecognized with approval of the Board.
- (6) Recognition criteria on significant single accounts receivable
  - 1) Trade receivables (accounts receivable) category: standard amount is RMB7 million per transaction;
  - 2) Cash flows receivables (other receivables): standard amount is RMB3.5 million per transaction;
  - 3) Individual receivables (other receivables): standard amount is RMB100,000 per transaction.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

### 8. Accounting for Inventories

- (1) Inventory category: Inventories include raw materials, work-in-progress products, semi-finished products, finished goods, low-value consumables, and packaging materials.
- (2) Valuation method of inventories: Purchase of raw materials, packaging materials and low-value consumables are stated at cost incurred. Inventory issued and inventory shipped are recorded based on the weighted average cost method. Low value consumables are fully charged to cost when they are issued. Work-in-progress products are recorded based on quota cost method.
- (3) Measurement: Inventories are measured initially at cost. At the balance sheet date, inventories are stated at the lower of cost and net realizable value.

The following ways are to measure the net realizable value on different inventories:

The inventories such as merchandise, finished product, available for sales materials, the net realizable value represents the estimated selling price less the estimated expenses of sales and tax. The inventories such as processing materials, the net realizable value represents the estimated selling price of finished product less the estimated cost of process completion, estimated expense of sales and tax.

- (4) Provision for impairment of inventories: provisions for impairment of inventories are made by single items. For inventories of low value and many items, provisions for impairment of inventories are made by classification of inventories.
- (5) At the balance sheet date, inventories are stated at the lower of cost and net realizable value. Whenever the net realizable value is lower than cost, provision is made for impairment of each inventory to the profit and loss account in the period.
- (6) A perpetual inventory system is adopted for the calculation of inventory volume.

### 9. Accounting for long-term equity Investment

(1) *Long-term equity investments are recorded at initial investment cost on acquisition*

- 1) For combinations of entities under common control in which a company pays cash, transfers non-cash assets or bear debts as consideration of combinations, the initial investment cost of long-term equity investment is the share with reference to the book value of the shareholders' equity of the party to be combined on the date of combinations. Capital reserve account is adjusted by differences between initial investment cost of long-term equity investment and the book value of the cash paid, non-cash assets transferred as well as liabilities assumed. Amounts that cannot be sufficiently released by capital reserve account serve the purpose of adjusting retained earnings. For companies offering consideration of combinations by issuing equity securities, initial investment cost of long-term equity investment refers to the share with reference to the book value of the shareholders' equity of the party to be combined on the date of combinations; this becomes share capital with reference to the nominal value of shares in issue. Capital reserve account is adjusted by differences between initial investment costs of long-term equity investment and the aggregate nominal value of shares in issue. Amounts that cannot be sufficiently released by capital reserve account serve the purpose of adjusting retained earnings.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

### 9. Accounting for long-term equity Investment *(Continued)*

(1) *Long-term equity investments are recorded at initial investment cost on acquisition (Continued)*

2) For combinations of entities without common control, initial investment cost of long-term equity investment refers to the assets paid, liabilities incurred or assumed as well as the fair value of equity securities in issue by the company in exchange for control of the acquiree on the date of acquisition. If the fair value of acquisition cost is bigger than the fair value of acquiree's realizable net assets, the differences will be treated as goodwill. If the fair value of acquisition cost is smaller than the fair value of acquiree's realizable net assets, the differences will be included in profit and loss.

3) For non combination of entities, long-term equity investment settled in cash, initial investment cost refers to the actual consideration paid. Initial investment cost refers to long-term equity investment acquired through the issue of equity securities in accordance with the fair value of equity securities in issue. Save for unfair agreed values under contract or agreement, initial investment cost are long-term equity investment of investors with reference to the agreed value stipulated under investment contract or agreement. For the long-term equity investment obtained by the exchange of non-monetary assets, the initial investment cost shall be determined by fair value of non-monetary assets plus related tax expense. For the long-term equity investment obtained by debt restructuring, the initial investment cost shall be determined by fair value investment of debt restructuring. The difference of fair value of investment and book value of debt restructuring is stated as profit or loss.

(2) *Follow-up measurement and revenue recognition*

The investment on the subsidiaries without join control or significant influence, without price quota in the active market, without reliable measure by fair value shall be accounted by the method of cost. The long-term equity investment that the Company co-controls or has significant influences on the unit being invested shall be accounted by the method of equity. Investment revenue is determined by net profit adjustment of invested unit based on fair value of each asset which can be classified in invested unit.

(3) *Provision for the impairment on long-term equity investment*

Goodwill caused by business combination involving entities under non common control should be tested for impairment at the end of the period. Loss of goodwill shall be recognized as profit or loss.

According to cost method, without price quota in active market, and reliable fair value, the loss between book value cost of investment and net value from future cash flow shall be stated as profit or loss. If there is impairment in the investment, comparison with net value of initial fair value of investment minus disposal cost and present value fro future cash flow by investment, the higher is considered as the amount recoverable. The impairment reserves are accounted by difference between the recoverable amount of the individual investment and the book value. Once the impairment loss for long-term equity investment is confirmed, they shall no longer be reversed in the future accounting period.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY (Continued)

### 10. Fixed assets

(1) *Standards for fixed assets*

Fixed assets are tangible assets that are held for using the production or supply of goods or services, for rental to others, or for administrative purposes, and have useful lives more than one accounting year such as house, building, machine, equipment, transport vehicle, other tangible assets.

(2) *Measurement of fixed assets*

Fixed assets measure: Fixed assets are initially measured at cost by the ways of purchase, self-construction, and acquisition through business combination under common control. Fixed assets are measured at fair value or carrying cost by non-monetary asset exchange, debt restructuring, acquisition through business combination under non common control.

If a constructed fixed asset has reached the working condition for its intended use but the final project accounts have not been completed and approved, the asset should be transferred to fixed assets at an estimated value based on project budget and depreciation is based on the estimated value. After completion, the estimated value will be adjusted in accordance with the actual cost. However, the recognized depreciation will not be adjusted.

(3) *Depreciation of fixed assets*

Fixed assets are depreciated using the straight-line method to recognize monthly.

<b>Fixed assets category</b>	<b>Estimated useful lives</b>	<b>Estimated residual value (%)</b>	<b>Annual depreciation rate (%)</b>
Buildings	40	5	2.38
Machinery equipment	5-20	5	6.79-9.50
Electronic equipment, fixture, furniture	5-14	5	6.79-9.50
Transportation equipment	5-14	5	6.79-9.50

The depreciation policy for assets held under finance bases is consistent with that for owned assets. If there is reasonable certainty that the lease will obtain ownership at the end of lease, the asset should be appreciated over the shorter of the lease term and the life of the asset.

(4) *Provision on impairment loss on fixed assets*

At the end of the period, when there is an indication that the fixed asset devalue, estimates its recoverable amount. If the recoverable amounts lower than the book value, decrease the book value of the fixed asset to recoverable amount. The decreased amount is recognized as assets' impairment loss included in profit or loss for the current period and recognizes the provision on impairment loss on fixed assets at the same time. Once the impairment loss on fixed assets recognized, it cannot be reversed in the future period.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

### 11. Accounting for construction-in-progress

- (1) The cost of construction-in-progress is determined according to expenditures actually incurred. Construction-in-progress is transferred to fixed assets at the date of reaching its usable conditions at an estimated amount.
- (2) Provision on impairment loss on construction-in-progress

At the period end, based on the investigation on each construction-in-progress, if there exists:

- 1) Construction-in-progress has been (or will be) suspended, terminated construction or disposed ahead of schedule;
- 2) The economic, technological or legal environment in which the enterprise operates, or the market where the assets is situated will have any significant change in the current period or in the near future, which will cause disadvantage impact on the enterprise;
- 3) Internal report shows that the economic benefit generated by the construction-in-progress will be lower than the expectation, e.g. new cash flow or net operating profit (or loss) of the construction-in-progress will much lower (or higher) than the expectation;
- 4) The market interest rate or any other market investment return rate has risen in the current period, and thus the discount rate of the enterprise for calculating the expected future cash flow of the assets will be affected, which will result in great decline of the recoverable amount of the assets;
- 5) Other evidences can prove the existence of the circumstance of the decline in value on construction-in-progress.

Should the above circumstance exists, difference of the recoverable amount and the carrying amount of construction-in-progress can be made as provision on impairment loss on construction-in-progress. The impairment loss is calculated based on the difference between book value and net realizable value. Once the impairment loss on construction-in-progress recognized, it cannot be reversed in the future period.

### 12. Accounting of intangible assets

- (1) Intangible asset refers to the identifiable non-monetary assets possessed or controlled by the Company which have no physical shape, include patents, know how, trade mark, copyright, chartered right, and land use right.
- (2) Measurement: The intangible assets shall be initially measured according to its cost. The cost of outsourcing intangible assets shall include the purchase price, relevant taxes and other necessary expenditures directly attributable to intangible assets for the expected purpose. Where the payment of purchase price for intangible assets is delayed beyond the normal credit conditions, which is of financing intention, the cost of intangible assets shall be determined on the basis of the current value of the purchase price. The difference between the actual payment and the current value of the purchase price shall be recorded into profit or loss for the credit period, unless it shall be capitalized under the relevant regulations.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

### 12. Accounting of intangible assets *(Continued)*

- (3) Amortization: With regard to intangible assets with limited service life, its amortization amount shall be amortized within its service life systematically and reasonably. Intangible assets with uncertain service life may not be amortized. The intangible assets from contractive rights or other legal rights, the service life is not over the limit period of the contract live right or other legal rights. If there is undefinitive contract or legal regulation, it is able to forecast the period to confirm service life when the intangible asset can bring economic benefits to the enterprise.

If it is not able to forecast the period to confirm service life when the intangible asset can bring economic benefits to the enterprise, the intangible asset will be treat as intangible assets with uncertain service life.

- (4) The research expenditures for its internal research and development projects of an enterprise shall be recorded into the profit or loss for the current period. The development expenditures for its internal research and development projects of an enterprise may be confirmed as intangible assets when they satisfy the following conditions simultaneously:
- 1) It is feasible technically to finish intangible assets for use or sale;
  - 2) It is intended to finish and use or sell the intangible assets;
  - 3) Such intangible assets may generate potential future economic benefits;
  - 4) It is able to finish the development of the intangible assets, and able to use or sell the intangible assets, with the support of sufficient technologies, financial resources and other resources;
  - 5) The development expenditures of the intangible assets can be reliably measured.
- (5) Review the service life of intangible assets: an enterprise shall, at least at the end of each year, check the service life and the amortization method of intangible assets with limited service life. When the service life and the amortization method of intangible assets are different from those before, the years and method of the amortization shall be changed. An enterprise shall check the service life of intangible assets with uncertain service life during each accounting period. Where there are evidences to prove the intangible assets have limited service life, it shall be estimated of its service life, and be treated according to this Standard.

### 13. Long-term deferred expenditure

Long-term deferred expenditure are expenditures and other expenses has occurred which will be benefited over 1 year (excluding within 1 year), e.g. expenses for leased fixed assets innovation. Expenses incurred during the incorporation of the Company are recorded in the long-term deferred expenditure at first and will be included in the profit and loss account in the first month after commencement of its operation. Other long-term deferred expenditure will be amortized evenly over the estimated beneficial period.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

### 14. Accounting for borrowing cost

- (1) Where the borrowing costs incurred to an enterprise can be directly attributable to the acquisition and construction or production of assets eligible for capitalization, it shall be capitalized and recorded into the costs of relevant assets. Other borrowing costs shall be recognized as expenses on the basis of the actual amount incurred, and shall be recorded into the current profits and losses.

The term "assets eligible for capitalization" shall refer to the fixed assets, investment real estate, inventories and other assets, of which the acquisition and construction or production may take quite a long time to get ready for its intended use or for sale.

- (2) The borrowing costs shall not be capitalized unless they simultaneously meet the following requirements:

Expenditures for the asset are being incurred;

Borrowing costs has already incurred;

Acquisition and construction that are necessary to enable the asset reach its expected usable condition have commenced.

- (3) Where the acquisition and construction or production of a qualified asset is interrupted abnormally and the interruption period lasts for more than 3 months, the capitalization of the borrowing costs shall be suspended. The borrowing costs incurred during such period shall be recognized as expenses, and shall be recorded into the profits and losses of the current period, till the acquisition and construction or production of the asset restarts. If the interruption is a necessary step for making the qualified asset under acquisition and construction or production ready for the intended use or sale, the capitalization of the borrowing costs shall continue.

- (4) Recognition of capitalization of borrowing cost and interest: The borrowing costs attributable to the acquisition and construction or production of assets eligible for capitalization refer to actual interest expenses during borrowing period, minus interest revenue of borrowing fund deposited on bank or investment revenue from short term investment by borrowing fund. For the general borrowings, the borrowing costs eligible for capitalization are determined by applying a capitalization rate to the capital expenditure that accumulated capital expenditures exceed the specific borrowings.

### 15. Contingent liabilities

The obligation pertinent to contingencies shall be recognized as an estimated debt when the following conditions are satisfied simultaneously:

- 1) That obligation is a current obligation of the enterprise;
- 2) It is likely to cause any economic benefit to flow out of the enterprise as a result of performance of the obligation;
- 3) The amount of the obligation can be measured in a reliable way.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

### 15. Contingent liabilities *(Continued)*

The estimated debts shall be initially measured in accordance with the best estimate of the necessary expenses for the performance of the current obligation. If there is a sequent range for the necessary expenses and if all the outcomes within this range are equally likely to occur, the best estimate shall be determined in accordance with the middle estimate within the range. In other cases, the best estimate shall be conducted in accordance with the following situations, respectively:

- 1) If the contingencies concern a single item, it shall be determined in the light of the most likely outcome;
- 2) If the contingencies concern two or more items, the best estimate should be calculated and determined in accordance with all possible outcomes and the relevant probabilities.

When all or some of the expenses necessary for the liquidation of an estimated debts of an enterprise is expected to be compensated by a third party, the compensation should be separately recognized as an asset only when it is virtually certain that the reimbursement will be obtained. The amount recognized for the reimbursement should not exceed the book value of the debts recognized.

Provision from 1.2% of sales revenue of machine tools business is computed as expenses of after sales service through profits and losses. Actual expenses are kept within the provision. The reliability of provision ratio shall be reviewed on balance sheet date.

### 16. Accounting for employee benefits

#### *(1) Scope of employee benefits*

Employee Benefits refers to monetary salary and benefits not in monetary render by the Company to employees during and after service term of the employees.

#### *(2) Recognition and Measurement:*

During the accounting period of an employee' providing services to an enterprise, the enterprise shall recognize the compensation payable as liabilities. Except for the compensations for the cancellation of the labor relationship with the employee, the enterprise shall, in accordance with beneficiaries of the services offered by the employee, treat the following circumstances respectively:

- 1) The compensation for the employee for producing products or providing services shall be recorded as the product costs and service costs;
- 2) The compensation for the employee for any on-going construction project or for any intangible asset shall be recorded as the costs of fixed asset or intangible assets;
- 3) Monthly payments and social insurance charges paid by the Company to early-retirees, laid-off employees, and unemployment people commencing from the date of their early-retirement up until their respective official retirement are recognized as accrued salaries. Payments within one year, salary expenses shall be recorded as profit or loss for the current period. Payments over one year, the future accrued salary should be discounted as profit or loss for the current period. The discount rate is determined by referring to high quality corporate bonds market interest rate. Unrecognized financial fee should be amortised on the actual interest rate.
- 4) Other salaries except for the above circumstance should be recognized in profit and loss for the current period.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

### 16. Accounting for employee benefits *(Continued)*

#### (2) *Recognition and Measurement: (Continued)*

The enterprise shall calculate the medical and insurance, endowment insurance, unemployment insurance, work injury insurance, maternity insurance and other social insurances, as well as the housing accumulation fund, which are paid by the enterprise to the employee, on the basis of a certain proportion in the total amount of wages.

### 17. Government grants

Government grants shall be recognized when an enterprise can meet the conditions for the government grants and can obtain the government grants. If a government grant is in the form of a transfer of a monetary asset, the item shall be measured at the amount received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, the item shall be measured at fair value. If fair value is not reliably determinable, the item shall be measured at a nominal amount one dollar and recognized immediately in profit or loss for the current period. If the grant is a compensation for related expenses or losses to be incurred by the enterprise in subsequent periods, the grant shall be recognized as deferred income, and recognized in profit or loss over the periods in which the related costs are recognized. If the grant is a compensation for related expenses or losses already incurred by the enterprise, the grant shall be recognized immediately in profit or loss for the current period.

### 18. Accounting for Share-Based Payments

#### (1) Types of share-based payment: The Company's share-based payment consists of equity-settled and cash-settled transactions.

The equity-settled share-based payment in return for employee services shall be measured at the fair value of the equity instruments granted to the employees. For equity instruments that may be exercised immediately after the grant, the fair value of such instrument shall, on the date of the grant, be recognized in relevant costs or expenses with the increase in the capital reserve accordingly. For equity instruments that cannot be exercised until the services are fully rendered during vesting period or specified performance targets are met, on each balance sheet date within the vesting period, the services acquired in the current period shall, based on the best estimate of the number of exercisable instruments, be recognized in relevant costs or expenses and the capital reserves at the fair value of such instruments on the date of the grant.

The cash-settled share-base payment shall be measured at the fair value of liability incurred, which is calculated and determined based on the shares or other equity instruments. For the instruments that may be exercised immediately after the grant, the fair value of the liability incurred by the Company shall, on the date of the grant, be recognized in relevant costs or expenses and the liabilities shall be increased accordingly. For instruments that cannot be exercised until the services are fully provided during vesting period or specified performance targets are met, on each balance sheet date within the vesting period, the services acquired in the current period shall, based on the best estimate of the number of exercisable instruments, be recognized in relevant costs or expenses and the corresponding liabilities at the fair value of the liability incurred by the Company.

#### (2) Measurement of the fair value of equity instruments: For options and other equity instruments granted which are traded in an active market, the fair value of such instruments shall be measured based on quoted market prices in the active markets or if not available, by reference to market prices of options with similar terms and conditions. In absence of such market prices, the fair value shall be determined using a valuation technique.

#### (3) Basis for determining the best estimate of the number of exercisable instruments: On each balance sheet date within the vesting period, the Company shall determine the best estimate based on the latest number of employees able to exercise their options and revise the estimated number of exercisable equity instruments. On the exercisable date, the final estimate of the number of exercisable instruments shall coincide with the actual exercisable number.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IV. SIGNIFICANT ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES OF THE COMPANY *(Continued)*

### 19. Revenue recognition

- (1) Sale of goods: when the major risk and rewards in the ownership of the goods have been transferred to the purchaser, the Company no longer exercises continuing management and actual control over the goods in connection with ownership, economic benefits in connection with transactions can flow in the enterprise and the relevant revenue and costs are reliably measurable, the Company will confirm that revenue from the sale of the goods has been realized.

If the collection of the price as stipulated in the contract or agreement is delayed and if it has the financing nature, the revenue incurred by selling goods shall be ascertained in accordance with the fair value of the receivable price as stipulated in the contract or agreement. The difference between the price stipulated in the contract or agreement and its fair value shall be amortized within the period of the contract or agreement employing the real interest method and shall be included in the current profits and losses.

- (2) Provision of labor services: for labor services which are commenced and completed in the same year, revenue is recognized upon completion of the labor services. If the commencement and completion of a labor service falls in different fiscal years, relevant revenue from the labor service will be recognized on the date of the balance sheet on the basis of the percentage of the completed labor service, provided that the results of the labor service provision transaction is reliably estimated.
- (3) Assignment of asset use rights: the Company will confirm that revenue is realized according to the period and method stipulated under relevant contract or agreement, provided that economic benefits in connection with a transaction can flow in and the revenue amount is reliably estimated.

### 20. Accounting of income Tax

The Company applies the balance sheet liability method for accounting of income tax. The tax bases of acquired assets or liabilities are determined upon their acquisition by the Company. Where there is difference between the carrying amount of assets or liabilities and the tax bases, the deferred income tax assets or the deferred income tax liabilities arising from there are recognised.

### 21. Scope of consolidation and methods of preparing consolidated financial statements

The consolidated financial statements of the Company have been prepared in accordance with ABSE 33 – Consolidated Financial Statement and relevant accounting standards. The scope of consolidation for consolidated financial statements is recognized on the basis of control. The consolidated financial statements are prepared on financial statements of parent company and subsidiaries, to adjust long equity investment of subsidiaries according equity method, then offset significant balance and transactions between the Company and its subsidiaries and among subsidiaries.

### 22. Profit and profit distribution

The realized net profit of the Company shall be appropriated by the following order:

- (1) offsetting against losses for previous years;
- (2) appropriation 10% of net profit to statutory surplus reserve, if the statutory surplus reserve is more than 50% of the registered capital, it may not be appropriated;
- (3) appropriation to discretionary surplus reserve;
- (4) payment of dividends to common shares.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## V. TAXATION

### 1. Value-added tax ("VAT")

The amount of VAT payable is measured by the difference between the amount of the current amount of tax on sales and the current amount of tax on purchases. The current amount of tax on sales is assessed at 17% of the assessable income.

The Company and its subsidiaries are VAT ordinary taxpayers applicable for the VAT rate of 17%.

### 2. Income tax

Pursuant to the approval document issued by the taxation authority, the applicable rate of income tax of the Company for 2008 is 15% due to tax favorable policy for Western Region Development.

The subsidiaries of the Company including Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd., Xi'an Ser Turbo Machinery Manufacturing Co., Ltd. and Winko Machines Co., Ltd. are High Tech Companies. The applicable rate of income tax is 15%. The applicable rate of income tax of the other subsidiaries including Kunming Kunji General Machine Co., Ltd., Kunji Transportation Co., Ltd. and Fujian Kunji Conventional Machine Tool Co., Ltd. is 25%.

### 3. Business tax

The business tax is paid at 3% or 5% of the assessable income.

### 4. Other taxes

The amount of tax payable is determined according to the Provision Regulations of Taxation.

## VI. ENTITIES CONSOLIDATION AND CONSOLIDATED FINANCIAL STATEMENTS

### 1. Major domestic and overseas subsidiaries controlled by the Company

(1) *Subsidiaries and Joint Ventures*

Company name	Place of registration	Scope of business	Registered capital (RMB'000)	Investment Proportion	Economic nature	Date of investment	Relationship with the Company
Xi'an Ser Turbo Machinery Co., Ltd. ("Xi'an Ser")	Xi'an city	Design, development and sales of turbo machines, energy saving sintering fans, compressor equipment, research and re-modification of imported equipment and its parts, automated control system engineering, CNC engineering, mechanical and chemical equipment, meter technology development, whole machine production and sales	50,000	45.00%	Limited liability	2001.12	Subsidiary
Fujian Kunji Conventional Machine Tool Co., Ltd. ("Fujian Kunji")	Nanan city	Development, design, production and sales of self-produced machine tool series products and accessories	5,000	50.00%	Limited liability	2008.1	Subsidiary
Kunming Kunji General Machine Co., Ltd.	Kunming city	Development, design and sales of machine tool products and accessories	3,000	100.00%	Limited liability (wholly owned by legal person)	2007.10	Subsidiary

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VI. ENTITIES CONSOLIDATION AND CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 1. Major overseas subsidiaries controlled by the Company (Continued)

(1) Subsidiaries and Joint Ventures (Continued)

Company name	Place of registration	Scope of business	Registered capital (RMB'000)	Investment Proportion	Economic nature	Date of investment	Relationship with the Company
Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. ("Intelligent Electric Apparatus")	Xi'an city	Development, production and sales of electrical appliances, electric power and electronic engineering and products, and provision of technical services	35,000	78.03%	Limited liability	2002.12	Subsidiary
Winko Machines Co., Ltd. ("Winko")	Kunming city	Development, application and system integration of hardware and software; retail, wholesale and distribution of general machinery and electronic machines	20,230	96.74%	Limited liability	2002.11	Subsidiary
TOS Kunming Machine Tool Manufacturing Co., Ltd. ("TOS Kunming")	Kunming city	Development, design, production and sales of self-produced machine tool series products and accessories; development of high-tech products, transfer of self-developed technology, provision of technical services and technical advisory; provision of repairs and processing of machine tool products for third parties	5,000,000 Euros	50.00%	Limited liability	2005.4	Joint venture
Changsha Ser Turbo Equipment Co., Ltd. ("Changsha Ser")	Changsha city	Production and sales of centrifugal compressors, centrifugal blowers, sintering fans and its accessories	10,000	100.00%	Limited liability	2004.01	Subsidiary of Xi'an Ser
Hangzhou Ser Gas Engineering Co., Ltd. ("Hangzhou Ser")	Hanzhou city	Contracting: design, development, sales and technology support of gas equipment engineering, compressors, sintering fans, whole sintering fan equipment, low-temperature machines, automated control system equipment and its parts; wholesale and retail: mechanical and electrical products, building materials, hardware tools, metal materials; operation of import/export businesses; all legally valid projects not subject to review and approval	1,200	51.00%	Limited liability	2004.04	Subsidiary of Xi'an Ser
Kunji Transportation Co., Ltd. ("Kunji Transportation")	Kunming city	General cargo transportation; 50	500	100%	Limited liability	2006.10	Subsidiary
Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd. ("Xi'an Ruite")	Xi'an city	Laser prototyping machine	60,000	23.34%	Limited liability	2006	Associate

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VI. ENTITIES CONSOLIDATION AND CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 2. Changes in consolidated statements during the reporting period

- (1) The Company established a new subsidiary in January 2008 – Fujian Kunji Conventional Machine Tool Co., Ltd.;
- (2) As Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. was sold at the end in November 2008, only the profit and cash flows from January to November in 2008 were included;

Except TOS Kunming and Xi'an Ruite, financial statements of above enterprises are consolidated in the financial statements of the Company.

Even though the Company holds 45% of the total share capital of Xi'an Ser, most of the directors of Xi'an Ser are sent by the Company. Therefore, the Company consolidated the statements of Xi'an Ser and its subsidiaries Changsha Ser and Hangzhou Ser. During the reporting period, Xi'an Ser acquired 5% equity interests held individually from Changsha Ser at the price of RMB500,000, where the equity interests in Changsha Ser held by Xi'an Ser increased from 95% to 100%.

On 7th April 2005, the joint venture TOS Kunming was established by the Company and Czech Tos Co., Ltd. with registered capital 5 million Euros. Even though the Company holds 50% of the registered capital of TOS Kunming, it does not have the controlling power. Thus, the statements of TOS Kunming have not been consolidated in the Company' statements.

The Company holds 50% equity interests in Fujian Kunji. However, as the majority of the members of the board of Fujian Kunji were appointed by the directors of the Company, it was consolidated in the financial statements for the year.

## VII. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

Unless otherwise stated, the opening balance refers to the balance as at 31st December 2007 and the closing balance refers to the balance as at 31st December 2008; whereas the current period refers to the year 2008 and the prior period refers to the year 2007. The currency unit is RMB.

### 1. Cash and cash equivalents

Item	Closing balance		Opening balance	
	Foreign currency	RMB	Foreign currency	RMB
Cash:	–	869,068.52	–	1,059,311.52
RMB	–	818,989.19	–	964,072.57
HKD	23,092.64	21,423.44	36,167.64	33,866.65
USD	2,186.15	14,941.46	2,814.15	20,556.24
IRD	–	–	390,000.00	390.00
EUR	1,419.86	13,714.43	3,789.86	40,426.06
Bank deposit:	–	326,767,233.36	–	363,391,576.90
RMB	–	292,238,901.53	–	326,340,014.24
HKD	9,729,069.60	8,579,969.18	30,773,494.90	28,815,685.28
USD	2,379,631.01	16,264,099.72	1,097,358.84	8,015,767.38
EUR	1,002,615.27	9,684,262.93	20,634.86	220,110.00
Other currencies:	–	305,100.00	–	5,899,900.00
RMB	–	305,100.00	–	5,899,900.00
Total	–	<u>327,941,401.88</u>	–	<u>370,350,788.42</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VII. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 2. Bills receivable

(1) Types of bills receivable

Item	Closing balance	Opening balance
Bank acceptance notes	63,855,343.27	134,784,345.56
Commercial acceptance notes	—	—
Total	<u>63,855,343.27</u>	<u>134,784,345.56</u>

Note: Bills receivable decreased by 52.62% over that at the beginning of the period primarily due to the maturity of bills for the current period.

### 3. Accounts receivable

(1) Aged analysis of accounts receivable

Aged analysis	Closing balance			Opening balance		
	Book value Amount	Proportion (%)	Bad debt provision	Book value Amount	Proportion (%)	Bad debt provision
Within one year	165,287,926.46	59.44	8,168,334.75	147,679,052.75	64	7,341,005.32
1-2 years	56,813,442.07	20.43	28,224,400.04	30,801,988.03	13	15,239,618.97
2-3 years	19,188,271.22	6.90	19,188,271.22	18,630,583.51	8	18,502,888.51
Over 3 years	36,799,539.19	13.23	36,799,539.19	35,407,907.14	15	35,407,907.14
Total	<u>278,089,178.94</u>	<u>100.00</u>	<u>92,380,545.20</u>	<u>232,519,531.43</u>	<u>100</u>	<u>76,491,419.93</u>

(2) Accounts receivable by customer type

Aged analysis	Closing balance			Opening balance		
	Book value Amount	Proportion (%)	Bad debt provision	Book value Amount	Proportion (%)	Bad debt provision
Significant single accounts receivable	17,581,515.83	6.32	879,075.79	—	—	—
Insignificant single accounts receivable with similar credit risk characteristics	—	—	—	—	—	—
Other insignificant accounts receivable	<u>260,507,663.11</u>	<u>93.68</u>	<u>91,501,469.41</u>	<u>232,519,531.43</u>	<u>100.00</u>	<u>76,491,419.93</u>
Total	<u>278,089,178.94</u>	<u>100.00</u>	<u>92,380,545.20</u>	<u>232,519,531.43</u>	<u>100.00</u>	<u>76,491,419.93</u>

Note: See IV.7.(6) for the standard of material judgment of the Company for details.

Total amount of top five accounts receivable is RMB32,448,008.83, representing 11.67% of the total amount of accounts receivable at the end of the year.

There were no accounts receivable due from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights during the reporting period.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VII. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 4. Other receivables

(1) Aged analysis of other receivables

Aged analysis	Closing balance			Opening balance		
	Book value Amount	Proportion (%)	Bad debt provision	Book value Amount	Proportion (%)	Bad debt provision
Within one year	12,763,864.51	33.48	399,937.05	17,778,832.19	38.68	3,627,594.25
1-2 years	3,782,217.80	9.92	356,119.90	16,588,575.07	36.09	9,305,512.28
2-3 years	15,090,753.29	39.58	15,090,753.29	7,721,275.37	16.80	7,721,275.37
Over 3 years	6,485,835.71	17.01	6,485,835.71	3,875,046.72	8.43	3,875,046.71
Total	<u>38,122,671.31</u>	<u>100.00</u>	<u>22,332,645.95</u>	<u>45,963,729.35</u>	<u>100</u>	<u>24,529,428.61</u>

(2) Other receivables by customer type

Item	Closing balance			Opening balance		
	Book value Amount	Proportion (%)	Bad debt provision	Book value Amount	Proportion (%)	Bad debt provision
Significant single other receivables	10,000,262.76	26.23	425,536.95	11,460,955.08	24.93	2,795,752.51
Insignificant single other receivables with similar credit risk characteristics	-	-	-	-	-	-
Other insignificant receivables	<u>28,122,408.55</u>	<u>73.77</u>	<u>21,907,109.00</u>	<u>34,502,774.27</u>	<u>75.07</u>	<u>21,733,676.10</u>
Total	<u>38,122,671.31</u>	<u>100.00</u>	<u>22,332,645.95</u>	<u>45,963,729.35</u>	<u>100.00</u>	<u>24,529,428.61</u>

Note: See IV.7.(6) for the standard of material judgment of the Company for details.

Total amount of top five other receivables is RMB3,657,690.44, representing 9.59% of the total amount of other receivables at the end of the year.

There were no other receivables due from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights during the reporting period.

### 5. Prepayments

Aged analysis	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within one year	32,774,613.24	64.33	33,733,536.48	81
1-2 years	16,078,027.11	31.56	5,257,836.36	13
2-3 years	677,023.00	1.33	2,323,971.10	6
Over 3 years	<u>1,415,606.59</u>	<u>2.78</u>	<u>121,279.78</u>	-
Total	<u>50,945,269.94</u>	<u>100.00</u>	<u>41,436,623.72</u>	<u>100</u>

There were no prepayments due from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights during the reporting period.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VII. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 6. Inventories

(1) Category of inventories

Item	Book value	Closing balance		Book value	Opening balance	
		Impairment provision	Net realizable value		Impairment provision	Net realizable value
Raw materials	91,963,490.93	3,991,405.49	87,972,085.44	93,233,602.90	5,674,852.93	87,558,749.97
Turnover materials	5,984,317.37	82,781.00	5,901,536.37	5,697,635.02	82,781.00	5,614,854.02
Work in progress	405,616,943.52	6,467,085.09	399,149,858.43	261,332,170.65	6,461,004.32	254,871,166.33
Finished goods	167,850,514.13	14,638,098.39	153,212,415.74	78,215,906.27	7,935,274.62	70,280,631.65
Good sold	3,276,850.72	-	3,276,850.72	243,838.80	40,080.83	203,757.97
Consigned processing materials	13,783,610.46	-	13,783,610.46	8,893,351.63	-	8,893,351.63
Total	688,475,727.13	25,179,369.97	663,296,357.16	447,616,505.27	20,193,993.70	427,422,511.57

Inventories increased by 53.81% as compared to that at beginning of the period primarily due to the inventory accumulation at the end of the year as a result of the increase in production for the current period.

### 7. Long-term equity investment

(1) Proportion of investment and voting rights

Name of invested company	Investment proportion	Proportion of voting rights in invested company	Explanation of inconsistency between the investment proportion and proportion of voting rights in the invested company
TOS Kunming Machine Tool Manufacturing Co., Ltd.	50.00%	50.00%	-
Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd.	23.34%	23.34%	-
Yunnan Cheng Jiang Copper Products Plant	40.00%	40.00%	-

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VII. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 7. Long-term equity investment (Continued)

(2) By cost method

Name of invested company	Initial investment	Opening balance	Increase/ Decrease	Closing balance	Impairment provision at the end of the period
Yunnan Cheng Jiang Copper Products Plant	2,000,000.00	2,000,000.00	–	2,000,000.00	2,000,000.00
Total	<u>2,000,000.00</u>	<u>2,000,000.00</u>	<u>–</u>	<u>2,000,000.00</u>	<u>2,000,000.00</u>

(3) By equity method

Name of invested company	Initial investment	Opening balance	Increase/ Decrease	Closing balance	Impairment provision at the end of the period
TOS Kunming Machine Tool Manufacturing Co., Ltd.	24,739,533.99	30,308,741.53	9,233,663.96	39,542,405.49	–
Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd.	14,000,000.00	14,011,818.76	(348,619.20)	13,663,199.56	–
Total	<u>38,739,533.99</u>	<u>44,320,560.29</u>	<u>8,885,044.76</u>	<u>53,205,605.05</u>	<u>–</u>

(1) Full provision for impairment loss on long-term investment of Yunnan Cheng Jiang Copper Products Plant was made because the plant has lost of the ability of sustainable operation. The Company is in the process of disposing such investment.

(2) There is no significant difference between the accounting policies used by the invested companies and those used by the Company. There is no significant restriction to realization of investment and investment income outflow as foreign currency.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VII. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 8. Fixed assets

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
1. Fixed assets at cost:	631,106,986.17	82,469,028.96	23,372,767.95	690,203,247.18
Including: Building and constructions	262,037,116.45	32,807,348.68	5,333,419.84	289,511,045.29
Machinery equipment	307,108,767.38	34,606,221.49	14,260,511.43	327,454,477.44
Transportation equipment	25,863,769.26	12,934,336.84	2,210,803.81	36,587,302.29
Electronic equipment	36,097,333.08	2,121,121.95	1,568,032.87	36,650,422.16
2. Total accumulated depreciation:	220,555,983.18	32,502,346.83	11,663,537.08	241,394,792.93
Including: Building and constructions	47,716,151.61	8,140,494.92	2,849,293.03	53,007,353.50
Machinery equipment	143,076,315.47	17,400,438.20	6,788,172.03	153,688,581.64
Transportation equipment	9,231,799.91	5,323,625.61	784,968.69	13,770,456.83
Electronic equipment	20,531,716.19	1,637,788.10	1,241,103.33	20,928,400.96
3. Total net fixed assets	410,551,002.99	49,966,682.13	11,709,230.87	448,808,454.25
Including: Building and constructions	214,320,964.84	24,666,853.76	2,484,126.81	236,503,691.79
Machinery equipment	164,032,451.91	17,205,783.29	7,472,339.40	173,765,895.80
Transportation equipment	16,631,969.35	7,610,711.23	1,425,835.12	22,816,845.46
Electronic equipment	15,565,616.89	483,333.85	326,929.54	15,722,021.20
4. Total provision for impairment	8,810,262.18	1,578,244.86	4,521,527.79	5,866,979.25
Including: Building and constructions	-	-	-	-
Machinery equipment	7,838,873.65	1,578,244.86	4,505,810.40	4,911,308.11
Transportation equipment	-	-	-	-
Electronic equipment	971,388.53	-	15,717.39	955,671.14
5. Total net fixed assets	401,740,740.81	48,388,437.27	7,187,703.08	442,941,475.00
Including: Building and constructions	214,320,964.84	24,666,853.76	2,484,126.81	236,503,691.79
Machinery equipment	156,193,578.26	15,627,538.43	2,966,529.00	168,854,587.69
Transportation equipment	16,631,969.35	7,610,711.23	1,425,835.12	22,816,845.46
Electronic equipment	14,594,228.36	483,333.85	311,212.15	14,766,350.06

At the end of the period, the pledged fixed assets at cost amounted to RMB19,603,454.38.

### 9. Construction-in-progress

Item	Opening balance	Impairment provision at the beginning of the period	Increase during the period	Transfer to fixed assets	Capitalized interests	Closing balance	Unit: RMB
							Impairment provision at the end of the period
"Nine.Five" technology improvement projects	40,000.00	40,000.00	-	-	-	40,000.00	40,000.00
Canteen	899,500.00	-	3,120,687.33	4,020,187.33	-	-	-
New plant building	14,487,907.21	-	9,627,150.53	24,024,286.14	-	90,771.60	-
Baobei City	1,751,402.00	-	-1,751,402.00	-	-	-	-
Others	30,975,625.04	2,016,931.37	29,477,043.05	28,600,237.83	-	31,852,430.26	2,016,931.37
Total	48,154,434.25	2,056,931.37	40,473,478.91	56,644,711.30	-	31,983,201.86	2,056,931.37

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VII. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 10. Intangible assets

Item	Opening book balance	Impairment provision at the beginning of the period	Increase during the period	Decrease during the period	Closing book balance	Impairment provision at the end of the period
Use rights for Siyuan building-no.2	49,319,658.52	-	-	49,319,658.52	-	-
Use rights for Siyuan building-no.3	8,312,216.40	-	-	8,312,216.40	-	-
Intelligent electric appliance know-how	4,160,424.02	4,160,424.02	-	-	-	-
Land use right	11,452,336.98	-	-	320,345.04	11,131,991.94	-
Land use right	13,232,942.84	-	-	283,057.56	12,949,885.28	-
Technical know-how of embroidery	2,323,453.26	2,323,453.26	-	-	2,323,453.26	2,323,453.26
Use rights for staff quarters	3,364,491.89	-	-	93,458.04	3,271,033.85	-
Kingdee software permit fee	249,643.39	-	-	38,688.60	210,954.79	-
Technical know-how of controllable centrifugal energy conservation compressor technology	4,651,999.76	-	-	1,163,000.04	3,488,999.72	-
Oracle software	107,039.65	-	-	49,403.04	57,636.61	-
Kingdee logistic software	172,617.08	-	-	27,783.00	144,834.08	-
Kingdee production management software	355,539.89	-	-	49,040.04	306,499.85	-
IMAG software	503,853.16	-	-	251,926.56	251,926.60	-
Office software	211,905.00	-	-	24,930.00	186,975.00	-
Mail system software	134,100.02	-	-	14,899.94	119,200.08	-
Kingdee instrument for accounting standards for business enterprises	35,999.98	-	-	4,000.06	31,999.92	-
Service for Kingdee production management software	268,333.35	-	-	27,999.96	240,333.39	-
Oracle database	-	-	570,000.00	47,500.00	522,500.00	-
Office software	-	-	280,300.00	9,343.34	270,956.66	-
OS Windows Server 2008 Enterprise Edition	-	-	60,000.00	1,000.00	59,000.00	-
ERP software	-	-	27,400.00	1370.01	26,029.99	-
Financial software	4,083.37	-	-	999.96	3,083.41	-
<b>Total</b>	<b>98,860,638.56</b>	<b>6,483,877.28</b>	<b>937,700.00</b>	<b>60,040,620.11</b>	<b>35,597,294.43</b>	<b>2,323,453.26</b>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VII. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 11. Deferred income tax assets

Causes for deferred tax assets	Closing balance	Opening balance
Bad debt provision	14,688,777.63	17,202,496.60
Impairment of available-for-sale financial assets	–	–
Provision for impairment of inventories	3,665,744.69	4,052,851.23
Provision for impairment of fixed assets	998,382.72	578,502.55
Provision for impairment of construction-in-progress	514,232.85	514,232.84
Provision for impairment of long-term equity investment	5,422,541.01	500,000.00
Contingent liabilities	2,088,016.89	1,367,858.22
Depreciation of fixed assets	–	35,619.80
Long-term deferred expenses	698.58	2,375.70
Unrealized internal profits	751,504.79	1,740,934.63
Discounted value of retirement benefits of internal staff under early retirement	4,742,732.94	4,942,324.47
Issuance of VAT invoice in advance (revenue not yet recognized)	3,203,143.65	4,341,338.47
Government grants (Note)	1,185,000.00	277,500.00
Total	<u>37,260,775.74</u>	<u>35,556,034.52</u>

Note: Such amounts refer to government grants related to the assets. Deferred income tax assets were recognized as these amounts did not meet the requirements to carry forward to the non-operating income.

### 12. Short-term borrowings

Item	Closing balance	Opening balance
Credit borrowings	50,000,000.00	–
Secured borrowings	20,000,000.00	–
Total	<u>70,000,000.00</u>	–

### 13. Accounts payable

Item	Closing balance	Opening balance
Accounts payable	<u>206,953,402.63</u>	<u>130,879,524.76</u>

Accounts payable increased by 58.13% over that at the beginning of the period due to the increase in procurement as a result of the production expansion.

There were no accounts payable due from shareholders or their associates holding over 5% (or 5%) shares of the Company entitling voting rights during the reporting period.

### 14. Advances from customers

Item	Closing balance	Opening balance
Advances from customers	<u>433,644,514.95</u>	<u>432,062,138.47</u>

There were no advances from customers due from shareholders or their associates holding over 5% (or 5%) shares of the Company entitling voting rights during the reporting period.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VII. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 15. Accrued salary

Item	Opening book balance	Increase during the period	Decrease during the period	Closing book balance
1. Salary, bonus, subsidy and grants	16,743,075.14	150,137,032.50	154,030,194.63	12,849,913.01
2. Employees benefits	–	9,140,505.29	9,140,505.29	–
3. Social insurance	(667,212.32)	30,135,942.37	31,430,110.79	(1,961,380.74)
Including: (i) Medical insurance	(48,017.31)	9,365,989.05	9,256,369.62	61,602.12
(ii) Defined contribution retirement scheme	(411,689.21)	18,441,855.88	19,169,479.53	(1,139,312.86)
(iii) Annuity	–	9,784.00	9,784.00	–
(iv) Unemployment insurance	(207,505.80)	2,016,755.35	2,244,691.75	(435,442.20)
(v) Industrial injury insurance	–	462,220.79	462,220.79	–
(vi) Birth insurance	–	775,785.59	775,785.59	–
4. Housing fund	1,411,104.00	11,332,032.45	10,876,215.13	1,866,921.32
5. Union expenses and employees education expenses	4,785,963.09	4,798,103.77	4,586,069.09	4,997,997.77
6. Non-monetary benefits	–	–	–	–
7. Compensation for termination of labor service contract	19,798,706.66	3,628,115.29	4,426,481.40	19,000,340.55
8. Others	–	–	–	–
Including: cash-settled share-based payments	–	–	–	–
Total	<u>42,071,636.57</u>	<u>209,171,731.67</u>	<u>214,489,576.33</u>	<u>36,753,791.91</u>

### 16. Taxes payable

Item	Closing balance	Opening balance
Value-add tax	(8,442,823.73)	32,156,920.07
Resource tax	–	–
Business tax	241,925.97	144,229.74
Consumption tax	–	–
City construction tax	42,170.70	966,000.93
Housing taxes	62,839.33	1,701,323.56
Vehicle and vessel usage tax	–	–
Land use tax	32,827.48	32,827.48
Personal income tax	538,922.98	603,078.11
Income tax	3,684,435.69	31,758,318.22
Others	7,566.44	578,479.32
Total	<u>(3,832,135.14)</u>	<u>67,941,177.43</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VII. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 17. Other payables

Item	Closing balance	Opening balance
Other payables	<u>12,724,709.38</u>	<u>64,694,849.97</u>

Other payables decreased by 80.33% over that at the beginning of the period primarily as a result of the reclassification of procurement costs accounts payables.

There were no other payables due from shareholders or their associates holding over 5% (or 5%) shares of the Company entitling voting rights during the reporting period.

### 18. Contingent liabilities

Item	Closing balance	Opening balance
Products' quality warranty fee	<u>13,803,999.97</u>	<u>9,117,430.70</u>
Total	<u>13,803,999.97</u>	<u>9,117,430.70</u>

### 19. Long-term borrowings

Item	Closing balance	Opening balance
Secured borrowings	<u>—</u>	<u>50,000,000.00</u>
Total	<u>—</u>	<u>50,000,000.00</u>

### 20. Long-term payables

Item	Closing balance	Opening balance
1. Obligation under finance lease	4,448,195.70	4,790,364.60
2. Appropriation for the model project of intelligent electronic machine technology and equipment technology industrialization	—	7,000,000.00
3. Infrastructure construction appropriation from Office of Finance of Shaanxi province	<u>—</u>	<u>200,000.00</u>
Total	<u>4,448,195.70</u>	<u>11,990,364.60</u>
Less: Unrecognized finance expenses	<u>1,676,478.40</u>	<u>1,805,438.20</u>
Total	<u>2,771,717.30</u>	<u>10,184,926.40</u>

As a result of the disposal of Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd., its controlling subsidiary at the end of the period, the balances of appropriation for the model project of intelligent electronic machine technology and equipment technology industrialization and infrastructure construction appropriation from Office of Finance of Shaanxi province were also disposed of.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VII. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 21. Specific payables

Item	Opening balance	Carried forward for the period	Closing balance
Specific appropriation for industrial automation from Shaanxi Provincial Development and Reform Commission	8,000,000.00	–	8,000,000.00
Specific appropriation from Shaanxi Intellectual Property Office	100,000.00	–	100,000.00
Total	8,100,000.00	–	8,100,000.00

Specific appropriation refers to the funding appropriated to the specific project of industrial automation and high-tech industrialization by Xi'an Ser Turbo Machinery Manufacturing Co., Ltd., its subsidiary under the document of National Development and Reform Commission (Fagaigaoji [2004] No.2080).

### 22. Share capital

Item	Opening balance	Increase during the year	Decrease during the year	Closing balance
1. Unlisted circulating shares	180,011,100.00	–	3,280,790.00	176,730,310.00
Promoter's shares	47,018,331.00	–	–	47,018,331.00
Including: State-owned shares	47,018,331.00	–	–	47,018,331.00
Domestic legal person shares	132,992,769.00	–	3,280,790.00	129,711,979.00
2. Listed circulating shares	244,853,783.00	3,280,790.00	–	248,134,573.00
Including: RMB ordinary shares	132,137,883.00	3,280,790.00	–	135,418,673.00
Overseas listed foreign shares	112,715,900.00	–	–	112,715,900.00
3. Total number of shares	424,864,883.00	–	–	424,864,883.00

The change in the structure of share capital was due to disposal of 3,280,790.00 selling unrestricted shares on the circulating A Shares market by Kunming Jinghua Co., Ltd., its common legal person shareholder during the year.

### 23. Capital reserve

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Share premium	125,422,997.12	–	–	125,422,997.12
Other capital reserve	8,096,544.60	–	–	8,096,544.60
Total	133,519,541.72	–	–	133,519,541.72

### 24. Surplus reserve

Item	Opening balance	Increase during the period	Decrease during the period	Closing balance
Statutory surplus reserve	41,903,289.47	26,695,850.61	–	68,599,140.08
Total	41,903,289.47	26,695,850.61	–	68,599,140.08

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VII. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 25. Undistributed profit

Item	Current period	Prior period
Net profits	276,564,904.31	242,957,688.27
Add: Undistributed profit at the beginning of the year	279,091,413.76	57,263,089.40
Gain or loss directly recognized in shareholders' equity	–	–
Less: Distribution of cash bonus dividend	114,713,520.00	–
Less: Transfer to statutory surplus reserve	26,695,850.61	21,129,363.92
Undistributed profit	<u>414,246,947.45</u>	<u>279,091,413.76</u>

During the year, the Company distributed cash dividend totaling RMB114,713,520.00 on a basis of RMB2.70 for every 10 shares held based on the total number of share capital of 424,864,883 shares according to the proposal on profit distribution for 2007 approved at the general meeting held on 13th June 2008. All dividends were paid. The registration date for entitlements was 30th June 2008.

### 26. Operating income

Item	Current period	Prior period
Operating income	1,533,243,708.03	1,295,795,259.46
Other operating income	29,861,690.44	6,590,368.21
Total	<u>1,563,105,398.47</u>	<u>1,302,385,627.67</u>

Item	Current period	Prior period
Sales of machine tool products	1,220,330,295.68	941,730,649.52
Sales of highly efficient energy-saving compressors	202,767,751.87	233,544,300.54
Sales of new products	21,550,254.70	33,682,054.95
Machine tool processing services	60,249,445.42	42,309,122.48
Sales of embroidery machines	–	–
Sales of intelligent electrical appliances	7,767,844.55	6,900,247.99
Sales of laser prototyping machines	–	–
Sales of sensor equipment	15,303,039.58	17,564,111.42
Revenue of transportation	15,490,052.42	20,432,695.86
Sales of materials	4,996,942.65	2,961,549.29
Leasing	438,746.50	456,285.10
Technical support	4,590.00	10,600.00
Other sales	14,206,435.10	2,794,010.52
Total	<u>1,563,105,398.47</u>	<u>1,302,385,627.67</u>

Total sales revenue of the top 5 customers for 2008 amounted to RMB131,713,992.46, accounting for 8.43% of the total sales revenue.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VII. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 27. Operating costs

Item	Current period	Prior period
Operating costs	1,032,611,408.48	830,310,475.57
Other operating costs	3,477,295.70	4,125,808.38
Total	<u>1,036,088,704.18</u>	<u>834,436,283.95</u>

Item	Current period	Prior period
Sales of machine tool products	807,386,397.93	595,028,492.93
Sales of highly efficient energy-saving compressors	164,644,883.71	178,575,276.43
Sales of new products	–	–
Machine tool processing services	26,504,745.41	20,101,832.67
Sales of embroidery machines	–	–
Sales of intelligent electrical appliances	4,944,514.29	3,931,614.14
Sales of laser prototyping machines	–	–
Sales of sensor equipment	13,323,413.89	15,255,650.07
Revenue of transportation	14,168,388.48	17,921,870.16
Sales of materials	1,976,093.00	3,154,760.15
Leasing	376,422.84	275,571.78
Technical support	–	–
Other sales	2,763,844.63	191,215.62
Total costs	<u>1,036,088,704.18</u>	<u>834,436,283.95</u>

### 28. Business tax and additions:

Item	Current period	Prior period
Business tax	567,324.39	556,241.90
City construction tax	485,034.73	1,485,864.89
Education fee additions	246,768.78	774,731.84
Total	<u>1,299,127.90</u>	<u>2,816,838.63</u>

### 29. Impairment loss of assets

Item	Current period	Prior period
Bad debt provision	19,852,302.59	30,947,548.23
Provision for impairment of inventories	4,888.88	(5,107,042.87)
Provision for impairment of investment held-to-maturity	–	–
Provision for impairment of long-term equity investment	–	–
Provision for impairment of fixed assets	1,578,244.86	465,029.31
Provision for impairment of construction-in-progress	–	–
Provision for impairment of intangible assets	–	1,447,104.01
Total	<u>21,435,436.33</u>	<u>27,752,638.68</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VII. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 30. Finance Expenses

Item	Current period	Prior period
Interest expenses	3,004,752.87	1,617,993.66
Less: Interest income	2,833,462.09	2,632,845.36
Exchange loss/gain	343,140.85	4,029,856.03
Unrecognized finance expenses	1,040,661.96	1,227,768.77
Fee expenses	465,756.65	449,055.33
Others	–	–
Total	<u>2,020,850.24</u>	<u>4,691,828.43</u>

### 31. Investment Income

Name of invested company	Current period	Prior period
TOS Kunming	12,533,663.96	4,967,017.01
Xi'an Ruite	(348,611.39)	11,818.81
Available-for-sale financial assets (wealth management)	–	24,382,945.80
Gain from wealth management	153,205.48	69,041.10
Gain on disposal of subsidiary and proportionate share of net profits before disposal of subsidiary for the period	<u>2,712,365.26</u>	<u>(1,388,083.31)</u>
Total	<u>15,050,623.31</u>	<u>28,042,739.41</u>

Details of the disposal of the subsidiary for the period are set out in note VIII.5.

### 32. Non-operating Income

Item	Current period	Prior period
Total gain on disposal of non-current assets	727,025.78	603,031.85
Including: Gain on disposal of fixed assets	727,025.78	603,031.85
Refund of VAT	26,376,769.65	16,130,092.56
Land premium reduction or exemption	–	3,197,608.00
Transfer special fund from science & technology commission	–	3,211,680.50
Price difference in the purchase of minority interests of the subsidiary	3,450,495.78	–
Others	<u>659,177.39</u>	<u>2,222,274.78</u>
Total	<u>31,213,468.60</u>	<u>25,364,687.69</u>

Return of value-added tax included: in accordance with the "Notice of "Pay first, refund later" method for value added tax for numerical control machine products" by the Ministry of Finance & State Administration of Taxation (No. [2006] 149), from 1st January 2006 to 31st December 2008, for CNC machine tool products, the value added tax should be paid first in accordance with the regulations, and then 50% of the paid value added tax will be refunded. The Company has enjoyed this preferential policy from year 2006 to year 2008 (The Company had got this preferential policy from year 2003 to year 2005, and had valued added tax refund of RMB2 million per year.) The tax refund is used for the specified purpose for technology innovation, environment protection, developing energy-saving products and CNC machine tool products. According to this policy and relevant regulations, the value-added tax refund will be determined by the actual paid value-added tax. This policy has the positive effect to the results of the year 2008, to increase the total profit of RMB26,376,769.65.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VII. NOTES TO MAJOR ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

### 33. Non-operating expenses

Item	Current period	Prior period
Total loss on disposal of non-current assets	3,772,353.78	1,874,551.53
Including: Loss on disposal of fixed assets	3,768,470.78	1,829,186.07
Donation	320,334.20	20,522.70
Fines	125,459.02	167,200.00
Others	96,034.72	8,842,351.31
Total	<u>4,314,181.72</u>	<u>10,904,625.54</u>

### 34. Income tax expenses

Item	Current period	Prior period
Current income tax expenses	39,507,970.38	47,825,410.60
Deferred income tax	(1,704,741.21)	(2,121,461.20)
Total	<u>37,803,229.17</u>	<u>45,703,949.40</u>

### 35. Other cash paid relating to operating activities:

Item	Current period	Prior period
Installation fee	5,129,703.44	
Warrant fee	3,613,416.81	
Office expense	3,565,966.59	
Package fee	–	
Insurance fee	365,057.79	
Business traveling expense	15,001,759.97	
Telephone expense	1,287,809.98	
Expense of the Board of Directors and Supervisory Committee	161,660.74	
Leasing expense	491,519.98	
Listing management fee	1,520,122.96	
Advertising and exhibition fee	859,142.03	
Conference fee	12,042.00	
Labor protection fee	291,914.30	
Labor insurance fee	39,493.78	
Pollutant discharge fee	308,762.00	
Vehicles maintenance fee	1,000,086.18	
Repair and maintenance fee	623,689.82	
Research & development fee	1,406,507.09	
Design fee	731,180.00	
Communication fee	46,687.39	
Compensation fee for loss of land	–	
Entertainment fee	2,967,824.99	
Service fee due to acceptance of a bid	391,024.61	
Human resource administration fee	118,268.50	
Auditing and evaluation fee	3,072,200.00	
Consultation fee	11,877,770.14	
Technology license fee	1,511,900.00	
Cash flows of Siyuan	2,399,807.62	
Others	4,643,693.34	
Total	<u>63,439,012.04</u>	



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VIII. NOTES TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY

### 1. Bills receivable

Item	Closing balance	Opening balance
Bank acceptance notes	44,172,517.90	88,342,942.50
Commercial acceptance notes	—	—
Total	<u>44,172,517.90</u>	<u>88,342,942.50</u>

Note: Bills receivable decreased by 50.00% over that at beginning of the period primarily due to the maturity of bills for the current period.

### 2. Accounts receivable

#### (1) Aged analysis of accounts receivable

Aged analysis	Closing balance			Opening balance		
	Book value Amount	Proportion (%)	Bad debt provision	Book value Amount	Proportion (%)	Bad debt provision
Within one year	145,465,388.98	67.02	7,064,658.32	110,201,209.19	69.86	5,510,060.46
1-2 years	35,395,967.04	16.31	17,575,983.52	20,659,851.95	13.10	10,329,925.98
2-3 years	12,004,296.22	5.53	12,004,296.22	7,171,514.21	4.55	7,171,514.21
Over 3 years	<u>24,172,509.56</u>	<u>11.14</u>	<u>24,172,509.56</u>	<u>19,709,632.61</u>	<u>12.49</u>	<u>19,709,632.61</u>
Total	<u>217,038,161.80</u>	<u>100.00</u>	<u>60,817,447.62</u>	<u>157,742,207.96</u>	<u>100.00</u>	<u>42,721,133.25</u>

#### (2) Accounts receivable by customer type

Item	Closing balance			Opening balance		
	Book value Amount	Proportion (%)	Bad debt provision	Book value Amount	Proportion (%)	Bad debt provision
Significant single accounts receivable	17,581,515.83	8.10	879,075.79	—	—	—
Insignificant single accounts receivable with similar credit risk characteristics	—	—	—	—	—	—
Other insignificant accounts receivable	<u>199,456,645.97</u>	<u>91.90</u>	<u>59,938,371.83</u>	<u>157,742,207.96</u>	<u>100.00</u>	<u>42,721,133.25</u>
Total	<u>217,038,161.80</u>	<u>100.00</u>	<u>60,817,447.62</u>	<u>157,742,207.96</u>	<u>100.00</u>	<u>42,721,133.25</u>

There were no accounts receivable due from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights during the reporting period.

Accounts receivable increased by 37.59% over that at the beginning of the period due to the increase in sales revenue during the period.

Total amount of top five accounts receivables is RMB32,448,008.83, representing 14.95% of the total amount of accounts receivable at the end of the year.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VIII. NOTES TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

### 3. Other receivables

(1) Aged analysis of other receivables

Aged analysis	Closing balance			Opening balance		
	Book value Amount	Proportion (%)	Bad debt provision	Book value Amount	Proportion (%)	Bad debt provision
Within one year	42,876,328.20	73.67	353,072.51	19,847,005.27	49.29	992,350.26
1-2 years	673,457.80	1.16	331,739.90	19,967,514.55	49.59	17,061,698.03
2-3 years	14,229,702.39	24.45	14,229,702.39	93,078.29	0.23	93,078.29
Over 3 years	424,137.70	0.73	424,137.70	355,715.75	0.88	355,715.75
Total	<u>58,203,626.09</u>	<u>100.00</u>	<u>15,338,652.50</u>	<u>40,263,313.86</u>	<u>100.00</u>	<u>18,502,842.33</u>

(2) Other receivables by customer type

Item	Closing balance			Opening balance		
	Book value Amount	Proportion (%)	Bad debt provision	Book value Amount	Proportion (%)	Bad debt provision
Significant single other receivables	3,162,262.76	5.43	425,536.95	9,092,730.99	22.58	850,032.93
Insignificant single other receivables with similar credit risk characteristics	-	-	-	-	-	-
Other insignificant receivables	<u>55,041,363.33</u>	<u>94.57</u>	<u>14,913,115.55</u>	<u>31,170,582.87</u>	<u>77.42</u>	<u>17,652,809.40</u>
Total	<u>58,203,626.09</u>	<u>100.00</u>	<u>15,338,652.50</u>	<u>40,263,313.86</u>	<u>100.00</u>	<u>18,502,842.33</u>

There were no other receivables due from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights during the reporting period.

Other receivables increased by 44.56% over that at the beginning of the period, primarily due to the increase in deposits as a result of increase in sales revenue for the period.

### 4. Prepayments

Aged analysis	Closing balance		Opening balance	
	Amount	Proportion (%)	Amount	Proportion (%)
Within one year	8,920,685.84	41.09	8,521,867.47	89.28
1-2 years	12,700,821.11	58.50	905,817.86	9.49
2-3 years	10.00	-	-	-
Over 3 years	<u>89,119.78</u>	<u>0.41</u>	<u>117,179.78</u>	<u>1.23</u>
Total	<u>21,710,636.73</u>	<u>100.00</u>	<u>9,544,865.11</u>	<u>100.00</u>

There were no prepayments due from shareholders holding over 5% (or 5%) shares of the Company entitling voting rights during the reporting period.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VIII. NOTES TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

### 5. Long-term investment

(1) Proportion of investment and voting rights in the invested companies

Name of invested company	Investment proportion	Proportion of invested voting rights in company	Explanation of inconsistency between the investment proportion and proportion of voting rights in the invested company
Xi'an Ser Turbo Machinery Manufacturing Co., Ltd.	45.00%	45.00%	
Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd.	78.03%	78.03%	
TOS Kunming Machine Tool Manufacturing Co., Ltd.	50.00%	50.00%	
Kunji Transportation Co., Ltd.	100.00%	100.00%	
Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd.	23.34%	23.34%	
Yunnan Cheng Jiang Copper Products Plant	40.00%	40.00%	
Winko Machines Co., Ltd.	96.74%	96.74%	
Fujian Kunji Conventional Machine Tool Co., Ltd.	50.00%	50.00%	
Kunming Kunji General Machine Co., Ltd.	100.00%	100.00%	

(2) By Cost method

Name of invested company	Initial investment	Opening balance	Increase/Decrease	Closing balance	Impairment provision at the end of the period
Xi'an Ser Turbo Machinery Manufacturing Co., Ltd.	21,693,265.85	21,693,265.85	-	21,693,265.85	-
Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd.	27,310,000.00	27,310,000.00	(27,310,000.00)	-	-
Kunji Transportation Co., Ltd.	500,000.00	500,000.00	-	500,000.00	-
Winko Machines Co., Ltd.	19,341,544.85	19,341,544.85	-	19,341,544.85	19,341,544.85
Yunnan Cheng Jiang Copper Products Plant	2,000,000.00	2,000,000.00	-	2,000,000.00	2,000,000.00
Kunming Kunji General Machine Co., Ltd.	3,000,000.00	3,000,000.00	-	3,000,000.00	-
Fujian Kunji Conventional Machine Tool Co., Ltd.	2,500,000.00	-	2,500,000.00	2,500,000.00	-
Total	<u>76,344,810.70</u>	<u>73,844,810.70</u>	<u>(24,810,000.00)</u>	<u>49,034,810.70</u>	<u>21,341,544.85</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VIII. NOTES TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY *(Continued)*

### 5. Long-term investment *(Continued)*

#### (2) *By Cost method (Continued)*

- 1) According to the resolution on the liquidation of Winko Machines Co., Ltd. proposed at the 32nd meeting of the 5th session of the Board of the Company, the Company recommended Winko Machines Co., Ltd. to convene a general meeting and such meeting was held on 30th June 2008 to consider and approve the resolution on dissolution and liquidation. Meanwhile, the Company published an announcement in respect of such matter. Currently, the liquidation team undertakes the liquidation pursuant to requirements of the relevant laws and regulations.
- 2) During the year, the distribution of dividend by Xi'an Ser Turbo Machinery Manufacturing Co., Ltd. amounted to RMB20 million. The dividends receivable by the Company amounted to RMB9 million. Due to the large amount of dividends receivable, Xi'an Ser Turbo Machinery Manufacturing Co., Ltd. did not make timely distribution of cash dividend to the Company. In this regard, the Company entered into an agreement with Xi'an Ser Turbo Machinery Manufacturing Co., Ltd. pursuant to which the dividends receivable shall bear an interest at the prevailing lending rate. During the year, the accrued interests for the dividends receivable amounted to RMB216,825.00.
- 3) According to the resolution proposed at the 38th meeting of the 5th session of the Board of the Company held on 3rd April 2008, it was proposed that 78.02% equity interests in Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. held by the Company be disposed of by way of open tender on the Yunnan Equity Exchange Co., Ltd. with reference to the appraised value of the assets of Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. conducted by Zhong He Appraisal Co., Ltd. due to the poor operating conditions of Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. and its irrelevance to the principal business of the Company, machine tool business.

On 22nd May 2008 and 18th July 2008, the Company failed to dispose of its equity interests in Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. by way of open tender on the Yunnan Equity Exchange Co., Ltd.. On 24th October 2008, the Company again transferred the 78.02% equity interests in Intelligent Electric Apparatus by way of open tender on the Yunnan Equity Exchange Co., Ltd. at a consideration of RMB 8,546,900 (based on the asset appraisal value).

During the open tender period, Xi'an Jiaotong University Science Park Co., Ltd. was the only bidder who intended to acquire the 78.02% equity interests in Intelligent Electric Apparatus at the consideration equivalent to the offer price of RMB8,546,900 (HK\$9,671,700).

The above transaction was reviewed and approved at the 3rd meeting of the 6th session of the Board of the Company, on 4th December 2008, the Company, as the seller, signed a Share Subscription Agreement with the only bidder, Xi'an Jiaotong University Science & Technology Park Co., Ltd. to transfer the entire 78.02% equity interests held in Intelligent Electric Apparatus for a cash consideration of RMB8,546,900 (HK\$9,671,700). The transaction was entered into on normal commercial terms in accordance with the standard contract for share transfer as stipulated by the Yunnan Equity Exchange Co., Ltd.. The consideration was settled in accordance with the contract. The Company's cost of investment in Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. amounted to RMB27,310,000.00. An impairment provision of RMB19,330,000.00 was made and the disposal expenses were RMB45,000.00. The investment income from the above transaction amounted to RMB521,900.00.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VIII. NOTES TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

### 5. Long-term investment (Continued)

(3) By equity method

Name of invested company	Initial investment	Opening balance	Increase/Decrease	Closing balance	Impairment provision at the end of the period
TOS Kunming Machine Tool Manufacturing Co., Ltd.	24,739,533.99	30,308,741.53	9,233,663.96	39,542,405.49	–
Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd.	14,000,000.00	14,011,818.76	-348,619.20	13,663,199.56	–
Total	<u>38,739,533.99</u>	<u>44,320,560.29</u>	<u>8,885,044.76</u>	<u>53,205,605.05</u>	<u>–</u>

The increase in long-term equity investment was due to the recognition of investment income by equity method.

### 6. Deferred income tax assets

Causes for deferred tax assets	Closing balance	Opening balance
Bad debt provision	17,623,436.89	13,890,405.76
Impairment of available-for-sale financial assets	–	–
Provision for impairment of inventories	3,345,775.79	3,345,775.79
Provision for impairment of fixed assets	929,973.45	578,502.55
Provision for impairment of construction-in-progress	514,232.85	514,232.84
Provision for impairment of long term equity investment	5,422,541.01	8,234,886.21
Contingent liabilities	2,044,474.66	1,367,249.19
Discounted value of retirement benefits of internal staff under early retirement	4,742,732.94	4,942,324.47
Issuance of VAT invoice in advance (revenue not yet recognized)	3,203,143.65	4,341,338.47
Government grants (deferred gain)	1,185,000.00	277,500.00
Total	<u>39,011,311.24</u>	<u>37,492,215.28</u>

### 7. Operating income

Item	Current period	Prior period
Operating income	1,217,200,277.46	935,728,422.35
Other operating income	27,839,401.92	6,222,444.91
Total	<u>1,245,039,679.38</u>	<u>941,950,867.26</u>

Total sales revenue of the top 5 customers for 2008 amounted to RMB131,713,992.46, accounting for 16.87% of the total sales revenue.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## VIII. NOTES TO THE MAJOR ITEMS OF THE FINANCIAL STATEMENTS OF THE PARENT COMPANY (Continued)

### 8. Operating costs

Item	Current period	Prior period
Operating costs	778,207,982.44	565,186,503.25
Other operating costs	2,420,178.52	3,536,657.02
Total	<u>780,628,160.96</u>	<u>568,723,160.27</u>

## IX. RELATED PARTIES AND TRANSACTIONS

### 1. Details of related parties with controlling relationship

#### (i) Related parties with controlling relationship

Name	Relationship with the Company	Economic nature or type	Place of registration	Scope of business	Legal representative
Shenyang Machine Tool (Group) Co., Ltd. ("Shenyang Group")	The largest shareholder	Limited liability	Shenyang city	Manufacturing of metal-cutting machines, CNC machines and mechanical equipment; General commercial trading and technology trading within PRC	Guan Xiyou
Xi'an Ser Turbo Machinery Manufacturing Co., Ltd. ("Xi'an Ser")	Subsidiary	Limited liability	Xi'an city	Design, development and sales of turbo machines, energy saving sintering fans, compressor equipment, research and re-modification of imported equipment and its parts, automated control system engineering, CNC engineering, mechanical and chemical equipment, meter technology development, whole machine production and sales	Wang Shangjin
Fujian Kunji Conventional Machine Tool Co., Ltd. ("Fujian Kunji")	Subsidiary	Limited liability	Nan'an city	Development, design, production and sales of self-produced machine tool series products and accessories	Zhou Guoxing
Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Co., Ltd. ("Intelligent Electric Apparatus")	Subsidiary	Limited liability	Xi'an city	Development, production and sales of electrical appliances, electric power and electronic engineering and products, and provision of technical services	Zhang Hanrong
Winko Machines Co., Ltd. ("Winko")	Subsidiary	Limited liability	Kunming city	Development, application and system integration of hardware and software; retail, wholesale and distribution of general machinery and electronic machines	Chen Jianzhong
Kunji Transportation Co., Ltd ("Kunji Transportation")	Subsidiary	Limited liability	Kunming city	General cargo transportation	Zhang Xiaoyi
Kunming Kunji General Machine Co., Ltd ("General Machine")	Subsidiary	Limited liability	Kunming city	Development, design, and sale of machine tool products and accessories	Gao Minghui



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IX. RELATED PARTIES AND TRANSACTIONS (Continued)

### 1. Details of related parties with controlling relationship (Continued)

(ii) Registered capital of related parties with controlling relationship and its changes

Name	Opening balance	Increase during the year	Decrease during the year	Closing balance
Shenyang Machine Tool Group	1,556,480,000.00	-	-	1,556,480,000.00
Xi'an Ser	50,000,000.00	-	-	50,000,000.00
Intelligent Electric Apparatus	35,000,000.00	-	-	35,000,000.00
Winko	20,230,000.00	-	-	20,230,000.00
Kunji Transportation	500,000.00	-	-	500,000.00
Kunji General Machine Equipment Co.	3,000,000.00	-	-	3,000,000.00
Fujian Kunji	-	5,000,000.00	-	5,000,000.00

(iii) Shares and equity held by related parties with controlling relationship and its changes

Name	Opening balance		Increase during the year	Decrease during the year	Closing balance	
	Amount	Proportion (%)			Amount	Proportion (%)
Shenyang Machine Tool Group	106,578,219.00	25.09	-	-	106,578,219.00	25.09
Xi'an Ser	22,500,000.00	45.00	-	-	22,500,000.00	45.00
Intelligent Electric Apparatus	27,310,000.00	78.03	-	27,310,000.00	-	-
Winko	19,570,000.00	96.74	-	-	19,570,000.00	96.74
Kunji Transportation	500,000.00	100.00	-	-	500,000.00	100.00
Kunji General Machine	3,000,000.00	100.00	-	-	3,000,000.00	100.00
Fujian Kunji	-	-	2,500,000.00	-	2,500,000.00	50.00

### 2. Related parties without controlling relationship

Name	Relationship with the Company
TOS Kunming Machine Tool Manufacturing Co., Ltd.	Joint Venture
Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd.	Associate
Yunnan CY (Group) Company Products Trading Centre	Subsidiary of the largest shareholder
Yunnan Yunji Group Import and Export Co., Ltd.	Subsidiary of the largest shareholder
Kunji Group Co., Ltd.	Subsidiary controlled by the second largest shareholder
Czech Tos Vansdorf Co.,Ltd.	Joint controller of the joint venture

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IX. RELATED PARTIES AND TRANSACTIONS (Continued)

### 3. Information of joint venture and associate

Name of invested company	Place of registration	Nature of business	Registered capital	Proportion of shareholding held by the Company (%)	Proportion of voting rights held by the Company (%)
1. Joint Venture TOS Kunming Machine Tool Manufacturing Co., Ltd	Kunming, Yunnan	Production and sale of machine tool products	5,000,000 Euros	50	50
2. Associate Xi'an Ruite Laser Prototyping Manufacturing & Engineering Research Co., Ltd.	Xi'an city	Production and sale of laser prototyping machine products	RMB60 million	23.34	23.34

Name of invested company	Total assets at the beginning of the period	Total liabilities at the end of the period	Total operating income for the period	Net profits for the period
1. Joint venture TOS Kunming Machine Tool Manufacturing Co., Ltd	170,190,855.63	90,761,600.92	141,212,462.72	25,433,817.67

### 4. Connected Transactions

#### (1) Sales of Goods

- The Company sold goods at market value amount of RMB14,556,221.37 and RMB9,804,937.62 to related party TOS Kunming Machine Tool Manufacturing Co., Ltd in 2008 and 2007 respectively.
- The Company sold goods at market value amount of RMB50,096,869.89 and RMB15,336,223.82 to related party Czech Tos Vansdorf Co.,Ltd. in 2008 and 2007 respectively.
- The Company entered into distribution agreements with Shenyang Machine Tool Import & Export Co., Ltd. ("Shenji EXIM") and Yunnan Yunji Group Import & Export Co., Ltd. ("Yunji EXIM") respectively. Pursuant to the agreements, the Company agreed to authorize Shenji EXIM and Yunji EXIM to distribute and export certain products from 1st April 2008 to 31st December 2010, effective from the date of the passing of the resolution by the independent shareholders at the EGM held on 12th June 2008. The annual caps were RMB40,000,000, RMB50,000,000, and RMB60,000,000 for Shenji EXIM respectively and RMB10,000,000, RMB15,000,000, and RMB20,000,000 for Yunji EXIM respectively. Such transactions were conducted on a regular and continuing basis in the ordinary and usual course of business of the Company as an effort to expand overseas market leveraging on the existing overseas distribution network of the export and import companies. The Directors of the Company (including four independent non-executive directors) reviewed such transactions and considered that the distribution agreements were entered into on normal commercial terms and conditions in the ordinary and usual course of business of the Company, negotiated on an arm's length basis and at prices and terms no less favorable than those charged and offered to other distributors of the Company (independent third parties).

The Company sold goods at market value amount of RMB15,840,341.88 to related party Shenyang Machine Tool Import & Export Co., Ltd. in 2008.

The Company sold goods at market value amount of RMB309,619.66 to related party Yunnan Yunji Group Import & Export Co., Ltd. in 2008.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IX. RELATED PARTIES AND TRANSACTIONS (Continued)

### 4. Connected Transactions (Continued)

#### (1) Sales of Goods (Continued)

- 4) On 28th May 2008, the Company entered into an agreement (the "Agreement") with Yunnan CY Group Co., Ltd. Products Trading Center, pursuant to which the Company agreed to sell a TJK6920 floor-type boring and milling machine to Yunnan CY Group Co., Ltd. Products Trading Center. The Directors of the Company (including four independent non-executive directors) reviewed the Agreement and considered that the Agreement was entered into on normal commercial terms and conditions in the ordinary and usual course of business of the Company, with the selling price negotiated on an arm's length basis.

The Company sold goods at market value amount of RMB288,888.89 to related party Yunnan CY Group Co., Ltd. in 2008.

- 5) The Company sold goods at market value amount of RMB489,465.81 to related party Yunnan CY (Group) Company Jinhui Spraying Factory in 2008.

#### (2) Provision and Receipt of Services

- 1) On 15th November 1993, the Company entered into an agreement with Kunji Group Company relating to the provision of certain services to each other after the reorganization. Pursuant to this agreement, the Company agreed to provide certain public utility services available to the Company such as water and electricity to Kunji Group Company, while Kunji Group agreed to provide certain services to the Company including property management, employee's medical services, education and administration of retired staff. Service fee is reviewed by both parties on an annual basis and is determined by reference first to the standards set by the relevant government department for that particular service. If there are no applicable state standards, the Company and Kunji Group Company will determine the service fee based on market price or transaction price at arm's length negotiation. The above transactions between Kunji Group Company and the Company in 2007 and 2006 are as follows:

Item	Year 2008	Year 2007
Property management fee paid to Kunji Group Company	739,661.44	739,661.44
Staff medical service fee paid to Kunji Group Company	75,000.00	75,000.00
Social and education service fee paid to Kunji Group Company	—	—
Administrative fee for retired staff	80,236.80	80,236.80
Total	<u>894,898.24</u>	<u>894,898.24</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IX. RELATED PARTIES AND TRANSACTIONS *(Continued)*

### 4. Connected Transactions *(Continued)*

#### (2) *Provision and Receipt of Services (Continued)*

2) The Company received consultation fee of RMB1,127,529.16 and RMB10,600.00 from the related party TOS Kunming Machine Tool Manufacturing Co., Ltd. in 2008 and 2007 respectively. Because the consultation fee has been included in the sales revenue (calculated at 5% of the sales revenue) for last year, thus, there is a big difference regarding the consultation fee between year 2007 and year 2008.

#### (i) Purchase of Goods

1) The Company purchased goods of RMB76,970,413.78 and RMB53,689,130.74 from related party TOS Kunming Machine Tool Manufacturing Co., Ltd in 2008 and 2007 respectively.

2) The Company purchased 2 machines from Yunnan CY Group Co., Ltd. with a total value of RMB147,600.00 during the period.

#### (ii) Leases

1) The 16th meeting of the 4th session of the Board held on 18th April 2004 approved that "The Premise Rental Agreement" and "The Land Use Rental Agreement" signed in 2001 between the Company and Kunji Group Company and would be continued. According to the resolution passed at 26th meeting of 4th session of the Board, on 17th August 2005, the Company and Kunji Group Company entered into the agreements "The Rent Amendment Agreement of the Premises" and "The Rent Amendment Agreement of the Land Use Right", which stated that Kunji Group Company was authorized by Yunnan Government to succeed the rights and obligations of the "The Premise Rental Agreement" and "The Land Use Rental Agreement" signed by Yunnan Government on 12th November 2001 with the Company. The assets mentioned in the above agreements involved the leaseback of part of the premises and land use right from the Yunnan Government after the capital restructuring in 2001.

On 12th May 2008, the Company entered into an agreement (the "Agreement") with Kunming Kunji Group ("Kunji Group"), pursuant to which the Company would demolish the buildings it leased from Kunji Group and used as casting workshops for reconstruction. In return, the Company agreed to pay a one-off compensation of RMB1,949,943 to Kunji Group. The Directors of the Company (including four independent non-executive directors) reviewed the Agreement and considered that the Agreement was entered into on normal commercial terms and conditions and the compensation price determined based on the asset appraisal report was fair, reasonable.

In 2008, the Company paid the rental of the premises and land use right at annual rent of RMB754,914.00 and RMB1,320,000.00 respectively.

In the year 2007, the Company paid the rental of the premises and land use right at annual rent of RMB490,059.10 and RMB1,320,000.00 respectively.

2) The Company entered into a plant lease agreement with Kunming Kunji Group Co., Ltd. and paid a lease fee of RMB100,000.00 to Kunming Kunji Group Co., Ltd. for 2008.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## IX. RELATED PARTIES AND TRANSACTIONS *(Continued)*

### 5. Accounts receivable and payable from/to related parties

Related parties	Item	Closing balance	Opening balance	Nature
TOS Kunming Machine Tool Manufacturing Co., Ltd	Accounts payable	47,691,954.36	13,871,668.75	Payment for goods
	Accounts receivable	10,017,525.60	5,653,902.25	Payment for goods
	Other receivables	–	61,109.40	Current account
Yunnan CY (Group) Company Products Trading Centre	Accounts payable	–	4,300.00	Payment for goods
	Advances from customers	–	286,000.00	Payment for goods
	Accounts receivable	9,000.00	–	Payment for goods
Yunnan CY (Group) Company Jinhui Spraying Factory	Accounts payable	–	10,929.00	Payment for goods
Kunji Group	Other payables	2,074,914.00	894,898.23	Property management fees etc.
Czech Tos Vansdorf Co.,Ltd.	Accounts receivable	6,791,067.73	4,418,459.00	Payment for goods
Shenji Group Import and Export Co., Ltd.	Advances from customers	3,525,800.00	483,160.00	Payment for goods

## X. CONTINGENT EVENTS

As at the date of the financial statements, the Company and its subsidiaries were involved in the following two pending litigations filed by Zhucheng Guanghua Acetylene Oxygen Making Co., Ltd. (hereafter as “Zhucheng Guanghua”) to the Zhucheng Municipal Court of Shangdong Province on 10th October 2008. As of the reporting date, such two cases were still pending.

1. Zhucheng Guanghua filed a case against Xi’an Ser Turbo Machinery Manufacturing Co., Ltd. for disputes over the sales and purchase contract. For the case of Zhucheng Guanghua against Xi’an Ser Turbo Machinery Manufacturing Co., Ltd., Zhucheng Guanghua requested the court to demand the repayment totaling RMB1,680,000 for equipment and the compensation for economic loss totaling RMB300,000 by Xi’an Ser Turbo Machinery Manufacturing Co., Ltd. at the expense of Xi’an Ser Turbo Machinery Manufacturing Co., Ltd.. With regard to the litigation filed by Zhucheng Guanghua, Xi’an Ser Turbo Machinery Manufacturing Co., Ltd. submitted a counterclaim to the Zhucheng Municipal Court on 17th November 2008 after gathering the evidence to request the Zhucheng Municipal Court to demand the payment totaling RMB1,120,000 for goods, transportation costs totaling RMB16,179.00 and its accrued interests of RMB183,339.00 by Zhucheng Guanghua at the expense of Zhucheng Guanghua. Three hearings were held for such case by the Zhucheng Municipal Court but the case is still pending at the moment.
2. Zhucheng Guanghua filed a case against Changsha Ser Turbo Equipment Co., Ltd. for disputes over the sales and purchase contract. For the case of Zhucheng Guanghua against Changsha Ser Turbo Equipment Co., Ltd., Zhucheng Guanghua request the court to demand the repayment totaling RMB1,220,000 for goods and the compensation of economic loss totaling RMB700,000 by Changsha Ser Turbo Equipment Co., Ltd. at the expense of Changsha Ser Turbo Equipment Co., Ltd.. Two hearings were held for such case by the Zhucheng Municipal Court but the case is still pending at the moment.

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## XI. COMMITMENTS

### 1. Lease commitments:

- 1) Fixed assets acquired under financial leases – original value at the year beginning and year end, accumulated depreciation and accumulated provision for impairment.

<b>Premises</b>	<b>At the end of the year</b>	<b>At the beginning of the year</b>
At cost	3,037,983.82	4,264,181.00
Accumulated depreciation	2,638,762.73	3,815,912.02
Provision for impairment	–	–

- 2) The minimum lease payment in the future years

<b>Remaining lease term</b>	<b>Minimum lease payment</b>
Within 1 year (including 1 year)	342,168.90
1-2 years (including 2 years)	342,168.90
2-3 years (including 3 years)	342,168.90
Over 3 years	3,421,689.00
Total	4,448,195.70

2. As at 31st December 2008, the unsettled amount of the letters of credit issued by the Company was RMB3,348,156.25.

## XII. POST BALANCE SHEET EVENTS

As at the date of the financial statements, there are no contingent events required to be disclosed.



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## XIII. SUPPLEMENTARY INFORMATION

### 1. Supplementary information on cash flow statement

Item	Consolidated		Parent company	
	2008	2007	2008	2007
1. Reconciliation of net profit to cash flows from operating activities				
Net profits	281,120,113.89	251,478,486.32	266,958,506.12	211,293,639.21
Add: Provision for asset impairment	13,464,388.16	27,752,638.68	16,530,366.56	31,812,543.85
Depreciation of fixed assets, consumption of oil and gas assets and depreciation of productive biological assets	25,567,106.09	29,177,104.49	25,038,999.96	21,823,460.35
Amortisation of intangible assets	2,125,687.63	3,308,116.51	2,123,317.66	2,055,474.51
Amortisation of long term deferred expenses	18,750.00	197,494.83	18,750.00	–
Loss on disposal of fixed assets, intangible assets and other long-term assets	3,147,250.78	822,630.51	2,912,178.40	731,223.33
Loss on disposal of fixed assets (“–” for gain)	49,047.89	396,508.93	49,047.89	386,254.93
Loss on fair value changes (“–” for gain)	–	–	–	–
Finance expenses (“–” for gain)	2,966,214.94	6,830,990.51	2,966,214.94	5,333,623.76
Investment loss (“–” for income)	(21,860,050.63)	(28,042,739.41)	(21,860,050.63)	(27,410,028.42)
Decrease in deferred income tax assets (“–” for increase)	(623,840.73)	(1,880,269.28)	(1,519,095.97)	(2,377,487.41)
Increase in deferred income tax liabilities (“–” for decrease)	–	(241,191.93)	–	(241,191.93)
Decrease in inventory (“–” for increase)	(218,283,964.98)	(151,953,685.63)	(153,699,928.56)	(90,636,360.98)
Decrease in operating receivables (“–” for increase)	(2,073,719.59)	(176,244,474.96)	(48,354,516.08)	(112,140,695.36)
Increase in operating payables (“–” for decrease)	34,430,870.64	303,448,690.35	36,314,125.79	203,806,033.75
Others	–	–	–	–
Net cash flows from operating activities	120,047,854.10	265,050,299.92	127,477,916.08	244,436,489.59

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## XIII. SUPPLEMENTARY INFORMATION (Continued)

### 1. Supplementary information on cash flow statement (Continued)

Item	Consolidated		Parent company	
	Balance at the end of year 2008	Balance at the end of year 2007	Balance at the end of year 2008	Balance at the end of year 2007
2. Material investing and financing activities that do not involve cash receipts and payments				
Conversion of debt into capital	-	-	-	-
Convertible bonds due within one year	-	-	-	-
Fixed assets acquired under finance leases	3,037,983.82	4,264,181.00	3,037,983.82	4,264,181.00
3. Net increase/decrease in cash and cash equivalents:				
Cash at end of the period	327,941,401.88	370,350,788.42	279,084,078.67	322,698,506.89
Less: cash at beginning of the period	370,350,788.42	143,507,132.60	322,698,506.89	90,597,289.14
Add: Cash equivalents at end of the period	-	553,623.03	-	-
Less: Cash equivalents at beginning of the period	553,623.03	-	-	-
Net increase in cash and cash equivalents	<b><u>(42,963,009.57)</u></b>	<b><u>227,397,278.85</u></b>	<b><u>(43,614,428.22)</u></b>	<b><u>232,101,217.75</u></b>

### 2. Cash and cash equivalents

Item	Consolidated		Parent company	
	2008.12.31	2007.12.31	2008.12.31	2007.12.31
1. Cash	327,941,401.88	370,350,788.42	279,084,078.67	322,698,506.89
Including: cash on hand	2,110,022.97	1,059,311.52	724,885.30	649,663.23
Bank deposit readily available for payment	325,526,278.91	363,391,576.90	278,054,093.37	321,648,943.66
Other monetary assets readily available for payment	305,100.00	5,899,900.00	305,100.00	399,900.00
Deposits with central bank available for payment				
Deposits with other banks				
Loans to other banks				
2. Cash equivalents	-	553,623.03	-	-
Including: Bond investment due within 3 months				
3. Closing balance of cash and cash equivalents	327,941,401.88	370,904,411.45	279,084,078.67	322,698,506.89
Including: Cash and cash equivalents restricted in use by parent company or subsidiaries within the Group	-	-	-	-

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## XIII. SUPPLEMENTARY INFORMATION *(Continued)*

### 3. Non-recurring gains and losses

	Amount	Remarks
1. Gain or loss on disposal of non-current assets	(3,045,328.00)	
2. Tax refund, reduction or exemption with approval exceeding authority or without official approval or upon contingency	26,293,607.79	VAT refund for CNC machine tools
3. Government grants included in current gains and losses (other than those closely related to the normal operating activities of the Company and those subject to a standard fixed amount or an ongoing lum sum amount in accordance with the government's policies)	428,040.00	
4. Capital appropriation charges for non-financial entities included in current gains and losses	-	
5. Gain arising from the excess of the fair value of identifiable net assets of the acquiree over the cost of investment in subsidiaries, associates and joint ventures acquired	3,450,495.78	Price difference on purchase of minority interests
6. Exchange gain or loss of non-monetary assets	-	
7. Gain or loss arising from investment or assets managed by trustees	153,205.48	
8. Provision for assets impairment due to force majeure events such as natural disasters	-	
9. Gain or loss from debt restructuring	-	
10. Corporate restructuring expenses such as resettlement expenses and consolidation expenses	-	
11. Gain or loss from the excess of the price of unfairly priced transactions over its fair value	-	
12. Current net profits or losses from the beginning of the period to the date of consolidation of subsidiaries arising from the business combination of companies under the same control	-	
13. Gain or loss arising from contingencies unrelated to the normal operating activities of the Company	-	
14. Gain or loss on fair value change arising from holding trading financial assets and trading financial liabilities and investment income arising from disposal of trading financial assets, trading financial liabilities and available-for-sale financial assets other than businesses under hedge accounting relating to the normal operating activities of the Company	-	
15. Reversal of impairment provision for accounts receivable after conducting a separate impairment test	-	
16. Gain or loss arising from external entrusted loans	-	
17. Gain or loss arising from the fair value change of investment in real estate measured subsequently at fair value	-	
18. Effect of one-off adjustment to current gains and losses in accordance with taxation and accounting laws and regulations on current gains and losses	-	
19. Entrusted income from entrusted operations	-	
20. Other non-operating income and expenses	(310,690.55)	
21. Other items under non-recurring gains and losses	-	
22. Effect of minority interests	(1,844,742.23)	
23. Effect of income tax	692,927.30	
Total	25,817,515.56	
Net profits attributable to the ordinary shareholders of the Company	<u>276,564,904.31</u>	
Net profits attributable to the ordinary shareholders of the Company excluding non-recurring gains and losses	<u><u>250,747,388.75</u></u>	

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## XIII. SUPPLEMENTARY INFORMATION (Continued)

### 4. Return on equity and earnings per share

Profit during the reporting period	Return on equity (%)		Earnings per share (RMB)	
	Fully diluted	Weighted average	Basic EPS	Diluted EPS
Net profits attributable to the ordinary shareholders of the Company	26.56	27.18	0.65	0.65
Net profits attributable to the shareholders of the Company excluding non-recurring gains and losses	<u>24.08</u>	<u>24.64</u>	<u>0.59</u>	<u>0.59</u>

### 5. Provision for asset impairment

Provision for asset impairment (Consolidated)

Item	Opening balance	Increase for the year	Decrease for the year		Total	Closing balance
			Reversal due to asset appreciation	Transfer for other reasons		
1. Provision for bad debts	101,020,848.54	24,339,522.36	5,288,224.77	5,358,954.98	10,647,179.75	114,713,191.15
Including: Accounts receivable	76,491,419.93	23,836,042.66	4,003,274.39	3,943,643.00	7,946,917.39	92,380,545.20
Other receivables	24,529,428.61	503,479.70	1,284,950.38	1,415,311.98	2,700,262.36	22,332,645.95
2. Provision for inventory impairment	20,193,993.70	6,103,964.32	681,364.05	437,224.00	1,118,588.05	25,179,369.97
Including: Inventory of merchandise	7,935,274.82	6,702,823.57	-	-	-	14,638,098.39
Raw materials	5,674,852.73	(603,748.13)	642,475.11	437,224.00	1,079,699.11	3,991,405.49
Unfinished products	6,501,085.15	4,888.88	38,888.94	-	38,888.94	6,467,085.09
Low value consumables	82,781.00	-	-	-	-	82,781.00
3. Provision for impairment of available-for-sale financial assets	-	-	-	-	-	-
Including: Trading equity instruments	-	-	-	-	-	-
4. Provision for impairment of held-to-maturity investments	-	-	-	-	-	-
5. Provision for impairment of long-term equity investments	2,000,000.00	-	-	-	-	2,000,000.00
6. Provision for impairment of real estate investments	-	-	-	-	-	-
7. Provision for impairment of fixed assets	8,810,262.18	3,384,028.07	-	6,327,311.00	6,327,311.00	5,866,979.25
Including: Buildings and structures	-	-	-	-	-	-
General equipment	8,682,924.90	3,384,028.07	-	6,327,311.00	6,327,311.00	5,739,641.97
Specialized equipment	-	-	-	-	-	-
Transportation equipment	-	-	-	-	-	-
Others	127,337.28	-	-	-	-	127,337.28
8. Provision for impairment of engineering materials	-	-	-	-	-	-
9. Provision for impairment of construction-in-progress	2,056,931.37	-	-	-	-	2,056,931.37
10. Provision for impairment of productive biological assets	-	-	-	-	-	-
Including: Provision for impairment of maternity productive biological assets	-	-	-	-	-	-
11. Provision for impairment of oil and gas assets	-	-	-	-	-	-
12. Provision for impairment of intangible assets	6,483,877.28	-	-	4,160,424.02	4,160,424.02	2,323,453.26
13. Provision for impairment of goodwill	2,714,267.78	-	-	2,714,267.78	2,714,267.78	-
14. Others	-	-	-	-	-	-
Total	<u>143,280,180.85</u>	<u>33,827,514.75</u>	<u>5,969,588.82</u>	<u>18,998,181.78</u>	<u>24,967,770.60</u>	<u>152,139,925.00</u>

# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## XIII. SUPPLEMENTARY INFORMATION (Continued)

### 5. Provision for asset impairment (Continued)

Provision for asset impairment (Parent company)

Item	Opening balance	Increase for the year	Decrease for the year		Total	Closing balance
			Reversal due to asset appreciation	Transfer for other reasons		
1. Provision for bad debts	61,223,975.58	14,952,121.70	-	19,997.16	19,997.16	76,156,100.12
Including: Accounts receivable	42,721,133.25	18,116,311.53	-	19,997.16	19,997.16	60,817,447.62
Other receivables	18,502,842.33	(3,164,189.83)	-	-	-	15,338,652.50
2. Provision for inventory impairment	13,383,103.17	-	-	-	-	13,383,103.17
Including: Inventory of merchandise	6,449,308.24	-	-	-	-	6,449,308.24
Raw materials	3,058,111.54	-	-	-	-	3,058,111.54
Unfinished products	3,792,902.39	-	-	-	-	3,792,902.39
Low value consumables	82,781.00	-	-	-	-	82,781.00
3. Provision for impairment of available-for-sale financial assets	-	-	-	-	-	-
Including: Trading equity instruments	-	-	-	-	-	-
4. Provision for impairment of held-to-maturity investments	-	-	-	-	-	-
5. Provision for impairment of long-term equity investments	40,671,544.85	-	-	19,330,000.00	19,330,000.00	21,341,544.85
6. Provision for impairment of real estate investments	-	-	-	-	-	-
7. Provision for impairment of fixed assets	2,314,010.21	1,578,244.86	-	172,361.25	172,361.25	3,719,893.82
Including: Buildings and structures	-	-	-	-	-	-
General equipment	2,186,672.93	1,578,244.86	-	172,361.25	172,361.25	3,592,556.54
Specialized equipment	-	-	-	-	-	-
Transportation equipment	-	-	-	-	-	-
Others	127,337.28	-	-	-	-	127,337.28
8. Provision for impairment of engineering materials	-	-	-	-	-	-
9. Provision for impairment of construction-in-progress	2,056,931.37	-	-	-	-	2,056,931.37
10. Provision for impairment of productive biological assets	-	-	-	-	-	-
Including: Provision for impairment of maternity productive biological assets	-	-	-	-	-	-
11. Provision for impairment of oil and gas assets	-	-	-	-	-	-
12. Provision for impairment of intangible assets	-	-	-	-	-	-
13. Provision for impairment of goodwill	-	-	-	-	-	-
14. Others	-	-	-	-	-	-
<b>Total</b>	<b>119,649,565.18</b>	<b>16,530,366.56</b>	<b>-</b>	<b>19,522,358.41</b>	<b>19,522,358.41</b>	<b>116,657,573.33</b>

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

### 6. Information on subsidiaries and other operating entities acquired or disposed of during the period

Item	Amount
1. Information on subsidiaries and business units acquired	
(i) Prices at which subsidiaries and other business units were acquired	–
(ii) Cash and cash equivalents paid to acquire subsidiaries and other business units	–
Less: Cash and cash equivalents held by subsidiaries and other business units	–
(iii) Net cash paid to acquire subsidiaries and other business units	–
(iv) Net assets of subsidiaries acquired	–
Current assets	–
Non-current assets	–
Current liabilities	–
Non-current liabilities	–
2. Information on subsidiaries and other business units disposed of	
(i) Prices at which subsidiaries and other business units were disposed of	8,546,900.00
(ii) Cash and cash equivalents received upon disposal of the subsidiaries and other business units	8,501,900.00
Less: Cash and cash equivalents held by subsidiaries and other business units	1,821,408.00
(iii) Net cash received upon disposal of subsidiaries and other business units	6,680,492.00
(iv) Net assets of subsidiaries disposed of	<u>7,419,752.56</u>
Current assets	<u>8,507,385.49</u>
Non-current assets	<u>60,836,822.86</u>
Current liabilities	<u>54,724,455.79</u>
Non-current liabilities	<u>7,200,000.00</u>



# NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31st December 2008 (Expressed in Renminbi)

## XIV. DIFFERENCE BETWEEN THE PRC GAAP AND HK GAAP

The financial statements are prepared in accordance with the PRC GAAP, which are different from those prepared in accordance with HK GAAP.

The consolidated net profit for year 2008 and the consolidated net assets as at 31st December 2008 are RMB276,564,904.31 and RMB1,041,230,512.24 respectively. The major adjustments to consolidated net profits and the consolidated net assets are as follows:

Item	Unit: RMB'000	
	Net profits	Net assets
Consolidated results in accordance with PRC GAAP	276,565	1,041,231
Add: Gain on investment in jointly controlled entity(ies)	–	(8,869)
Adjustment on deferred income	–	57
Amortization of good will	–	(1,428)
Others	–	219
Consolidated results in accordance with HK GAAP	<u>276,565</u>	<u>1,031,210</u>

The figures above were audited by KPMG Limited in accordance to HK GAAP.

## XV. OTHER EVENTS

The financial statements were approved at the 7th meeting of 6th session of Board held on 22nd April 2009.

# AUDITOR'S REPORT



## **Independent auditor's report to the shareholders of Shenji Group Kunming Machine Tool Company Limited** *(Established in the People's Republic of China with limited liability)*

We have audited the consolidated financial statements of Shenji Group Kunming Machine Tool Company Limited (the "Company") set out on pages 124 to 192, 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 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 financial statements based on our audit. This report is made 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 judgement, 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.

#### **KPMG**

*Certified Public Accountants*  
8th Floor, Prince's Building  
10 Chater Road  
Central, Hong Kong

22 April 2009

# CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008 (Expressed in Renminbi Yuan)

	Note	2008 RMB'000	2007 RMB'000
			(Restated)
<b>Continuing operations</b>			
Turnover	4	1,523,382	1,259,867
Cost of sales		(1,024,946)	(827,012)
<b>Gross profit</b>		<b>498,436</b>	432,855
Other revenue	5	54,854	54,546
Other net income	5	680	25,694
Distribution expenses		(68,493)	(59,408)
Administrative expenses		(172,870)	(135,940)
Other operating expenses		(2,083)	(1,842)
<b>Profit from operations</b>		<b>310,524</b>	315,905
Finance costs	6(a)	(4,069)	(3,064)
Share of (loss)/profit of an associate		(349)	12
Share of profit of a jointly controlled entity		12,534	4,967
<b>Profit before taxation</b>	6	<b>318,640</b>	317,820
Income tax	7(a)	(37,554)	(47,248)
<b>Profit from continuing operations</b>		<b>281,086</b>	270,572
<b>Discontinued operations</b>			
Gain/(Loss) from discontinued operations (net of income tax)	3	34	(20,434)
<b>Profit for the year</b>		<b>281,120</b>	250,138
<b>Attributable to:</b>			
Equity shareholders of the Company	37(a)	276,565	241,452
Minority interests	37(a)	4,555	8,686
<b>Profit for the year</b>	37(a)	<b>281,120</b>	250,138
<b>Earnings per share</b>	12		
– Basic earnings per share		<b>RMB0.651</b>	RMB0.568
– Basic earnings per share from continuing operations		<b>RMB0.650</b>	RMB0.606

The notes on pages 132 to 192 form part of these financial statements.

# CONSOLIDATED BALANCE SHEET

At 31 December 2008 (Expressed in Renminbi Yuan)

	Note	2008 RMB'000	2007 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	13(a)	445,508	403,780
Construction in progress	14	29,928	26,984
Lease prepayments	15	24,081	24,685
Prepaid property lease rights	16	3,270	60,996
Intangible assets	17	3,489	4,562
Goodwill	18	5,844	5,844
Interest in an associate	20	13,868	14,217
Interest in a jointly controlled entity	21	30,674	21,440
Deferred tax assets	35	34,301	31,209
		<u>590,963</u>	<u>593,717</u>
<b>Current assets</b>			
Inventories	22	663,296	427,423
Trade and bills receivable	23	240,622	285,089
Deposits, other receivables and prepayments	24	76,521	82,423
Amounts due from a jointly controlled entity	39(b)	10,177	5,715
Restricted bank deposits	25	5,242	7,045
Cash and cash equivalents	26	322,699	363,306
		<u>1,318,557</u>	<u>1,171,001</u>
<b>Current liabilities</b>			
Bank loans – due within one year	27	70,000	–
Trade and bills payable	28	165,342	120,798
Other payables	29	475,067	557,466
Amounts due to a jointly controlled entity	39(b)	47,692	13,872
Obligations under finance leases due within one year	30	213	213
Early retirement benefits obligation due within one year	31	3,551	3,642
Deferred income	32	16,000	9,950
Income tax payable		1,392	27,364
Provisions	36	13,804	9,117
		<u>793,061</u>	<u>742,422</u>
<b>Net current assets</b>		<u>525,496</u>	<u>428,579</u>
<b>Total assets less current liabilities</b>		<u>1,116,459</u>	<u>1,022,296</u>
<b>Non-current liabilities</b>			
Bank loans – due after one year	27	–	50,000
Obligations under finance leases	30	2,559	2,772
Early retirement benefits obligation	31	15,449	16,157
Deferred gain	33	2,615	2,817
Long-term payables	34	–	7,200
		<u>20,623</u>	<u>78,946</u>
<b>NET ASSETS</b>		<u>1,095,836</u>	<u>943,350</u>

# CONSOLIDATED BALANCE SHEET

At 31 December 2008 (Expressed in Renminbi Yuan)

	<i>Note</i>	<b>2008</b> <b>RMB'000</b>	2007 RMB'000
<b>CAPITAL AND RESERVES</b>	37(a)		
Share capital		<b>424,865</b>	424,865
Reserves		<b>606,345</b>	444,494
<b>Total equity attributable to equity shareholders of the Company</b>		<b>1,031,210</b>	869,359
<b>Minority interests</b>		<b>64,626</b>	73,991
<b>TOTAL EQUITY</b>		<b>1,095,836</b>	943,350

Approved and authorised for issue by the board of directors on 22 April 2009.

**Gao Minghui**  
*Director*

**Pi Jianguo**  
*Director*

The notes on pages 132 to 192 form part of these financial statements.

# BALANCE SHEET

At 31 December 2008 (Expressed in Renminbi Yuan)

	Note	2008 RMB'000	2007 RMB'000
<b>Non-current assets</b>			
Property, plant and equipment	13(b)	384,337	336,902
Construction in progress	14	29,928	25,233
Lease prepayments	15	11,132	11,452
Prepaid property lease rights	16	3,270	3,364
Intangible assets	17	3,489	4,562
Investments in subsidiaries	19	27,693	33,172
Interest in an associate	20	14,000	14,000
Interest in a jointly controlled entity	21	12,571	15,871
Deferred tax assets	35	35,808	33,150
		<b>522,228</b>	<b>477,706</b>
<b>Current assets</b>			
Inventories	22	439,416	285,716
Trade and bills receivable	23	187,135	188,531
Deposits, other receivables and prepayments	24	28,497	39,624
Amounts due from subsidiaries	39(c)	50,158	22,003
Amounts due from a jointly controlled entity	39(b)	10,177	5,715
Restricted bank deposits	25	305	400
Cash and cash equivalents	26	278,779	322,299
		<b>994,467</b>	<b>864,288</b>
<b>Current liabilities</b>			
Bank loans – due within one year	27	50,000	–
Trade and bills payable	28	94,088	45,775
Other payables	29	298,650	314,715
Amounts due to subsidiaries	39(c)	27,202	52,827
Amounts due to a jointly controlled entity	39(b)	47,692	13,872
Obligations under finance leases due within one year	30	213	213
Early retirement benefits obligation due within one year	31	3,551	3,642
Deferred income	32	7,900	1,849
Income tax payable		1,392	16,542
Provisions	36	13,630	9,115
		<b>544,318</b>	<b>458,550</b>
<b>Net current assets</b>		<b>450,149</b>	<b>405,738</b>
<b>Total assets less current liabilities</b>		<b>972,377</b>	<b>883,444</b>



## BALANCE SHEET

At 31 December 2008 (Expressed in Renminbi Yuan)

	Note	2008 RMB'000	2007 RMB'000
<b>Non-current liabilities</b>			
Bank loans – due after one year	27	–	50,000
Obligations under finance leases	30	2,559	2,772
Early retirement benefits obligation	31	15,449	16,157
Deferred gain	33	2,615	2,817
		<u>20,623</u>	<u>71,746</u>
<b>NET ASSETS</b>			
		<u>951,754</u>	<u>811,698</u>
<b>CAPITAL AND RESERVES</b>			
Share capital	37(b)	424,865	424,865
Reserves		526,889	386,833
<b>TOTAL EQUITY</b>			
		<u>951,754</u>	<u>811,698</u>

Approved and authorised for issue by the board of directors on 22 April 2009.

**Gao Minghui**  
Director

**Pi Jianguo**  
Director

The notes on pages 132 to 192 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2008 (Expressed in Renminbi Yuan)

	Note	2008 RMB'000	2007 RMB'000
<b>Total equity at 1 January:</b>	37(a)		
Attributable to:			
Equity shareholders of the Company		869,359	627,907
Minority interests		73,991	71,191
		<u>943,350</u>	<u>699,098</u>
<b>Net profit for the year:</b>			
Attributable to:			
Equity shareholders of the Company	37(a)	276,565	241,452
Minority interests	37(a)	4,555	8,686
		<u>281,120</u>	<u>250,138</u>
<b>Disposal and acquisition of interests in subsidiaries:</b>			
Minority interests		(2,920)	(5,886)
<b>Dividends declared and approved during the year</b>			
Attributable to:			
Equity shareholders of the Company		(114,714)	-
Minority interests		(11,000)	-
		<u>(125,714)</u>	<u>-</u>
<b>Total equity at 31 December</b>		<u><b>1,095,836</b></u>	<u><b>943,350</b></u>

The notes on pages 132 to 192 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008 (Expressed in Renminbi Yuan)

Note	2008 RMB'000	2007 RMB'000
<b>Operating activities</b>		
Profit before taxation	<b>318,674</b>	297,386
Adjustments for:		
Depreciation of property, plant and equipment	<b>32,537</b>	28,401
Impairment loss on property, plant and equipment and construction in progress	<b>1,578</b>	771
Amortisation of lease prepayments	<b>604</b>	604
Amortisation of prepaid property lease rights	<b>94</b>	94
Amortisation of intangible assets	<b>1,073</b>	2,037
Impairment of intangible assets	–	1,447
Impairment of goodwill	–	3,270
Finance costs	<b>4,069</b>	3,064
Interest income	<b>(2,818)</b>	(2,844)
Share of loss/(profit) of an associate	<b>349</b>	(12)
Share of profit of a jointly controlled entity	<b>(12,534)</b>	(4,967)
Net loss on disposal of property, plant and equipment	<b>3,059</b>	1,272
Gain on disposal of available-for-sale investments	–	(24,383)
Amortisation of deferred gain	<b>(202)</b>	(201)
(Gain)/loss on disposal of discontinued operation	<b>(3,446)</b>	1,027
Deemed income from transfer of shares from minority interests	<b>(3,450)</b>	(1,906)
Foreign exchange loss	<b>3,586</b>	2,446
<b>Operating profit before changes in working capital</b>	<b>344,173</b>	307,506
Increase in inventories	<b>(238,504)</b>	(161,969)
Decrease/(increase) in trade and bills receivable	<b>42,218</b>	(107,070)
Increase in deposits, other receivables and prepayments	<b>(11,430)</b>	(3,274)
Increase in trade and bills payable	<b>49,387</b>	26,612
(Decrease)/increase in other payables	<b>(42,786)</b>	244,061
Increase in provisions	<b>4,687</b>	5,562
Decrease/(increase) in restricted bank deposits	<b>1,803</b>	(4,256)
Increase in amounts due to a jointly controlled entity	<b>29,358</b>	12,184
Decrease in early retirement benefits obligation	<b>(799)</b>	(3,289)
<b>Cash generated from operations</b>	<b>178,107</b>	316,067
Income tax paid	<b>(66,618)</b>	(30,591)
<b>Net cash from operating activities</b>	<b>111,489</b>	285,476

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2008 (Expressed in Renminbi Yuan)

Note	2008 RMB'000	2007 RMB'000
<b>Investing activities</b>		
Payments for the purchase of property, plant and equipment and construction in progress	(60,904)	(92,706)
Investments in an associate	–	(4,000)
Proceeds from disposal of property, plant and equipment	2,085	4,041
Prepayments for property lease rights	–	(14)
Additions of deferred income	6,050	1,843
Proceeds from disposal of available-for-sale investments	–	32,035
Interest received	2,818	2,844
Dividend received from a jointly controlled entity	3,300	–
Net proceeds from disposal of discontinued operation	8,299	12,633
Payment for acquisition of the equity interests of subsidiary from a minority shareholder	(500)	–
	<b>(38,852)</b>	<b>(43,324)</b>
<b>Financing activities</b>		
Proceeds from new bank loans	70,000	50,000
Repayments of bank loans	(50,000)	(60,000)
Interest paid	(6,231)	(3,064)
Repayments of obligations under finance leases	(213)	(213)
Repayments to an associate	–	(10,000)
Dividends paid	(125,714)	–
Advances from a jointly controlled entity	–	(16,140)
Paid-in capital injected by a minority shareholder	2,500	–
	<b>(109,658)</b>	<b>(39,417)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(37,021)</b>	<b>202,735</b>
<b>Cash and cash equivalents at 1 January</b>	<b>363,306</b>	<b>163,017</b>
<b>Effect of foreign exchange rate changes</b>	<b>(3,586)</b>	<b>(2,446)</b>
<b>Cash and cash equivalents at 31 December</b>	<b>322,699</b>	<b>363,306</b>
26		

The notes on pages 132 to 192 form part of these financial statements.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 1. GENERAL

Shenji Group Kunming Machine Tool Company Limited (the "Company") was established in the People's Republic of China (the "PRC") as a Sino-foreign joint stock limited company, and its shares are listed on The Stock Exchange of Hong Kong Limited and the Shanghai Stock Exchange.

The place of registration of the Company is 23 Ciba Road, Kunming City, Yunnan Province. The business registration number is Qi Gu Dian Zong Zi No. 000682.

The Company acts as an investment holding company and it is also engaged in the design, development, manufacture and sale of machine tools, precision measuring equipment and precision transducers. The principal activities of its subsidiaries are set out in note 19.

The consolidated financial statements for the year ended 31 December 2008 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate and a jointly controlled entity.

The consolidated financial statements are presented in Renminbi ("RMB"), which is the functional currency of the Company.

## 2. SIGNIFICANT ACCOUNTING POLICIES

### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. A summary of the significant accounting policies adopted by the Group is set out below.

The HKICPA has issued a number of new interpretations and an amendment to HKFRSs that are first effective for the current accounting period of the Group and the Company. However, none of these developments are relevant to the Group's or Company's operations.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (see note 45).

### (b) Basis of preparation of the financial statements

The measurement basis used in the preparation of the financial statements is the historical cost basis.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (b) Basis of preparation of the financial statements *(Continued)*

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and estimates with a significant risk of material adjustment in the next year are discussed in note 44.

### (c) Subsidiaries and minority interests

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable are taken into account.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances and transactions and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Minority interests represent the portion of the net assets of subsidiaries attributable to interests that are not owned by the Company, whether directly or indirectly through subsidiaries, and in respect of which the Group has not agreed any additional terms with the holders of those interests which would result in the Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. Minority interests are presented in the consolidated balance sheet within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Loans from holders of minority interests and other contractual obligations towards these holders are presented as financial liabilities in the consolidated balance sheet in accordance with notes 2(n) or (o) depending on the nature of the liability.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)).



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **(d) Associates and jointly controlled entities**

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

A jointly controlled entity is an entity which operates under a contractual arrangement between the Group or Company and other parties, where the contractual arrangement establishes that the Group or Company and one or more of the other parties share joint control over the economic activity of the entity.

An investment in an associate or a jointly controlled entity is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost and adjusted thereafter for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(e) and (k)). The Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated income statement.

When the Group's share of losses exceeds its interest in the associate or the jointly controlled entity, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or the jointly controlled entity. For this purpose, the Group's interest in the associate or the jointly controlled entity is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate or the jointly controlled entity.

Unrealised profits and losses resulting from transactions between the Group and its associates and jointly controlled entities are eliminated to the extent of the Group's interest in the associate or jointly controlled entity, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In the Company's balance sheet, its investments in associates and jointly controlled entities are stated at cost less impairment losses (see note 2(k)).

### **(e) Goodwill**

Goodwill represents the excess of the cost of a business combination or an investment in an associate or a jointly controlled entity over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (see note 2(k)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity and the investment as a whole is tested for impairment whenever there is objective evidence of impairment (see note 2(k)).

Any excess of the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities over the cost of a business combination or an investment in an associate or a jointly controlled entity is recognised immediately in profit or loss.

On disposal of a cash generating unit, an associate or a jointly controlled entity during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (f) Investments in equity securities

The Group's and the Company's policies for investments in equity securities, other than investments in subsidiaries, associates and jointly controlled entities, are as follows:

Investments in equity securities are initially stated at cost, which is their transaction price unless fair value can be more reliably estimated using valuation techniques whose variables include only data from observable markets. Cost includes attributable transaction costs. These investments are subsequently accounted for as follows, depending on their classification.

Investments in equity securities that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (see note 2(k)).

For investments in securities that are classified as available-for-sale securities, at each balance sheet date the fair value is remeasured, with any resultant gain or loss being recognised directly in equity, except foreign exchange gains and losses resulting from changes in the amortised cost of monetary items such as debt securities which are recognised directly in profit or loss. Dividend income from these investments is recognised in profit or loss in accordance with the policy set out in note 2(t)(iv) and, where these investments are interest-bearing, interest calculated using the effective interest method is recognised in profit or loss in accordance with the policy set out in note 2(t)(v). When these investments are derecognised or impaired (see note 2(k)), the cumulative gain or loss previously recognised directly in equity is recognised in profit or loss.

Investments are recognised/derecognised on the date the Group commits to purchase/sell the investments or they expire.

### (g) Property, plant and equipment

- (i) Property, plant and equipment are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see note 2(k)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(v)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

- (ii) Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight-line method over their estimated useful lives as follows:

Buildings	40 years
Plant and machinery	5 to 20 years
Furniture, fixtures and equipment	5 to 14 years
Motor vehicles	5 to 14 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (g) Property, plant and equipment *(Continued)*

- (iii) Construction in progress represents items of property, plant and equipment under construction and pending installation and is stated at cost less impairment losses (see note 2(k)). Cost comprises direct and indirect costs, related to acquisition and installation of the property, plant and equipment, incurred before the asset is substantially ready for its intended use.

Capitalisation of these costs ceases and the construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided for construction in progress.

### (h) Intangible assets (other than goodwill)

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour and an appropriate proportion of overheads and borrowing costs, where applicable (see note 2(v)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see note 2(k)). Other development expenditure is recognised as an expense in the period in which it is incurred. During the year, all expenditures incurred on research and development activities by the Group have been recognised as expenses.

Other intangible assets that are acquired by the Group are stated in the balance sheet at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(k)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives of 10 years.

Both the period and method of amortisation are reviewed annually.

### (i) Lease prepayments

Lease prepayments represent payments for land use rights to the PRC authorities. Land use rights are stated in the balance sheet at cost less accumulated amortisation and impairment losses (see note 2(k)). Amortisation is charged to profit or loss on a straight-line basis over the respective periods of the rights.

### (j) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

- (i) *Classification of assets leased to the Group*

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (j) Leased assets *(Continued)*

#### (ii) *Assets acquired under finance leases*

Where the Group acquires the use of assets under finance leases, the amounts representing the fair value of the leased asset, or, if lower, the present value of the minimum lease payments, of such assets are included in property, plant and equipment and the corresponding liabilities, net of finance charges, are recorded as obligations under finance leases. Depreciation is provided at rates which write off the cost or valuation of the assets over the term of the relevant lease or, where it is likely the Group will obtain ownership of the asset, the life of the asset, as set out in note 2(g). Impairment losses are accounted for in accordance with the accounting policy as set out in note 2(k). Finance charges implicit in the lease payments are charged to profit or loss over the period of the leases so as to produce an approximately constant periodic rate of charge on the remaining balance of the obligations for each accounting period. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

#### (iii) *Operating lease charges*

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

### (k) Impairment of assets

#### (i) *Impairment of investments in equity securities and receivables*

Investments in equity securities (other than investments in subsidiaries: see note 2(c)) and current and non-current trade and other receivables that are stated at cost or amortised cost or are classified as available-for-sale securities are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of an investment in an equity instrument below its cost.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **(k) Impairment of assets** *(Continued)*

#### *(i) Impairment of investments in equity securities and receivables (Continued)*

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investments in associates and jointly controlled entities recognised using the equity method (see note 2(d)), the impairment loss is measured by comparing the recoverable amount of the investment as a whole with its carrying amount in accordance with note 2(k)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with note 2(k)(ii).
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where financial assets carried at amortised cost share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective Group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (k) Impairment of assets *(Continued)*

#### (ii) *Impairment of other assets*

Internal and external sources of information are reviewed at each balance sheet date to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;
- lease prepayments;
- prepaid property lease rights;
- intangible assets;
- investments in subsidiaries, associates and joint ventures; and
- goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill and intangible assets that are not yet available for use, the recoverable amount is estimated annually whether or not there is any indication of impairment.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its net selling price and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

- Reversals of impairment losses

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **(k) Impairment of assets** *(Continued)*

#### *(iii) Interim financial reporting and impairment*

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim Financial Reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see notes 2(k)(i) and (ii)).

Impairment losses recognised in an interim period in respect of goodwill and unquoted equity securities carried at cost are not reversed in a subsequent period. This is the case even if no loss, or a smaller loss, would have been recognised had the impairment been assessed only at the end of the financial year to which the interim period relates.

### **(l) Inventories**

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### **(m) Trade and other receivables**

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost less allowance for impairment of doubtful debts (see note 2(k)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

### **(n) Interest-bearing borrowings**

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

### **(o) Trade and other payables**

Trade and other payables are initially recognised at fair value, and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

### **(p) Cash and cash equivalents**

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### **(q) Employee benefits**

#### *(i) Short term employee benefits and contribution to defined contribution retirement plans*

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

#### *(ii) Early retirement benefits*

Early retirement benefits are recognised when, and only when, the Group demonstrably commits itself to provide benefits as a result of the voluntary early retirement of the employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

### **(r) Income tax**

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised directly in equity, in which case they are recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (r) **Income tax** *(Continued)*

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at each balance sheet date and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

### (s) **Provisions and contingent liabilities**

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (t) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

(i) *Sale of goods*

Revenue is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

(ii) *Services*

Revenue from services is recognised in profit or loss at the time when services are rendered.

(iii) *Rental income from operating leases*

Rental income receivable under operating leases is recognised in profit or loss in equal instalments over the periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the use of the leased asset. Lease incentives granted are recognised in profit or loss as an integral part of the aggregate net lease payments receivable. Contingent rentals are recognised as income in the accounting period in which they are earned.

(iv) *Dividends*

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

(v) *Interest income*

Interest income is recognised as it accrues using the effective interest method.

(vi) *Government grants*

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in profit or loss on a systematic basis in the same periods in which the expenses are incurred.

### (u) Translation of foreign currencies

Foreign currency transactions during the year are translated into Renminbi at the exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at the exchange rates ruling at the balance sheet date. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (v) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

### (w) Discontinued operations

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single co-ordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

Classification as a discontinued operation occurs upon disposal. It also occurs when the operation is abandoned.

Where an operation is classified as discontinued, a single amount is presented on the face of the income statement, which comprises:

- the post-tax profit or loss of the discontinued operation; and
- the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 2. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### (x) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the Group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;
- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

### (y) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting system, the Group has chosen business segment information as the primary reporting format for the purposes of these financial statements. As the Group's operations are predominantly in the PRC, no geographical segment information is presented.

Segment revenue, expenses, results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis to that segment. For example, segment assets may include inventories, trade receivables and property, plant and equipment. Segment revenue, expenses, assets and liabilities are determined before intra-group balances and intra-group transactions are eliminated as part of the consolidation process, except to the extent that such intra-group balances and transactions are between group entities within a single segment. Inter-segment pricing is based on similar terms as those available to other external parties.

Segment capital expenditure is the total cost incurred during the period to acquire segment assets (both tangible and intangible) that are expected to be used for more than one period.

Unallocated items mainly comprise financial and corporate assets, interest-bearing loans, borrowings, tax balances, corporate and financing expenses.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 3. DISCONTINUED OPERATIONS

In December 2008, the Group disposed of its 78.03% equity interest of a subsidiary – Xi'an Jiaotong University Siyuan Intelligent Electric Apparatus Company Limited ("Siyuan") to Xi'an Jiaotong University Science and Technology Park Company Limited. Siyuan represented the Group's entire intelligent electrical appliances segment (see note 41) and was considered a discontinued operation as at 31 December 2008. The effect of the transfer was a decrease in the net assets of the Group of RMB6,055,000, excluding cash consideration of RMB8,546,900.

In March 2007, the Group disposed of a subsidiary, Shanxi Hengtong Intelligent Machine Company Limited ("Hengtong"), which represented its entire laser prototyping machines segment (see note 41), to Xi'an Ruite Laser Prototyping Manufacturing and Engineering Research Company Limited ("Xi'an Ruite"), an associate of the Group. The effect of the disposal was a decrease in the net assets of the Group of RMB15,232,000, excluding cash consideration of RMB14,000,000.

The comparative consolidated income statement and consolidated cash flow information is re-presented for discontinued operations.

Gain/(losses) attributable to the discontinued operation for the years ended 31 December 2008 and 2007 are as follows:

	2008 RMB'000	2007 RMB'000
<b>Results of discontinued operations</b>		
Revenue	7,788	6,885
Expenses	<b>(10,200)</b>	(26,292)
<b>Results from operations</b>	<b>(2,412)</b>	(19,407)
Income tax	–	–
<b>Loss after tax but before gain/(loss) on sale of discontinued operations</b>	<b>(2,412)</b>	(19,407)
Gain/(Loss) on sale of discontinued operations	<b>2,446</b>	(1,027)
<b>Gain/(Loss) for the year</b>	<b>34</b>	(20,434)
<b>Attributable to:</b>		
Equity shareholders of the Company	564	(16,050)
Minority interests	<b>(530)</b>	(4,384)
	<b>34</b>	(20,434)
Basic earning/(loss) per share	<b>0.001</b>	(0.038)
<b>Cash flows (used in)/from discontinued operations</b>		
Net cash from/(used in) operating activities	721	(2,627)
Net cash (used in)/from investing activities	<b>(1,463)</b>	12,298
Net cash (used in)/from discontinued operations	<b>(742)</b>	9,671

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

### 3. DISCONTINUED OPERATIONS (Continued)

The effect of the disposal on the financial position of Group excluding the cash consideration of the disposal is as follows:

	2008 RMB'000
Property, plant and equipment	(1,454)
Construction in progress	(1,751)
Prepaid property lease rights	(57,632)
Inventories	(2,631)
Trade and bills receivable	(2,249)
Deposits, other receivables and prepayments	(3,530)
Cash and cash equivalents	(203)
Trade and bills payable	4,844
Other payables	49,881
Long-term payables	7,200
Net identifiable assets and liabilities	(7,525)
Minority interests	1,470
Effect on net assets of the Group	<u>(6,055)</u>

### 4. TURNOVER

The principal activities of the Group are design, development, manufacture and sale of machine tools, precision measuring equipment and other precision transducers.

Turnover represents the sales value of goods and services supplied to customers, excludes value added or other sales taxes, and is after the deduction of any trade discounts. The amount of each significant category of revenue recognised in turnover during the year is as follows:

	Continuing operations		Discontinued operations (see note 3)		Consolidated	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Sales of goods	1,441,954	1,209,391	7,742	6,700	1,449,696	1,216,091
Rendering of services	81,428	50,476	46	185	81,474	50,661
	<u>1,523,382</u>	<u>1,259,867</u>	<u>7,788</u>	<u>6,885</u>	<u>1,531,170</u>	<u>1,266,752</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 5. OTHER REVENUE AND NET INCOME

	Continuing operations		Discontinued operations (see note 3)		Consolidated	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
<b>Other revenue</b>						
Government grants (i)	26,856	22,550	–	–	26,856	22,550
Sales of prototype machines and raw materials	24,788	28,133	–	–	24,788	28,133
Interest income	2,814	2,828	4	16	2,818	2,844
Others	396	1,035	–	418	396	1,453
	<u>54,854</u>	<u>54,546</u>	<u>4</u>	<u>434</u>	<u>54,858</u>	<u>54,980</u>

Notes:

- (i) Government grants represent various forms of incentives and subsidies given to the Group by the local PRC government.

	Continuing operations		Discontinued operations (see note 3)		Consolidated	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
<b>Other net income</b>						
Gain on disposal of available-for-sale investments	–	24,383	–	–	–	24,383
Net loss on sale of property plant and equipment	(2,994)	(1,272)	(65)	–	(3,059)	(1,272)
Deemed income from transfer of shares from minority interests (note 19)	3,450	1,906	–	–	3,450	1,906
Others	224	677	–	–	224	677
	<u>680</u>	<u>25,694</u>	<u>(65)</u>	<u>–</u>	<u>615</u>	<u>25,694</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 6. PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

### (a) Finance costs

	2008 RMB'000	2007 RMB'000
Interest on bank loans	5,190	4,658
Less: borrowing costs capitalised *	(2,162)	(3,040)
	<b>3,028</b>	1,618
Finance charges on obligations under finance leases	129	129
Finance charges in respect of early retirement benefits	912	1,099
Other interest expenses	-	218
	<b>4,069</b>	<b>3,064</b>

\* The borrowing costs have been capitalised at a rate of 6.57% to 7.47% per annum (2007: 6.30% to 6.57%) for the year ended 31 December 2008.

### (b) Staff costs#

	2008 RMB'000	2007 RMB'000
Salaries, wages and other benefits	164,025	132,903
Contributions to retirement schemes (note 31)	14,200	8,876
	<b>178,225</b>	<b>141,779</b>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 6. PROFIT BEFORE TAXATION (Continued)

### (c) Other items

	Continuing operations		Discontinued operations (see note 3)		Consolidated	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Amortisation <sup>#</sup>						
– lease prepayments	604	604	–	–	604	604
– intangible assets	1,073	1,061	–	976	1,073	2,037
– prepaid property lease rights	94	94	–	–	94	94
Depreciation of property, plant and equipment <sup>#</sup>	32,310	27,942	227	459	32,537	28,401
Impairment losses						
– trade and other receivables	19,536	17,782	251	1,251	19,787	19,033
– property, plant and equipment	1,578	771	–	–	1,578	771
– goodwill	–	–	–	3,270	–	3,270
– intangible assets	–	–	–	1,447	–	1,447
– inventories	700	2,128	–	–	700	2,128
Research and development costs	63,440	28,855	–	–	63,440	28,855
Increase in provisions (see note 36)	16,082	11,305	–	–	16,082	11,305
Net foreign exchange loss	343	3,974	–	–	343	3,974
Auditors' remuneration	3,000	1,836	–	6	3,000	1,842
Operating lease charges: minimum lease payments for land and buildings	2,794	2,311	–	237	2,794	2,548
Cost of inventories <sup>#</sup> (note 22(b))	<u>1,005,491</u>	<u>796,250</u>	<u>4,945</u>	<u>4,087</u>	<u>1,010,436</u>	<u>800,337</u>

<sup>#</sup> Cost of inventories includes RMB118,085,985 (2007: RMB95,441,000) relating to staff costs and depreciation expenses, amount of which is also included in the respective total amounts disclosed separately above or in note 6(b) for each of these types of expenses.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT

### (a) Taxation in the consolidated income statement represents:

	2008 RMB'000	2007 RMB'000
<b>Current tax</b>		
Provision for the year	40,646	45,060
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(4,041)	4,094
Effect on deferred tax balance at 1 January resulting from a change in tax rate	949	(1,906)
	<u>37,554</u>	<u>47,248</u>
Income tax expense from continuing operations	37,554	47,248
Income tax expense from discontinued operations	-	-
	<u>37,554</u>	<u>47,248</u>

No provision has been made for Hong Kong Profits Tax as the Group did not have assessable profits subject to Hong Kong Profits Tax during the year. Profits of the Company and the Company's subsidiaries in the PRC are subject to PRC income taxes at rates ranging from 15% to 25% (2007: 15% to 33%).

On 16 March 2007, the Fifth Plenary Session of the Tenth National People's Congress passed the Corporate Income Tax Law of the PRC ("new tax law") which takes effect on 1 January 2008. As a result of the new tax law, the statutory income tax rate currently adopted by the Group, except that for the Company and certain of its subsidiaries which are entitled to preferential tax policies mentioned below, changed to 25% from 1 January 2008.

Based on Notice [2007] No.183 dated 25 December 2007 issued by the Kunming State Tax Bureau, the Company is entitled to a corporate income tax rate of 15% commencing from 2004 under the Preferential Tax Policies for the Extensive Development of the Western Regions because the proportion of the Company's sales of digital machine tools exceed 70% of its total revenue. This preferential tax policy is subject to annual assessment and renewal, and the policy will officially expire in 2011.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 7. INCOME TAX IN THE CONSOLIDATED INCOME STATEMENT *(Continued)*

### (a) Taxation in the consolidated income statement represents: *(Continued)*

Pursuant to the relevant laws and regulations in the PRC, certain subsidiaries of the Company are entitled to a state income tax rate of 15% under the preferential tax policies for Advanced and New Technology Enterprises.

The change in the carrying amount of the deferred tax assets and liabilities, as a result of the change in tax rate, is reflected in the financial statements of the Group for the year ended 31 December 2008.

### (b) Reconciliation between tax expense and accounting profit at applicable tax rates:

	2008 RMB'000	2007 RMB'000
Profit for the year	281,120	250,138
Total income tax expense	37,554	47,248
Profit before taxation	<u>318,674</u>	<u>297,386</u>
Notional tax on profit before taxation, calculated at statutory tax rates	79,669	92,855
Tax effect of preferential tax policies	(30,171)	(45,743)
Tax benefits	(4,702)	(2,027)
Tax effect of non-deductible expenses	452	2,467
Tax effect of non-taxable income	(5,772)	(3,554)
Recognition of previously unrecognised tax losses	(2,944)	-
Effect on deferred tax balance at 1 January resulting from a change in tax rate	949	(1,906)
Tax effect of unused tax losses not recognised	609	4,991
Others	(536)	165
Actual tax expense	<u>37,554</u>	<u>47,248</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 8. DIRECTORS' REMUNERATION

Details of directors' remuneration for the year ended 31 December 2008 are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Discretionary bonuses RMB'000	Total RMB'000
<b>Executive directors:</b>					
Gao Minghui (Chairman)	69	101	–	100	270
Zhang Xiaoyi <sup>i</sup>	11	484	29	150	674
Pi Jianguo	47	347	39	80	513
Shao Li <sup>ii</sup>	26	169	29	–	224
<b>Non-executive directors:</b>					
Song Xingju <sup>iii, iv</sup>	–	–	–	–	–
Wang Xing	43	–	–	–	43
Sun Kai	43	–	–	–	43
Wang Sheng	43	–	–	–	43
Li Zhenxiong <sup>i, iii</sup>	–	–	–	–	–
Zhang Tao <sup>i, iii</sup>	–	–	–	–	–
Zhang Hanrong <sup>iv</sup>	48	–	–	200	248
Shen Guorong <sup>v</sup>	7	–	–	–	7
<b>Independent non-executive directors:</b>					
Yu Weifeng Wayne	171	–	–	–	171
Chen Ying	114	–	–	–	114
Li Dongru	114	–	–	–	114
Liu Minghui	114	–	–	–	114
	<b>850</b>	<b>1,101</b>	<b>97</b>	<b>530</b>	<b>2,578</b>

Note:

- (i) This director had been appointed on 31 October 2008.
- (ii) This director had been appointed on 4 April 2008 and had resigned on 31 October 2008.
- (iii) This director had elected to waive any remuneration to them from the Group.
- (iv) This director had resigned on 31 October 2008.
- (v) This director had resigned on 28 February 2008.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 8. DIRECTORS' REMUNERATION (Continued)

Details of directors' remuneration for the year ended 31 December 2007 are as follows:

	Directors' fees RMB'000	Salaries, allowances and benefits in kind RMB'000	Retirement scheme contributions RMB'000	Discretionary bonuses RMB'000	Total RMB'000
<b>Executive directors:</b>					
Gao Minghui (Chairman) <sup>i</sup>	73	60	–	–	133
Pi Jianguo <sup>ii</sup>	38	203	9	–	250
Cheng Yunchuan <sup>iii</sup>	15	206	11	250	482
Wu Ketian <sup>iii</sup>	11	166	11	125	313
Lei Jinlu <sup>iii</sup>	10	–	–	–	10
<b>Non-executive directors:</b>					
Song Xingju <sup>ii</sup>	45	–	–	–	45
Wang Xing <sup>ii</sup>	33	–	–	–	33
Sun Kai	42	–	–	–	42
Wang Sheng	42	–	–	–	42
Guo Shangwu <sup>iii</sup>	14	–	–	–	14
Shen Guorong <sup>iv</sup>	39	–	–	–	39
Zhang Hanrong <sup>v</sup>	112	276	11	760	1,159
<b>Independent non-executive directors:</b>					
Yu Weifeng Wayne	177	–	–	–	177
Chen Ying <sup>ii</sup>	90	–	–	–	90
Li Dongru <sup>vi</sup>	57	–	–	–	57
Liu Minghui <sup>ii</sup>	90	–	–	–	90
Tong Yunhuan <sup>iii</sup>	28	–	–	–	28
Yu Chengting <sup>iii</sup>	28	–	–	–	28
	<u>944</u>	<u>911</u>	<u>42</u>	<u>1,135</u>	<u>3,032</u>

Note:

- (i) This director had been appointed as Chairman on 23 October 2007.
- (ii) This director had been appointed on 23 March 2007.
- (iii) This director had resigned on 23 March 2007.
- (iv) This director had been appointed on 23 March 2007 and had resigned on 28 February 2008.
- (v) This director had been reassigned from executive director to non-executive director on 23 October 2007.
- (vi) This director had been appointed on 29 June 2007.

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

### 9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two (2007: one) are directors whose emolument are disclosed in note 8. The aggregate of the emoluments in respect of the remaining individuals are as follows:

	<b>2008</b> <b>RMB'000</b>	2007 RMB'000
Salaries and other emoluments	<b>1,076</b>	1,006
Discretionary bonuses	<b>400</b>	1,350
Retirement scheme contributions	<b>59</b>	34
	<b><u>1,535</u></b>	<u>2,390</u>

The emoluments of the three individuals (2007: four) with the highest emoluments are within the following band:

	<b>2008</b>	2007
HKD Nil – HKD 1,000,000	<b><u>3</u></b>	<u>4</u>

### 10. PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB245,770,000 (2007: RMB198,963,000), which has been dealt with in the financial statements of the Company.

	<b>2008</b> <b>RMB'000</b>	2007 RMB'000
Amount of consolidated profit attributable to equity shareholders dealt with in the Company's financial statements	<b>245,770</b>	198,963
Final dividends from a subsidiary attributable to the profit of the previous financial year and approved during the year	<b>9,000</b>	–
Company's profit for the year ( <i>note 37(b)</i> )	<b><u>254,770</u></b>	<u>198,963</u>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 11. DIVIDENDS

### (a) Dividends payable to equity shareholders of the Company attributable to the year

	2008	2007
Final dividend proposed after the balance sheet date of RMB0.09 per ordinary share (2007: RMB0.27 per ordinary share)	<u>40,065</u>	<u>114,714</u>

The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

### (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2008 RMB'000	2007 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year of RMB0.27 per share (2007: Nil)	<u>114,714</u>	<u>–</u>

## 12. EARNINGS PER SHARE

### (a) Basic earnings per share

The calculation of basic earnings per share for the year ended 31 December 2008 is based on the profit attributable to ordinary equity shareholders of the Company of RMB276,565,000 (2007: RMB241,452,000) and the weighted average number of ordinary shares of 424,864,883 (2007: 424,864,883 shares after adjusting for the capitalisation issues in 2007) in issue during the year, calculated as follows:

	2008 RMB'000	2007 RMB'000
Issued ordinary shares at 1 January	424,865	245,007
Effect of capitalisation issues ( <i>note 37(c)(ii)</i> )	–	179,858
Weighted average number of ordinary shares at 31 December	<u>424,865</u>	<u>424,865</u>

### (b) Diluted earnings per share

No diluted earnings per share information has been presented because the Company does not have any potential dilutive shares in issue during the years ended 31 December 2008 and 2007.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 13. PROPERTY, PLANT AND EQUIPMENT

### (a) The Group

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
<b>Cost:</b>					
At 1 January 2007	231,731	278,230	48,303	19,633	577,897
Additions	3,378	32,321	4,973	7,776	48,448
Disposals	(372)	(13,966)	(12,022)	(3,727)	(30,087)
Transfers from construction in progress	33,166	4,688	479	32	38,365
At 31 December 2007	267,903	301,273	41,733	23,714	634,623
At 1 January 2008	267,903	301,273	41,733	23,714	634,623
Additions	1,012	11,876	5,756	6,330	24,974
Disposals	(4,262)	(11,989)	(2,469)	(740)	(19,460)
Disposals of a subsidiary	(513)	(626)	(381)	(1,226)	(2,746)
Transfers from construction in progress	30,755	26,712	–	–	57,467
<b>At 31 December 2008</b>	<b>294,895</b>	<b>327,246</b>	<b>44,639</b>	<b>28,078</b>	<b>694,858</b>
<b>Accumulated depreciation and impairment:</b>					
At 1 January 2007	40,031	146,444	29,048	8,589	224,112
Charge for the year	9,116	11,575	5,155	2,555	28,401
Impairment loss	–	–	770	1	771
Written back on disposal	(54)	(8,740)	(11,161)	(2,486)	(22,441)
At 31 December 2007	49,093	149,279	23,812	8,659	230,843
At 1 January 2008	49,093	149,279	23,812	8,659	230,843
Charge for the year	7,847	18,636	3,465	2,589	32,537
Impairment loss	–	1,578	–	–	1,578
Written back on disposal	(2,618)	(9,738)	(1,549)	(411)	(14,316)
Written back on disposal of a subsidiary	(220)	(514)	(253)	(305)	(1,292)
<b>At 31 December 2008</b>	<b>54,102</b>	<b>159,241</b>	<b>25,475</b>	<b>10,532</b>	<b>249,350</b>
<b>Net book value:</b>					
<b>At 31 December 2008</b>	<b>240,793</b>	<b>168,005</b>	<b>19,164</b>	<b>17,546</b>	<b>445,508</b>
At 31 December 2007	218,810	151,994	17,921	15,055	403,780

All the buildings are located outside Hong Kong.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 13. PROPERTY, PLANT AND EQUIPMENT (Continued)

### (b) The Company

	Buildings RMB'000	Plant and machinery RMB'000	Furniture, fixtures and equipment RMB'000	Motor vehicles RMB'000	Total RMB'000
<b>Cost:</b>					
At 1 January 2007	189,729	232,606	39,512	14,189	476,036
Additions	3,283	26,215	4,463	6,889	40,850
Disposals	(372)	(11,117)	(10,517)	(1,471)	(23,477)
Transfers from construction in progress	30,543	4,689	479	32	35,743
At 31 December 2007	223,183	252,393	33,937	19,639	529,152
At 1 January 2008	223,183	252,393	33,937	19,639	529,152
Additions	973	10,770	5,204	4,878	21,825
Disposals	(4,020)	(7,102)	(1,270)	(164)	(12,556)
Transfers from construction in progress	29,919	26,712	-	-	56,631
<b>At 31 December 2008</b>	<b>250,055</b>	<b>282,773</b>	<b>37,871</b>	<b>24,353</b>	<b>595,052</b>
<b>Accumulated depreciation and impairment:</b>					
At 1 January 2007	34,687	123,970	24,651	5,288	188,596
Charge for the year	6,898	8,434	4,503	2,224	22,059
Impairment loss	-	3	72	-	75
Written back on disposal	(54)	(7,333)	(9,930)	(1,163)	(18,480)
At 31 December 2007	41,531	125,074	19,296	6,349	192,250
At 1 January 2008	41,531	125,074	19,296	6,349	192,250
Charge for the year	6,016	14,766	2,697	2,049	25,528
Impairment loss	-	1,433	-	-	1,433
Written back on disposal	(2,522)	(4,719)	(1,098)	(157)	(8,496)
<b>At 31 December 2008</b>	<b>45,025</b>	<b>136,554</b>	<b>20,895</b>	<b>8,241</b>	<b>210,715</b>
<b>Net book value:</b>					
<b>At 31 December 2008</b>	<b>205,030</b>	<b>146,219</b>	<b>16,976</b>	<b>16,112</b>	<b>384,337</b>
At 31 December 2007	181,652	127,319	14,641	13,290	336,902

All the buildings are located outside Hong Kong.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 13. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

### (c) Impairment loss

In 2008, a number of items of property, plant and equipment were physically damaged or technically obsolete and the Group plans to dispose of these items, although no active programme to locate a buyer has been initiated. As a result, the Group had assessed the recoverable amounts of these items. Based on this assessment, the carrying amount of the assets was written down by RMB1,578,000 and RMB1,433,000 (2007: RMB771,000 and RMB75,000) (included in "Other operating expenses"), respectively, by the Group and the Company. The estimates of the recoverable amounts were based on the assets' fair values less costs to sell, determined by reference to recent observable market prices for similar assets within the same industry.

### (d) Property, plant and equipment held under finance leases

The Group leases certain buildings under finance leases with a remaining term of 13 years. At the balance sheet date, the net book value of buildings held under finance leases of the Group was RMB153,000 (2007: RMB153,000).

### (e) Property, plant and equipment pledged for bank loans

As at 31 December 2008, buildings of the Group with carrying amounts of RMB15,499,000 (2007: RMB47,977,000) were pledged to banks to secure bank loans (see note 27).

## 14. CONSTRUCTION IN PROGRESS

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
<b>Cost:</b>				
At 1 January	29,793	17,274	27,290	15,220
Additions	62,162	50,884	61,326	47,813
Transfers to property, plant and equipment	(57,467)	(38,365)	(56,631)	(35,743)
Disposal of a subsidiary	(1,751)	—	—	—
At 31 December	32,737	29,793	31,985	27,290
<b>Impairment:</b>				
At 1 January	2,809	2,884	2,057	2,132
Transfers to property, plant and equipment	—	(75)	—	(75)
At 31 December	2,809	2,809	2,057	2,057
<b>Net book value:</b>				
At 31 December	29,928	26,984	29,928	25,233

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

### 15. LEASE PREPAYMENTS

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
<b>Cost:</b>				
At 1 January and 31 December	<b>30,141</b>	30,141	<b>15,989</b>	15,989
<b>Accumulated amortisation:</b>				
At 1 January	<b>5,456</b>	4,852	<b>4,537</b>	4,217
Charge for the year	<b>604</b>	604	<b>320</b>	320
At 31 December	<b>6,060</b>	5,456	<b>4,857</b>	4,537
<b>Net book value:</b>				
At 31 December	<b>24,081</b>	24,685	<b>11,132</b>	11,452

Lease prepayments represent payments for land use rights paid to the PRC authorities for land located in the mainland, PRC. The Group's land use rights have remaining terms ranging from 35 to 46 years as at 31 December 2008.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 16. PREPAID PROPERTY LEASE RIGHTS

	The Group			The Company
	Prepaid rental for staff quarters RMB'000	Prepaid leasing rights RMB'000	Total RMB'000	Prepaid rental for staff quarters RMB'000
<b>Cost</b>				
At 1 January 2007	4,486	57,618	62,104	4,486
Additions	–	14	14	–
At 31 December 2007	4,486	57,632	62,118	4,486
At 1 January 2008	4,486	57,632	62,118	4,486
Disposal of a subsidiary	–	(57,632)	(57,632)	–
<b>At 31 December 2008</b>	<b>4,486</b>	<b>–</b>	<b>4,486</b>	<b>4,486</b>
<b>Accumulated amortisation</b>				
At 1 January 2007	1,028	–	1,028	1,028
Charge for the year	94	–	94	94
At 31 December 2007	1,122	–	1,122	1,122
At 1 January 2008	1,122	–	1,122	1,122
Charge for the year	94	–	94	94
<b>At 31 December 2008</b>	<b>1,216</b>	<b>–</b>	<b>1,216</b>	<b>1,216</b>
<b>Net book value</b>				
<b>At 31 December 2008</b>	<b>3,270</b>	<b>–</b>	<b>3,270</b>	<b>3,270</b>
At 31 December 2007	3,364	57,632	60,996	3,364

During the year, prepaid property lease rights of RMB57,632,000 has been disposal of as part of the disposal of Siyuan (see note 3).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 17. INTANGIBLE ASSETS

### The Group

Intangible assets of the Group represent the technical know-how relating to the following business segments purchased as part of the business combinations in prior years:

	Turbo machines RMB'000	Computerised embroidery machines RMB'000	Intelligent electrical appliances RMB'000	Laser prototyping machines RMB'000	Total RMB'000
<b>Cost:</b>					
At 1 January 2007	11,630	3,745	9,118	12,521	37,014
Disposal of a subsidiary	—	—	—	(12,521)	(12,521)
At 31 December 2007	11,630	3,745	9,118	—	24,493
At 1 January 2008	11,630	3,745	9,118	—	24,493
Disposal of a subsidiary	—	—	(9,118)	—	(9,118)
<b>At 31 December 2008</b>	<b>11,630</b>	<b>3,745</b>	<b>—</b>	<b>—</b>	<b>15,375</b>
<b>Accumulated amortisation and impairment:</b>					
At 1 January 2007	6,007	3,745	6,857	8,305	24,914
Charge for the year	1,061	—	814	162	2,037
Impairment loss	—	—	1,447	—	1,447
Disposal of a subsidiary	—	—	—	(8,467)	(8,467)
At 31 December 2007	7,068	3,745	9,118	—	19,931
At 1 January 2008	7,068	3,745	9,118	—	19,931
Charge for the year	1,073	—	—	—	1,073
Disposal of a subsidiary	—	—	(9,118)	—	(9,118)
<b>At 31 December 2008</b>	<b>8,141</b>	<b>3,745</b>	<b>—</b>	<b>—</b>	<b>11,886</b>
<b>Net book value:</b>					
<b>At 31 December 2008</b>	<b>3,489</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>3,489</b>
At 31 December 2007	4,562	—	—	—	4,562

The amortisation charge for the year is included in "administrative expenses" in the financial statements.

During the year, the technical know-how for intelligent electrical appliances has been disposed of as part of the disposal of Siyuan (see note 3).

In 2007, the technical know-how for laser prototyping machines has been disposed of as part of the disposal of Hengtong (see note 3).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 17. INTANGIBLE ASSETS (Continued)

### The Group (Continued)

#### Impairment loss

In 2007, the directors conducted a review of the Group's intangible assets and determined that certain intangible assets were impaired due to technical obsolescence. Accordingly, impairment loss of RMB1,447,000 was recognised in the consolidated income statement, based on their existing condition and shortfall of their recoverable amounts to their carrying amounts. The recoverable amounts of the relevant assets have been determined on the basis of their value in use. Similar review was conducted during the year and the directors consider no intangible assets were impaired.

### The Company

Intangible assets of the Company represent technical know-how relating to turbo machines as follows:

	2008 RMB'000	2007 RMB'000
<b>Cost:</b>		
At 1 January and 31 December	11,630	11,630
<b>Accumulated amortisation:</b>		
At 1 January	7,068	6,007
Charge for the year	1,073	1,061
At 31 December	8,141	7,068
<b>Net book value:</b>		
At 31 December	3,489	4,562

## 18. GOODWILL

	The Group	
	2008 RMB'000	2007 RMB'000
<b>Cost:</b>		
At 1 January	12,519	17,334
Disposal of a subsidiary	(3,947)	(4,815)
At 31 December	8,572	12,519
<b>Accumulated impairment losses:</b>		
At 1 January	6,675	5,844
Impairment loss	-	3,270
Write back on disposal of a subsidiary	(3,947)	(2,439)
At 31 December	2,728	6,675
<b>Carrying amount:</b>		
At 31 December	5,844	5,844



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 18. GOODWILL (Continued)

Goodwill relates to the Group's turbo machine segment, which is a cash-generating units ("CGU") of the Group identified according to business segments.

The recoverable amounts of the turbo machines unit is determined based on value in use calculations. The key assumptions for the calculation are those regarding the discount rates, growth rates and expected changes in selling prices and direct costs during the period. Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The growth rates are based on industry growth forecasts. Changes in selling prices and direct costs are based on past practices and expectations of future changes in the market.

The Group prepares cash flow forecasts derived from the most recent financial budgets approved by management for the next year and extrapolates cash flows for the following four years based on estimated steady growth rates of 5% for the turbo machines unit. These rates do not exceed the average long-term growth rates for the relevant markets. The rates used to discount the forecast cash flow for the CGU is 10% (2007: 8.0%) per annum.

During the year, goodwill relating to intelligent electrical appliances has been disposed of as part of the disposal of Siyuan (see note 3).

## 19. INVESTMENTS IN SUBSIDIARIES

	The Company	
	2008 RMB'000	2007 RMB'000
<b>Unlisted shares, at cost:</b>		
At 1 January	72,073	92,912
Additions	2,500	3,000
Disposals	(27,310)	(23,839)
At 31 December	47,263	72,073
<b>Accumulated impairment losses:</b>		
At 1 January	38,901	35,369
Impairment loss	–	13,371
Write back on disposal	(19,331)	(9,839)
At 31 December	19,570	38,901
<b>Carrying amount:</b>		
At 31 December	27,693	33,172

During the year, a minority shareholder transferred his 5% equity interest in Changsha Ser, with carrying amount of RMB3,950,000, to Xi'an Ser at a consideration of RMB500,000. The difference of RMB3,450,000 was recognised as deemed income under other revenue and net income (note 5). As a result of the share transfer, Xi'an Ser increased its equity interest in Changsha Ser from 95% to 100%.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 19. INVESTMENTS IN SUBSIDIARIES (Continued)

On 4 December 2008, Xi'an Jiaotong University Science and Technology Park Company Limited acquired the Company's entire 78.03% equity interest in Siyuan for RMB8,546,900. Details of disposal are disclosed in note 3.

Details of the subsidiaries as at 31 December 2008 are set out below. The class of shares held is ordinary unless otherwise stated.

Name of subsidiary	Place and date of establishment and operation	Registered capital (RMB'000)	Proportion of ownership interest		Principal activity	
			Group's effective interest	Held by the Company		
Xi'an Ser Turbo Machinery Equipment Company Limited ("Xi'an Ser")	PRC 3 July 2000	50,000	45% (Note (i))	45%	Design, development and sale of turbo-machinery	
Changsha Ser Turbo Machinery Equipment Company Limited ("Changsha Ser")	PRC 16 January 2004	10,000	45% (Note (i))		100%	Design, development and sale of turbo-machinery
Hangzhou Ser Gas Engineering Company Limited ("Hangzhou Ser")	PRC 29 April 2004	1,200	23% (Note (i))		51%	Design, development and sale of turbo-machinery
Winko Machine Company Limited ("Winko")	PRC 18 November 2002	20,230	96.74%	96.74%		Research, development, manufacture and sale of sensors, turbo tables and computerised embroidery machines
Kunming Machine Shipping Company Limited ("Shipping")	PRC 13 October 2006	500	100%	100%		Provision of transportation services
Kunming Kunji General Machine Company Limited ("General Machine")	PRC 16 October 2007	3,000	100%	100%		Manufacture and sale of boring machines
Fujian Kunji Machine Company Limited ("Fujian Kunji")	PRC 23 January 2008	5,000	50% (Note (i))	50%		Manufacture and sale of common machines tools

Note:

- (i) The Company has the power to appoint over 50% of the number of directors of the entities and has retained the Company's controlling power over the entities. Accordingly, these entities are accounted for as subsidiaries of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 20. INTEREST IN AN ASSOCIATE

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Unlisted shares, at cost	–	–	14,000	14,000
Share of net assets	13,663	14,012	–	–
Unrealised loss on disposal of a subsidiary to an associate	205	205	–	–
	<b>13,868</b>	<b>14,217</b>	<b>14,000</b>	<b>14,000</b>

As at 31 December 2008, details of the Group's interest in the associate are as follows:

Name of associate	Form of business structure	Place of establishment and operation	Registered capital (RMB'000)	Proportion of ownership interest		Principal activity
				Group's effective interest	Held by the Company	
Xi'an Ruite	Limited liability corporation	PRC	60,000	23.34%	23.34%	Design, development, and sale of prototyping machine tools, car moulds and manufacturing moulds

The summarised consolidated financial information of the associate is as follows:

	Assets RMB'000	Liabilities RMB'000	Equity RMB'000	Revenue RMB'000	Profit/ (Loss) RMB'000
<b>2008</b>					
100 per cent Group's effective interest	<b>96,239</b>	<b>(37,701)</b>	<b>58,538</b>	<b>10,039</b>	<b>(1,494)</b>
	<b>22,462</b>	<b>(8,799)</b>	<b>13,663</b>	<b>2,343</b>	<b>(349)</b>
<b>2007</b>					
100 per cent Group's effective interest	80,455	(20,421)	60,034	–	34
	18,778	(4,766)	14,012	–	12

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 21. INTEREST IN A JOINTLY CONTROLLED ENTITY

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Unlisted shares, at cost	–	–	12,571	15,871
Share of net assets	30,674	21,440	–	–
	<b>30,674</b>	<b>21,440</b>	<b>12,571</b>	<b>15,871</b>

As at 31st December 2008, details of the Group's interest in the jointly controlled entity are as follows:

Name of joint venture	Form of business structure	Place of establishment and operation	Registered capital (RMB'000)	Proportion of ownership interest		Principal activity
				Group's effective interest	Held by the Company	
TOS Kunming Machine Tool Company Limited ("TOS")	Sino-foreign joint venture	PRC	49,457	50%	50%	Design, development, manufacture and sale of machine tools

The summarised financial information, after elimination of the effect of unrealised fair value adjustment of property, plant and equipment contributed to the jointly controlled entity, in respect of the Group's jointly controlled entity which is accounted for using the equity method is as follows:

	2008 RMB'000	2007 RMB'000
Non-current assets	5,065	7,603
Current assets	70,990	34,201
Current liabilities	(45,381)	(20,364)
Net assets	<b>30,674</b>	<b>21,440</b>
Income	69,171	35,755
Expenses	(56,637)	(30,788)
Profit for the year	<b>12,534</b>	<b>4,967</b>

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

### 22. INVENTORIES

(a) Inventories in the balance sheet comprise:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Raw materials	115,216	97,984	41,623	78,947
Work in progress	393,762	259,268	262,971	141,991
Finished goods	154,318	70,171	134,822	64,778
	<b>663,296</b>	<b>427,423</b>	<b>439,416</b>	<b>285,716</b>

(b) The analysis of the amount of inventories recognised as an expense is as follows:

	2008 RMB'000	2007 RMB'000
Carrying amount of inventories sold	1,010,358	805,960
Write-down of inventories	700	2,128
Reversal of write-down of inventories	(622)	(7,751)
	<b>1,010,436</b>	<b>800,337</b>

The reversal of write-down of inventories arose as a result of the subsequent usage of long-aged raw materials for which a write-down was made in prior years.

### 23. TRADE AND BILLS RECEIVABLE

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Trade and bills receivable	333,003	361,580	247,952	231,252
Less: Allowance for doubtful debts (note 23(b))	(92,381)	(76,491)	(60,817)	(42,721)
	<b>240,622</b>	<b>285,089</b>	<b>187,135</b>	<b>188,531</b>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 23. TRADE AND BILLS RECEIVABLE *(Continued)*

### (a) Ageing analysis

An ageing analysis of trade and bills receivable (net of impairment losses for bad and doubtful debts) is as follows:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Current	<b>223,677</b>	273,047	<b>177,706</b>	184,418
Less than 1 month past due	<b>10,701</b>	2,965	<b>8,124</b>	1,807
1 to 3 months past due	<b>3,126</b>	4,239	<b>123</b>	1,318
More than 3 months but less than 12 months past due	<b>1,147</b>	3,934	<b>388</b>	988
More than 12 months past due	<b>1,971</b>	904	<b>794</b>	–
Amounts past due	<b>16,945</b>	12,042	<b>9,429</b>	4,113
	<b>240,622</b>	285,089	<b>187,135</b>	188,531

Trade and bills receivable are expected to be recovered within one year. In general, debts other than amounts relating to quality guarantee deposits are due for payment upon billing. Subject to negotiation, credit terms within a range of one to three months are available for certain customers with well-established trading and payment records on a case-by-case basis. The quality deposits are due for payment upon one year from date of installation. Further details on the Group's credit policy are set out in note 40(a).

### (b) Impairment of trade and bills receivable

Impairment losses in respect of trade and bills receivable are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written-off against trade and bills receivable directly (see note 2(k)(i)).

The movement in the allowance for doubtful debts during the year, including both specific and collective loss components, is as follows:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
At 1 January	<b>76,491</b>	57,458	<b>42,721</b>	31,046
Impairment loss recognised	<b>19,787</b>	19,033	<b>18,096</b>	11,675
Write back on disposal of a subsidiary	<b>(3,897)</b>	–	–	–
At 31 December	<b>92,381</b>	76,491	<b>60,817</b>	42,721

At 31 December 2008, the Group's and the Company's trade and bills receivable of RMB96,059,000 (2007: RMB102,229,000) and RMB60,817,000 (2007: RMB48,312,000), respectively, were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that only a portion of the receivables is expected to be recovered. Consequently, specific allowances for doubtful debts of RMB92,381,000 (2007: RMB76,491,000) and RMB60,817,000 (2007: RMB42,721,000) were recognised. The Group does not hold any collateral over these balances.



## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

### 23. TRADE AND BILLS RECEIVABLE *(Continued)*

#### (c) Trade and bills receivable that are not impaired

The ageing analysis of trade and other receivables that are neither individually nor collectively considered to be impaired are as follows:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Neither past due nor impaired	<b>223,677</b>	254,339	<b>177,706</b>	180,000
Less than 1 month past due	<b>10,095</b>	1,611	<b>8,124</b>	1,060
1 to 3 months past due	<b>1,946</b>	1,967	<b>123</b>	1,142
More than 3 months but less than 12 months past due	<b>432</b>	1,322	<b>388</b>	738
More than 12 months past due	<b>794</b>	112	<b>794</b>	–
	<b>13,267</b>	5,012	<b>9,429</b>	2,940
	<b>236,944</b>	259,351	<b>187,135</b>	182,940

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

### 24. DEPOSITS, OTHER RECEIVABLES AND PREPAYMENTS

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Advances to suppliers	<b>36,849</b>	37,530	<b>8,199</b>	8,558
Deposits for bidding, construction work and equipment purchase	<b>14,663</b>	28,465	<b>14,663</b>	26,243
Staff advances	<b>4,619</b>	4,110	<b>3,078</b>	2,368
Taxes recoverable	<b>9,399</b>	4,142	–	–
Others	<b>10,991</b>	8,176	<b>2,557</b>	2,455
	<b>76,521</b>	82,423	<b>28,497</b>	39,624

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

### 25. RESTRICTED BANK DEPOSITS

The amount represents restricted bank deposits for performance guarantees and bills payable with maturity of more than three months.

### 26. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Cash in hand and demand deposits	<b>322,699</b>	363,306	<b>278,779</b>	322,299

### 27. BANK LOANS

The bank loans were repayable as follows:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Within 1 year or on demand	<b>70,000</b>	–	<b>50,000</b>	–
After 1 year but within 2 years	–	–	–	–
After 2 years but within 5 years	–	50,000	–	50,000
	–	50,000	–	50,000
	<b>70,000</b>	50,000	<b>50,000</b>	50,000

The bank loans were secured as follows:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Bank loans				
– secured	<b>20,000</b>	50,000	–	50,000
– unsecured	<b>50,000</b>	–	<b>50,000</b>	–
	<b>70,000</b>	50,000	<b>50,000</b>	50,000

At 31 December 2008, the bank loans of the Group were secured by mortgages over buildings with an aggregate carrying value of RMB15,499,000 (2007: RMB47,977,000).

The annual rates of interest charged on the bank loans were ranging from 5.02% to 7.47% for the year ended 31 December 2008 (2007: 6.57%).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 28. TRADE AND BILLS PAYABLE

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Trade creditors	151,116	116,128	94,088	45,775
Bills payable	14,226	4,670	–	–
	<b>165,342</b>	<b>120,798</b>	<b>94,088</b>	<b>45,775</b>

An ageing analysis of trade and bills payable of the Group is as follows:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Due within 1 month or on demand	45,032	58,370	29,906	12,898
Due after 1 month but within 3 months	78,077	49,229	55,624	29,862
Due after 3 months but within 6 months	42,233	13,199	8,558	3,015
	<b>165,342</b>	<b>120,798</b>	<b>94,088</b>	<b>45,775</b>

All the trade and bills payable are expected to be settled within one year.

## 29. OTHER PAYABLES

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Advances from customers	433,655	434,605	264,421	258,985
Payables for construction work	10,268	37,765	10,268	677
Other taxes payable	1,177	38,609	598	24,829
Employees' bonus and welfare	16,740	24,323	16,004	20,308
Land use fees payable	–	5,284	–	–
Others	13,227	16,880	7,359	9,916
	<b>475,067</b>	<b>557,466</b>	<b>298,650</b>	<b>314,715</b>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 30. OBLIGATIONS UNDER FINANCE LEASES

At 31 December 2008, the Group and the Company had obligations under finance leases repayable as follows:

	2008		2007	
	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000	Present value of the minimum lease payments RMB'000	Total minimum lease payments RMB'000
Within 1 year	213	342	213	342
After 1 year but within 2 years	213	342	213	342
After 2 years but within 5 years	640	1,026	640	1,026
After 5 years	1,706	2,738	1,919	3,080
	<u>2,559</u>	<u>4,106</u>	<u>2,772</u>	<u>4,448</u>
	<u>2,772</u>	<u>4,448</u>	<u>2,985</u>	<u>4,790</u>
Less: total future interest expenses		<u>(1,676)</u>		<u>(1,805)</u>
Present value of lease obligations		<u>2,772</u>		<u>2,985</u>

## 31. RETIREMENT BENEFITS

The Group participates in government pension schemes whereby it is required to pay annual contributions at the rate of 20% of the basic salaries of its employees. Under these schemes, retirement benefits of the existing and retired employees are payable by the relevant authorities and the Group has no further obligations beyond the annual contributions.

### Early retirement benefits obligation

The Group has a number of employees who were made to retire from employment of the Group prior to their official retirement dates. However, the Group is obligated to continue to make monthly payments to these employees commencing from the date of their early retirement up until their respective official retirement dates. The payments are calculated based on a certain percentage of their last drawn salaries. The amounts recognised as at year end represent the Group's obligation discounted to present value determined by reference to market yields at the balance sheet date on high quality corporate bonds of similar maturities.

The Group does not operate any other retirement benefits schemes for its employees.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 32. DEFERRED INCOME

Deferred income mainly represents research and development funds obtained from the government for the purpose of developing digital controlled milling machine and control systems used in compressors. The funds will be recognised as income over the useful lives of the relevant assets when the development project has been completed and put into use.

## 33. DEFERRED GAIN

Deferred gain represents the gain on disposal of certain buildings that were subsequently leased back by the Group in 2001. Such leases qualify as finance leases (see note 30) and the gain is deferred and amortised to profit or loss over the lease term of 20 years.

## 34. LONG-TERM PAYABLES

The amount as at 31 December 2007 represented government grant to Siyuan for working capital for a construction project, which was unsecured, non-interest bearing and would not be repayable until the project is completed. As the project has been substantially suspended, the directors believed that it was probable the Group might have to repay the amount. However, no fixed date of repayment has been set by the government. During the year, such long-term payables have been disposed of as part of the disposal of Siyuan (note 3).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 35. DEFERRED TAXATION

### (a) Deferred tax assets and liabilities recognised

	The Group					The Company				
	At 1 January 2007 RMB'000	Credited/ (charged) to profit or loss RMB'000	At 31 December 2007 RMB'000	Credited/ (charged) to profit or loss RMB'000	At 31 December 2008 RMB'000	At 1 January 2007 RMB'000	Credited/ (charged) to profit or loss RMB'000	At 31 December 2007 RMB'000	Credited/ (charged) to profit or loss RMB'000	At 31 December 2008 RMB'000
Impairment losses for trade and other receivables	12,755	4,456	17,211	2,141	19,352	8,055	5,834	13,889	3,734	17,623
Write-down of inventories	4,760	(707)	4,053	(319)	3,734	4,228	(882)	3,346	-	3,346
Provision for product warranties	533	835	1,368	721	2,089	533	834	1,367	677	2,044
Early retirement benefits obligation	5,440	(498)	4,942	(200)	4,742	5,440	(498)	4,942	(200)	4,742
Impairment of property, plant and equipment and construction in progress	1,203	(75)	1,128	316	1,444	1,203	(110)	1,093	351	1,444
Impairment of available-for-sale investments	5,715	(5,715)	-	-	-	5,715	(5,715)	-	-	-
Deferred income	-	278	278	908	1,186	-	278	278	908	1,186
Intra-group unrealised profits	2,587	(858)	1,729	(563)	1,166	-	-	-	-	-
Impairment of investments in subsidiaries	-	-	-	-	-	8,368	(133)	8,235	(2,812)	5,423
Others	404	96	500	88	588	(241)	241	-	-	-
Net deferred tax assets	<u>33,397</u>	<u>(2,188)</u>	<u>31,209</u>	<u>3,092</u>	<u>34,301</u>	<u>33,301</u>	<u>(151)</u>	<u>33,150</u>	<u>2,658</u>	<u>35,808</u>

### (b) Deferred tax assets not recognised

In accordance with the accounting policy set out in note 2(r), the Group has not recognised deferred tax assets in respect of cumulative tax losses of RMB34,089,000 (2007: RMB58,079,000) as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses will expire between 2009 and 2013.



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 36. PROVISIONS

Provision for product warranties

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
At 1 January	9,117	3,555	9,115	3,555
Additional provisions made	16,082	11,305	14,946	11,303
Provisions utilised	(11,395)	(5,743)	(10,431)	(5,743)
At 31 December	<u>13,804</u>	<u>9,117</u>	<u>13,630</u>	<u>9,115</u>

Under the normal terms of the Group's sales agreements, the Group will rectify any product defects arising within one year of the date of sale. Provision is therefore made for the best estimate of the expected settlement under these agreements in respect of sales made within the one year prior to the balance sheet date.

## 37. CAPITAL, RESERVES AND DIVIDENDS

### (a) The Group

	Attributable to equity shareholders of the Company							
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total equity RMB'000
At 1 January 2007	245,007	293,745	10,225	21,810	57,120	627,907	71,191	699,098
Changes in share capital (note 37(c)(ii))	179,858	(179,858)	-	-	-	-	-	-
Disposal of a subsidiary	-	-	-	-	-	-	(5,886)	(5,886)
Profit for the year	-	-	-	-	241,452	241,452	8,686	250,138
Appropriations	-	-	-	21,129	(21,129)	-	-	-
At 31 December 2007	<u>424,865</u>	<u>113,887</u>	<u>10,225</u>	<u>42,939</u>	<u>277,443</u>	<u>869,359</u>	<u>73,991</u>	<u>943,350</u>
At 1 January 2008	424,865	113,887	10,225	42,939	277,443	869,359	73,991	943,350
Disposal and acquisition of subsidiaries	-	-	-	-	-	-	(2,920)	(2,920)
Profit for the year	-	-	-	-	276,565	276,565	4,555	281,120
Appropriations	-	-	-	26,696	(26,696)	-	-	-
Dividend	-	-	-	-	(114,714)	(114,714)	(11,000)	(125,714)
At 31 December 2008	<u>424,865</u>	<u>113,887</u>	<u>10,225</u>	<u>69,635</u>	<u>412,598</u>	<u>1,031,210</u>	<u>64,626</u>	<u>1,095,836</u>

At 31 December 2008, the retained profits of the Group includes statutory surplus reserves in respect of the Company's subsidiaries of RMB7,193,000 (2007: RMB5,903,000), which are not distributable to the equity shareholders of the Company.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 37. CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (b) The Company

	Attributable to equity shareholders of the Company					
	Share capital RMB'000	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Retained profits RMB'000	Total RMB'000
At 1 January 2007	245,007	293,745	10,225	20,769	42,989	612,735
Changes in share capital (note 37(c)(ii))	179,858	(179,858)	-	-	-	-
Profit for the year	-	-	-	-	198,963	198,963
Appropriations	-	-	-	21,129	(21,129)	-
At 31 December 2007	<u>424,865</u>	<u>113,887</u>	<u>10,225</u>	<u>41,898</u>	<u>220,823</u>	<u>811,698</u>
At 1 January 2008	424,865	113,887	10,225	41,898	220,823	811,698
Profit for the year	-	-	-	-	254,770	254,770
Appropriations	-	-	-	26,696	(26,696)	-
Dividend	-	-	-	-	(114,714)	(114,714)
At 31 December 2008	<u>424,865</u>	<u>113,887</u>	<u>10,225</u>	<u>68,594</u>	<u>334,183</u>	<u>951,754</u>

### (c) Share capital

#### (i) Issued share capital

	2008 RMB'000	2007 RMB'000
Registered, issued and fully paid:		
- 312,148,000 domestic listed A-shares of RMB1.00 each	<u>312,148</u>	312,148
- 112,717,000 H-shares of RMB1.00 each	<u>112,717</u>	112,717
	<u>424,865</u>	<u>424,865</u>

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at the meetings of the Company.

Except for the currency in which dividends are paid and the restrictions as to whether the shareholders can be PRC investors or foreign investors, A-shares and H-shares rank pari passu in all material respects with each other.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 37. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

### (c) Share capital *(Continued)*

#### (ii) *Changes in share capital*

On 22 December 2006, a "Share Increase via Capital Reserve" proposal (the "Share Increase Proposal No. 1") (whereby 1.5606 new shares would be allotted for every 10 existing shares) and the "Share Reform" proposal (the "Share Reform Proposal") (whereby holders of non-circulating shares would pay 2.7 shares for every 10 existing shares to holders of circulating A-shares as consideration for non-circulating shares becoming listed and tradable) were considered and approved at an Extraordinary General Meeting and a shareholders' meeting in relation to the A-share market, respectively. On 30 January 2007, the aforesaid proposals were approved by the relevant government authorities.

On 26 February 2007, the Company implemented the Share Increase Proposal No. 1 and 1.5606 new shares were allotted for every 10 existing shares to all shareholders. In total, the share capital of the Company increased by 38,235,855 shares, of which 28,091,955 shares were A-shares and 10,143,900 shares were H-shares. The par value of the issued ordinary shares was transferred from the share premium account. After the implementation of the Share Increase Proposal No. 1, the total issued share capital of the Company was 283,243,255 shares.

On 7 March 2007, the Share Reform Proposal was implemented in the A-share market where the holders of non-circulating shares of the Company paid a total of 18,728,355 shares to the holders of circulating A-shares (excluding holders of H-shares) as consideration for the circulation of their non-circulating shares. Accordingly, each holder of circulating A-shares received 2.7 shares for every 10 existing shares from the holders of non-circulating shares.

On 29 June 2007, another "Share Increase via Capital Reserve" proposal (the "Share Increase Proposal No. 2") (whereby 5 new shares would be allotted for every 10 existing shares) were considered and approved at the Annual General Meeting and Class Meeting. On 15 August 2007, this proposal was approved by the relevant government authorities.

On 19 November 2007, the Company implemented the Share Increase Proposal No. 2, and 5 new shares were allotted for every 10 existing shares to all shareholders. In total, the share capital of the Company increased by 141,621,628 shares, of which 104,049,678 shares were A-shares and 37,571,950 shares were H-shares. The par value of the issued ordinary shares was transferred from the share premium account.

After the implementation of the Share Increase Proposal No. 1 and the Share Increase Proposal No. 2, the total issued share capital of the Company was RMB424,865,000.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 37. CAPITAL, RESERVES AND DIVIDENDS *(Continued)*

### (d) Nature and purpose of reserves

#### (i) *Share premium*

The application of the share premium account of the Company is governed by the PRC Company Law.

#### (ii) *Capital reserve*

The capital reserve represents the profit of Kunming Machine Tool Plant for the period from 1 July 1993 to 18 October 1993 less an amount of RMB7,000,000 which the Company paid in cash to the Yunnan Provincial People's Government pursuant to a demerger agreement dated 20 November 1993 between Kun Ji Group and the Company.

#### (iii) *Statutory surplus reserve*

The statutory surplus reserve represents appropriations from profit after taxation in accordance with the PRC Company Law. Statutory surplus reserve is part of the shareholders' equity and when its balance reaches an amount equal to 50% of the relevant company's registered capital, further appropriation need not be made. According to the PRC Company Law, the statutory surplus reserve may be used to make up past losses or to increase capital by means of conversion. However, when funds from the statutory surplus reserve are converted to capital, the funds remaining in such reserve shall not be less than 25% of the registered capital.

### (e) Distributability of reserves

The distributable profits for the year is determined based on the Company's distributable profits as reflected in its financial statements prepared in accordance with the China Accounting Standards for Business Enterprise or HKFRS, whichever is lower.

At 31 December 2008, the aggregate amount of reserves available for distribution to equity shareholders of the Company was RMB334,183,000 (2007: RMB220,823,000).

### (f) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

Consistent with industry practice, the Group monitors its capital structure on the basis of a net debt-to-adjusted capital ratio. For this purpose the Group defines net debt as total debt (which includes interest-bearing loans and borrowings, trade and bills payable, other payables and accrued expenses and amounts due to a jointly controlled entity) less cash and cash equivalents. Adjusted capital comprises all components of equity, less unaccrued proposed dividends.

During 2008, the Group's and the Company's strategy, which was unchanged from 2007, was to maintain the net debt-to-adjusted capital ratio in the range of 30% to 50% and 15% to 30%, respectively. In order to maintain or adjust the ratio, the Group may adjust the amount of dividends paid to shareholders, issue new shares, return capital to shareholders, raise new debt financing or sell assets to reduce debt.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 37. CAPITAL, RESERVES AND DIVIDENDS (Continued)

### (f) Capital management (Continued)

The net debt-to-adjusted capital ratio at 31 December 2008 and 2007 was as follows:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Bank loans due within one year	70,000	–	50,000	–
Trade and bills payable	165,342	120,798	94,088	45,775
Other payables	475,067	557,466	298,650	314,715
Obligations under finance leases due within one year	213	213	213	213
Amounts due to subsidiaries	–	–	27,202	52,827
Amounts due to a jointly controlled entity	47,692	13,872	47,692	13,872
Bank loans due after one year	–	50,000	–	50,000
Obligations under finance leases due after one year	2,559	2,772	2,559	2,772
Long-term payables	–	7,200	–	–
Less: Cash and cash equivalents	(322,699)	(363,306)	(278,779)	(322,299)
<b>Net debt</b>	<b>438,174</b>	<b>389,015</b>	<b>241,625</b>	<b>157,875</b>
<b>Total equity</b>	<b>1,095,836</b>	<b>943,350</b>	<b>951,754</b>	<b>811,698</b>
<b>Net debt-to-adjusted capital ratio</b>	<b>40%</b>	<b>41%</b>	<b>25%</b>	<b>19%</b>

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 38. COMMITMENTS

### (a) Capital commitments outstanding at 31 December 2008 not provided for in the financial statements were as follows:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Contracted for	84,779	50,074	47,230	49,837
Authorised but not contracted for	49,104	398	49,104	398
	<b>133,883</b>	<b>50,472</b>	<b>96,334</b>	<b>50,235</b>

## NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

### 38. COMMITMENTS (Continued)

- (b) At 31 December 2008, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	The Group		The Company	
	2008 RMB'000	2007 RMB'000	2008 RMB'000	2007 RMB'000
Within 1 year	2,272	2,776	2,222	2,351
After 1 year but within 5 years	8,375	9,113	8,300	8,632
After 5 years	18,564	23,675	18,564	23,675
	<u>29,211</u>	<u>35,564</u>	<u>29,086</u>	<u>34,658</u>

The Group leases a number of its land use rights, office properties, factories and staff quarters under operating leases. The leases typically run for an average term of 20 years, and none of the leases includes contingent rentals.

### 39. MATERIAL RELATED PARTY TRANSACTIONS

- (a) Transactions with related parties

Name of party	Nature of transactions	The Group Year ended 31 December	
		2008 RMB'000	2007 RMB'000
<b>Associate</b>			
Xi'an Ruite	Sale of subsidiary (i)	–	14,000
<b>Jointly controlled entity</b>			
TOS	Sales (ii)	14,536	10,901
	Consultancy fees	310	11
	Purchases (iii)	73,470	50,862
	Sales of materials	1,279	–

Notes:

- (i) This represents the sale of Hengtong by the Company to Xi'an Ruite.  
(ii) These mainly represent the sale of materials to TOS for production purposes.  
(iii) These mainly represent the sale of machine tools by TOS to the Group.

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in note 8 and certain of the highest paid employees as disclosed in note 9, is as follows:

	2008 RMB'000	2007 RMB'000
Short-term employee benefits	<u>5,812</u>	<u>6,447</u>

Total remuneration is included in "staff costs" (note 6(b)).



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 39. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

### (b) Balances with related parties

Name of party	Nature of transactions	The Group and Company	
		2008 RMB'000	2007 RMB'000
TOS	Balance due from/(to)		
	– trade payables (i)	(47,692)	(13,872)
	– trade receivables (ii)	10,177	5,654
	– non-trade receivables (iii)	–	61
		<b>(37,515)</b>	<b>(8,157)</b>

Notes:

- (i) These mainly represent the sale of machine tools by TOS to the Group.
- (ii) These mainly represent the sale of materials to TOS for production purposes.
- (iii) These mainly represent cash advances that are unsecured, interest-free and repayable on demand.

### (c) Balances with subsidiaries

As at 31 December 2008, the amounts due to subsidiaries mainly represent advances received from third party customers by the Company on behalf of General Machine.

The amounts due from subsidiaries as at 31 December 2008 mainly represent receivables due from General Machine relating to sale of materials by the Company and salaries paid on behalf of General Machine.

### (d) Transactions with other state-owned entities in the PRC

The Group operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government through its government authorities, agencies, affiliations and other organisations ("state-owned entities"). Transactions with other state-owned entities include but are not limited to the following:

- purchase, sale and leases of property and other assets; and
- rendering and receiving of utilities and other services.

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

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES

Exposure to credit, liquidity, interest rate and currency risks arises in the normal course of the Group's business. These risks are limited by the Group's financial management policies and practices described below.

### (a) Credit risk

The Group's credit risk is primarily attributable to trade and bills receivable. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis. In respect of trade and bills receivable, individual credit evaluations are performed on all customers requiring credit over a certain amount. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates. Normally, the Group does not obtain collateral from customers.

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the balance sheet date, the Group has no significant concentration of credit risk because the exposure is spread over a number of counterparties and customers.

The maximum exposure to credit risk without taking account of any collateral held is represented by the carrying amount of each financial asset in the balance sheet after deducting any impairment allowance. The Group does not provide financial guarantees to parties outside the Group which would expose the Group or the Company to credit risk.

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from trade and bills receivable are set out in note 23.

### (b) Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the raising of loans to cover expected cash demands, subject to approval by the parent company when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

### (b) Liquidity risk *(Continued)*

The following table details the remaining contractual maturities at the balance sheet date of the Group's financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the balance sheet date) and the earliest date the Group can be required to pay:

#### The Group

	2008					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years, but less than 5 years RMB'000	More than 5 years RMB'000
Bank loans	70,000	(72,885)	(72,885)	-	-	-
Trade and bills payable and accrued expenses	206,754	(206,754)	(206,754)	-	-	-
Amounts due to a jointly controlled entity	47,692	(47,692)	(47,692)	-	-	-
Obligations under finance leases	2,772	(4,448)	(342)	(342)	(1,026)	(2,738)
Early retirement benefits obligation	19,000	(22,705)	(4,465)	(1,931)	(10,155)	(6,154)
	<b>346,218</b>	<b>(354,484)</b>	<b>(332,138)</b>	<b>(2,273)</b>	<b>(11,181)</b>	<b>(8,892)</b>
	2007					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years, but less than 5 years RMB'000	More than 5 years RMB'000
Bank loans	50,000	(58,428)	(3,650)	(3,780)	(50,998)	-
Trade and bills payable and accrued expenses	243,659	(243,659)	(243,659)	-	-	-
Amounts due to a jointly controlled entity	13,872	(13,872)	(13,872)	-	-	-
Obligations under finance leases	2,985	(4,790)	(342)	(342)	(1,026)	(3,080)
Early retirement benefits obligation	19,799	(23,331)	(4,523)	(4,145)	(9,165)	(5,498)
Long-term payables	7,200	(7,200)	-	-	(7,200)	-
	<b>337,515</b>	<b>(351,280)</b>	<b>(266,046)</b>	<b>(8,267)</b>	<b>(68,389)</b>	<b>(8,578)</b>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (b) Liquidity risk (Continued)

#### The Company

	2008					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years, but less than 5 years RMB'000	More than 5 years RMB'000
Bank loans	50,000	(52,511)	(52,511)	-	-	-
Trade and bills payable and accrued expenses	128,317	(128,317)	(128,317)	-	-	-
Amounts due to subsidiaries	27,202	(27,202)	(27,202)	-	-	-
Amounts due to a jointly controlled entity	47,692	(47,692)	(47,692)	-	-	-
Obligations under finance leases	2,772	(4,448)	(342)	(342)	(1,026)	(2,738)
Early retirement benefits obligation	19,000	(22,705)	(4,465)	(1,931)	(10,155)	(6,154)
	<b>274,983</b>	<b>(282,875)</b>	<b>(260,529)</b>	<b>(2,273)</b>	<b>(11,181)</b>	<b>(8,892)</b>
	2007					
	Carrying amount RMB'000	Total contractual undiscounted cash flow RMB'000	Within 1 year or on demand RMB'000	More than 1 year but less than 2 years RMB'000	More than 2 years, but less than 5 years RMB'000	More than 5 years RMB'000
Bank loans	50,000	(58,428)	(3,650)	(3,780)	(50,998)	-
Trade and bills payable and accrued expenses	101,505	(101,505)	(101,505)	-	-	-
Amounts due to subsidiaries	52,827	(52,827)	(52,827)	-	-	-
Amounts due to a jointly controlled entity	13,872	(13,872)	(13,872)	-	-	-
Obligations under finance leases	2,985	(4,790)	(342)	(342)	(1,026)	(3,080)
Early retirement benefits obligation	19,799	(23,331)	(4,523)	(4,145)	(9,165)	(5,498)
	<b>240,988</b>	<b>(254,753)</b>	<b>(176,719)</b>	<b>(8,267)</b>	<b>(61,189)</b>	<b>(8,578)</b>

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

### (c) Interest rate risk

The Group's interest rate risk arises primarily from floating rate bank deposits and borrowings issued at fixed rates expose the Group to cash flow interest rate risk and fair value interest rate risk respectively. The Group adopts a policy of ensuring that its borrowings are effectively on a fixed rates basis through the contractual terms of the interest-bearing borrowings. The Group's interest rate profile as monitored by management is set out in (i) below.

#### (i) Interest rate profile

The following table details the interest rate profile of the Group's and the Company's floating rate bank deposits and borrowings issued at fixed interest rate at the balance sheet date.

The Group	2008		2007	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Floating rate bank deposits	0.36%	327,464	0.72%	368,900
Borrowings issued at fixed interest rate	5.72%	70,000	6.57%	50,000
The Company	2008		2007	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Floating rate bank deposits	0.36%	278,740	0.70%	322,049
Borrowings issued at fixed interest rate	5.02%	50,000	6.57%	50,000

#### (ii) Sensitivity analysis

At 31 December 2008, it is estimated that a general increase/decrease of 9 basis points in interest rates of floating rate bank deposits, with all other variables held constant, would increase/decrease the Group's profit after tax and retained profits by approximately RMB250,000 (2007: RMB278,000). Other components of consolidated equity would not increase/decrease in response to the general increase/decrease in interest rates.

At 31 December 2008, it is estimated that a general increase/decrease of 27 basis points in interest rates of borrowings issued at fixed interest rate, with all other variables held constant, would decrease/increase the Group's profit after tax and retained profits by approximately RMB161,000 (2007: RMB115,000). Other components of consolidated equity would not increase/decrease in response to the general increase/decrease in interest rates.

The sensitivity analysis above has been determined assuming that the change in interest rates had occurred at the balance sheet date and had been applied to the exposure to interest rate risk for floating rate bank deposits and short-term loan in existence at that date. The 9 basis points and 27 basis points increase or decrease represents management's assessment of a reasonably possible change in interest rates of floating rate bank deposits, and interest rates of borrowings issued at fixed interest rate respectively, over the period until the next annual balance sheet date. The analysis is performed on the same basis for 2007.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

### (d) Currency risk

#### (i) Forecast transactions

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which they relate. The currencies giving rise to this risk are primarily the United States dollars, Hong Kong dollars, Euros and Japanese Yen.

Depreciation or appreciation of the Renminbi against foreign currencies can affect the Group's results. The Group did not hedge its foreign currency exposure other than by retaining its foreign currency denominated earnings and receipts to the extent permitted by the State Administration of Foreign Exchange.

#### (ii) Recognised assets and liabilities

In respect of other trade receivables and payables held in currencies other than the functional currency of the operations to which they relate, the Group ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

All the Group's borrowings are denominated in Renminbi. Given this, management does not expect that there will be any significant currency risk associated with the Group's borrowings.

#### (iii) Exposure to currency risk

The following table details the Group's and the Company's exposure at the balance sheet date to currency risk arising from forecast transactions or recognised assets or liabilities denominated in a currency other than the Renminbi. For presentation purpose, the amounts of the exposure are shown in Renminbi, translated using the spot rate at the year end date.

### The Group

	2008				2007			
	United States Dollars (RMB'000)	Hong Kong Dollars (RMB'000)	Euros (RMB'000)	Japanese Yen (RMB'000)	United States Dollars (RMB'000)	Hong Kong Dollars (RMB'000)	Euros (RMB'000)	Japanese Yen (RMB'000)
Cash and cash equivalents	16,264	8,580	9,684	-	8,036	28,850	261	-
Trade and bills receivable	-	-	7,564	-	3,002	-	4,418	-
Deposits, other receivables and prepayments	375	-	10,795	3,661	1,691	-	11,997	-
Trade and bills payable	-	-	(268)	-	-	-	(1,665)	-
Other payables	(7,274)	-	-	-	(336)	-	-	-
Overall net exposure	<u>9,365</u>	<u>8,580</u>	<u>27,775</u>	<u>3,661</u>	<u>12,393</u>	<u>28,850</u>	<u>15,011</u>	<u>-</u>



# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES (Continued)

### (d) Currency risk (Continued)

#### (iii) Exposure to currency risk (Continued)

##### The Company

	Exposure to foreign currencies (expressed in RMB)							
	2008				2007			
	United States Dollars (RMB'000)	Hong Kong Dollars (RMB'000)	Euros (RMB'000)	Japanese Yen (RMB'000)	United States Dollars (RMB'000)	Hong Kong Dollars (RMB'000)	Euros (RMB'000)	Japanese Yen (RMB'000)
Cash and cash equivalents	16,125	8,580	7,406	-	8,036	28,850	132	-
Trade and bills receivable	-	-	7,564	-	3,002	-	4,418	-
Deposits, other receivables and prepayments	375	-	10,795	3,661	1,691	-	11,997	-
Other payables	(7,274)	-	-	-	-	-	-	-
Overall net exposure	<u>9,226</u>	<u>8,580</u>	<u>25,765</u>	<u>3,661</u>	<u>12,729</u>	<u>28,850</u>	<u>16,547</u>	<u>-</u>

#### (iv) Sensitivity analysis

The following table indicates the approximate change in the Group's profit after tax (and retained profits) in response to reasonably possible changes in the foreign exchange rates to which the Group has significant exposure at the balance sheet date.

	2008		2007	
	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000	Increase/ (decrease) in foreign exchange rates	Effect on profit after tax and retained profits RMB'000
United States Dollars	6% (6%)	478 (478)	6% (6%)	684 (684)
Hong Kong Dollars	6% (6%)	438 (438)	7% (7%)	1,668 (1,668)
Euros	9% (9%)	2,125 (2,125)	4% (4%)	508 (508)
Japanese Yen	15% (15%)	467 (467)	- -	- -

The sensitivity analysis has been determined assuming that the change in foreign exchange rates had occurred at the balance sheet date and had been applied to the Group's exposure to currency risk for non-derivative financial instruments in existence at that date, and that all other variables, in particular interest rates, remain constant.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 40. FINANCIAL RISK MANAGEMENT AND FAIR VALUES *(Continued)*

### (d) Currency risk *(Continued)*

#### (iv) Sensitivity analysis *(Continued)*

The stated changes represent management's assessment of reasonably possible changes in foreign exchange rates over the period until the next annual balance sheet date. Results of the analysis as presented in the above table represent an aggregation of the effects on each of the Group's profit after tax and equity measured in the respective functional currencies, translated into Renminbi at the exchange rate ruling at the balance sheet date for presentation purposes. The analysis is performed on the same basis for 2007.

### (e) Fair values

The carrying amounts of the significant financial assets and liabilities are not materially different from their fair values as at 31 December 2008.

#### (i) Cash and cash equivalents, trade and bills receivable, other receivables, trade and bills payable, other payables and amounts due from/to related parties

The carrying values are not materially different from their fair values because of the short maturities of these items.

#### (ii) Bank loans

The carrying amounts of bank loans are not materially different from their fair values based on the borrowing rates currently available for bank loans with similar terms and maturities.

## 41. SEGMENT REPORTING

Segment information is presented in respect of the Group's business segments. Business segment information is chosen as the primary reporting format because this is more relevant to the Group's internal financial reporting. As the Group mainly operates in the PRC, no geographical segment information is presented.

The business segment of the Group comprises:

- (i) the design, manufacture and sale of boring machines;
- (ii) the design, manufacture and sale of sensors and turbo tables, and computerised embroidery machines;
- (iii) the design, manufacture and sale of turbo machines;
- (iv) the design, manufacture and sale of intelligent electrical appliances (discontinued during 2008); and
- (v) the design, manufacture and sale of laser prototyping machines (discontinued during 2007).

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 41. SEGMENT REPORTING (Continued)

	Boring machines		Sensors and turbo tables and computerised embroidery machines		Laser prototyping machines		Intelligent electrical appliances (Discontinued)		Laser prototyping machines (Discontinued)		Intersegment elimination		Consolidated		Less: Laser prototyping machines & intelligent electrical appliances (Discontinued)		Continuing operations	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Revenue from external customers	1,319,440	1,016,835	1,764	11,139	202,178	231,893	7,788	6,840	-	45	-	-	1,531,170	1,266,752	7,788	6,885	1,523,382	1,259,867
Inter-segment revenue	23,170	12,664	9,115	3,988	-	-	-	-	(32,285)	-	(16,652)	-	-	-	-	-	-	-
Total	1,342,610	1,029,499	10,879	15,127	202,178	231,893	7,788	6,840	(32,285)	45	(16,652)	-	1,531,170	1,266,752	7,788	6,885	1,523,382	1,259,867
Segment result	297,878	250,950	1,407	(3,754)	17,693	23,946	(2,406)	(10,649)	(984)	(957)	18,022	(984)	313,588	277,558	(2,406)	(11,606)	315,994	289,164
Unallocated operating income/(expenses)	-	-	-	-	-	-	-	-	-	-	-	-	(5,476)	18,940	(6)	(7,801)	(5,470)	26,741
Profit from operations	297,878	250,950	1,407	(3,754)	17,693	23,946	(2,406)	(10,649)	(984)	(957)	18,022	(984)	313,588	277,558	(2,406)	(11,606)	315,994	289,164
Finance costs	-	-	-	-	-	-	-	-	-	-	-	-	(4,069)	(3,064)	-	-	(4,069)	(3,064)
Share of profits of associate and jointly controlled entity	-	-	-	-	-	-	-	-	-	-	-	-	308,112	296,498	(2,412)	(19,407)	310,524	315,905
Gain/(loss) on sale of discontinued operation	-	-	-	-	-	-	-	-	-	-	-	-	12,185	4,979	-	-	12,185	4,979
Taxation	-	-	-	-	-	-	-	-	-	-	-	-	2,446	(1,027)	2,446	(1,027)	-	-
Profit/(loss) for the year	27,182	23,893	155	321	6,744	5,486	227	1,119	317	-	-	-	2,446	(1,027)	2,446	(1,027)	(37,554)	(47,248)
Depreciation and amortisation for the year	(1,578)	(75)	-	(696)	-	-	-	-	-	-	-	-	(4,069)	(3,064)	-	-	(4,069)	(3,064)
Impairment of property, plant and equipment	-	-	-	-	-	-	-	(3,270)	-	-	-	-	308,112	296,498	(2,412)	(19,407)	310,524	315,905
- goodwill	-	-	-	-	-	-	-	(1,447)	-	-	-	-	(4,069)	(3,064)	-	-	(4,069)	(3,064)
- intangible assets	-	-	-	-	-	-	-	(1,447)	-	-	-	-	12,185	4,979	-	-	12,185	4,979
- inventories	-	-	700	-	-	2,128	-	-	-	-	-	-	2,446	(1,027)	2,446	(1,027)	(37,554)	(47,248)
Segment assets	1,274,154	1,042,373	11,615	9,829	300,587	307,347	-	67,695	(84,338)	(99,759)	(99,759)	(84,338)	1,502,018	1,327,485	34	(20,434)	281,086	270,572
Investments in associate and jointly controlled entity	-	-	-	-	-	-	-	-	-	-	-	-	44,542	35,657	-	-	44,542	35,657
Unallocated assets	-	-	-	-	-	-	-	-	-	-	-	-	362,960	401,576	-	-	362,960	401,576
Total assets	530,349	489,085	22,744	23,795	212,158	222,584	-	58,515	(92,426)	(92,426)	(92,426)	(92,426)	1,909,520	1,764,718	34	(20,434)	281,086	270,572
Segment liabilities	-	-	-	-	-	-	-	-	-	-	-	-	672,825	700,372	-	-	672,825	700,372
Unallocated liabilities	-	-	-	-	-	-	-	-	-	-	-	-	140,859	120,996	-	-	140,859	120,996
Total liabilities	-	-	-	-	-	-	-	-	-	-	-	-	813,684	821,368	-	-	813,684	821,368
Capital expenditure incurred during the year	82,233	90,075	53	241	3,653	6,969	197	2,097	-	-	-	-	82,233	90,075	53	241	82,233	90,075

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 42. MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2007, the Group transferred its inventories at cost of RMB 12,248,000 to property, plant and equipment.

## 43. CONTINGENT LIABILITIES

During the year, Xi'an Ser and Changsha Ser were sued by a customer for late delivery of goods. The customer sought for the refund of deposits paid of RMB2,900,000 and compensation of RMB500,000. Court hearings have been held and the two subsidiaries are awaiting the handing down of judgement by the PRC Courts.

No provision has been made in the financial statements for any losses which the two subsidiaries may incur in respect of such legal actions as in the opinion of the directors, based on legal advice, that any payment to be made by the two subsidiaries in this regard would not be material.

## 44. ACCOUNTING ESTIMATES AND JUDGEMENTS

### (a) Key sources of estimation uncertainty

Notes 18 and 40 contain information about the assumptions and their risk factors relating to goodwill impairment and fair value of financial instruments respectively.

### (b) Critical accounting judgments in applying the Group's accounting policies

Certain critical accounting judgements in applying the Group's accounting policies are described below.

#### (i) *Impairment*

In considering the impairment losses that may be required for certain of the Group's assets which include property, plant and equipment, construction in progress, intangible assets and lease prepayments (see note 2(k)(ii)), the recoverable amount of the asset needs to be determined. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets may not be readily available. In determining the value in use, expected cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to items such as level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of items such as sale volume, selling price and amount of operating costs.

In considering the impairment losses that may be required for current receivables and other financial assets, future cashflows need to be determined. One of the key assumptions that has to be applied is the ability of the debtors to settle the receivables. Notwithstanding that the Group has used all available information to make this estimation, inherent uncertainty exists and actual write-offs may be higher than the amount estimated.

#### (ii) *Depreciation*

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. The Group reviews the estimated useful lives of the assets regularly. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

# NOTES TO THE FINANCIAL STATEMENTS

(Expressed in Renminbi Yuan unless otherwise indicated)

## 44. ACCOUNTING ESTIMATES AND JUDGEMENTS

### (b) Critical accounting judgments in applying the Group's accounting policies

(Continued)

#### (iii) Warranty provisions

As explained in note 36, the Group makes provisions under the warranties it gives on sale of its machine tools taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

#### (iv) Contingencies and provisions

Contingencies, representing an obligation that are neither probable nor certain at the date of the financial statements, or a probable obligation for which the cash outflow is not probable, are not recorded.

Provisions are recorded when, at the end of period, there is an obligation of the Group to a third party, without at least an equivalent return expected from the third party. This obligation may be legal, regulatory or contractual in nature.

To estimate the expenditure that the Group is likely to bear in order to settle an obligation, the management of the Group takes into consideration all of the available information at the closing date for its consolidated financial statements. If no reliable estimate of the amount can be made, no provision is recorded. For details, please refer to note 43 of contingent liabilities.

## 45. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2008

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2008 and which have not been adopted in these financial statements.

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application.

So far it has concluded that the adoption of them is unlikely to result in restatement of the Group's or the Company's results of operations and financial position.

In addition, the following developments are expected to result in amended disclosures in the financial statements, including restatement of comparative amounts in the first period of adoption:

	<b>Effective for accounting periods beginning on or after</b>
HKFRS 8, Operating Segments	1 January 2009
Revised HKAS 23, Borrowing Costs	1 January 2009
Revised HKAS 1, Presentation of financial statements	1 January 2009
Revised HKAS 27, Consolidated and separate financial statements	1 July 2009
Revised HKFRS 3, Business combinations	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009

## DOCUMENTS AVAILABLE FOR INSPECTION

1. Financial statements signed and stamped by legal representative and financial officer of the Company;
2. Original copy of Auditors' Report bearing the signatures and seals of the Accounting Firm and Certified Public Accountants;
3. Original copy of all documents and the announcements as disclosed in newspapers as specified by the CSRC during the reporting period;
4. 2008 Annual Report;
5. Written confirmation for the 2008 Annual Report by Directors and senior management officers;
6. Written approval by Supervisory Committee for 2008 Annual Report prepared by the Board.

By Order of the Board  
**Gao Minghui**  
**Shenji Group Kunming Machine Tool Co., Ltd.**  
22nd April 2009

Note: Written confirmation by Directors and senior management officers for the 2008 Annual Report

## DECLARATION

The Board, Directors and senior management officers of the Company confirmed that the information in the 2008 Annual Report does not contain any false information, misleading statements or material omissions. They also jointly and severally accept full responsibility for the truthfulness, accuracy and completeness of the contents of the report.

Signature of declaratory persons:

### Directors:

Gao Minghui  
Wang Xing  
Wayne Yu

Zhang Xiaoyi  
Wang Sheng  
Liu Minghui

Li Zhenxiong  
Pi Jianguo  
Chen Ying

Sun Kai  
Zhang Tao  
Li Dongru

### Senior management officers:

Ye Nong

Zhu Xiang

Zhou Guoxing

Luo Tao

Board of Directors  
**Shenji Group Kunming Machine Tool Co., Ltd.**  
22nd April 2009

Note: Written approval by Supervisory Committee for 2008 Annual Report prepared by the Board.



# DOCUMENTS AVAILABLE FOR INSPECTION

## OPINIONS OF THE SUPERVISORY COMMITTEE

Regarding the 2008 Annual Report (hereafter as the "Annual Report") provided by the Board, we have the following opinions:

1. The preparation of the Annual Report and the auditing procedures are in strict compliance with laws and regulations, the Articles of Association and rules of the Company's internal management system.
2. The content and format of the Annual Report were in strict compliance with the regulations of the China Securities Regulatory Commission and Shanghai Stock Exchange. The information included in the Annual Report can truly reflect in all respects the Company's operating management and financial status and other matters of the year.
3. Before providing the above opinions, we did not discover any person related in the preparation of the Annual Report nor has any auditing personnel violated the rule of confidentiality.

### Supervisors:

Shao Li                      Zhang Weiming      Gao Xingang              Fan Hong              Xiang Rong

Supervisory Committee  
**Shenji Group Kunming Machine Tool Co., Ltd.**  
22nd April 2009