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

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

Stock Code: 02722

2009 Annual Report

* For identification purposes only

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Xie Hua Jun *(Chairman)*
(Appointed on 31 August 2009)
Mr. He Yong
Mr. Liao Shaohua
Mr. Chen Xianzheng

Non-executive Directors

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

Independent Non-executive Directors

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

COMMITTEES UNDER THE BOARD OF DIRECTORS

Members of the Audit Committee

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

Members of the Remuneration Committee

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

Members of the Nomination Committee

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

SUPERVISORS

Mr. Duan Rongsheng
Ms. Liao Rong
(Appointed on 31 August 2009)
Ms. Wang Rongxue
Ms. He Xiaoping
Mr. Wang Xuqi
Mr. Wu Chongjiang

LEGAL REPRESENTATIVE

Mr. Xie Hua Jun
(Appointed on 31 August 2009)

COMPANY SECRETARY

Mr. Wang Xiaojun *(Practising lawyer)*

QUALIFIED ACCOUNTANT

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

INTERNATIONAL AUDITORS

PricewaterhouseCoopers

LEGAL ADVISORS TO THE COMPANY

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

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

WEBSITE

www.chinacqme.com

AUTHORIZED REPRESENTATIVES

Mr. Chen Xianzheng
Mr. Wang Xiaojun

ALTERNATE AUTHORIZED REPRESENTATIVE

Mr. Lo Wah Wai

COMPLIANCE ADVISOR

Evolution Watterson Securities Limited

REGISTERED ADDRESS

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

HONG KONG SHARE REGISTRAR

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

PRINCIPAL BANKERS

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

SHARE INFORMATION

Listing Place

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

Stock Code

02722

FINANCIAL YEAR END

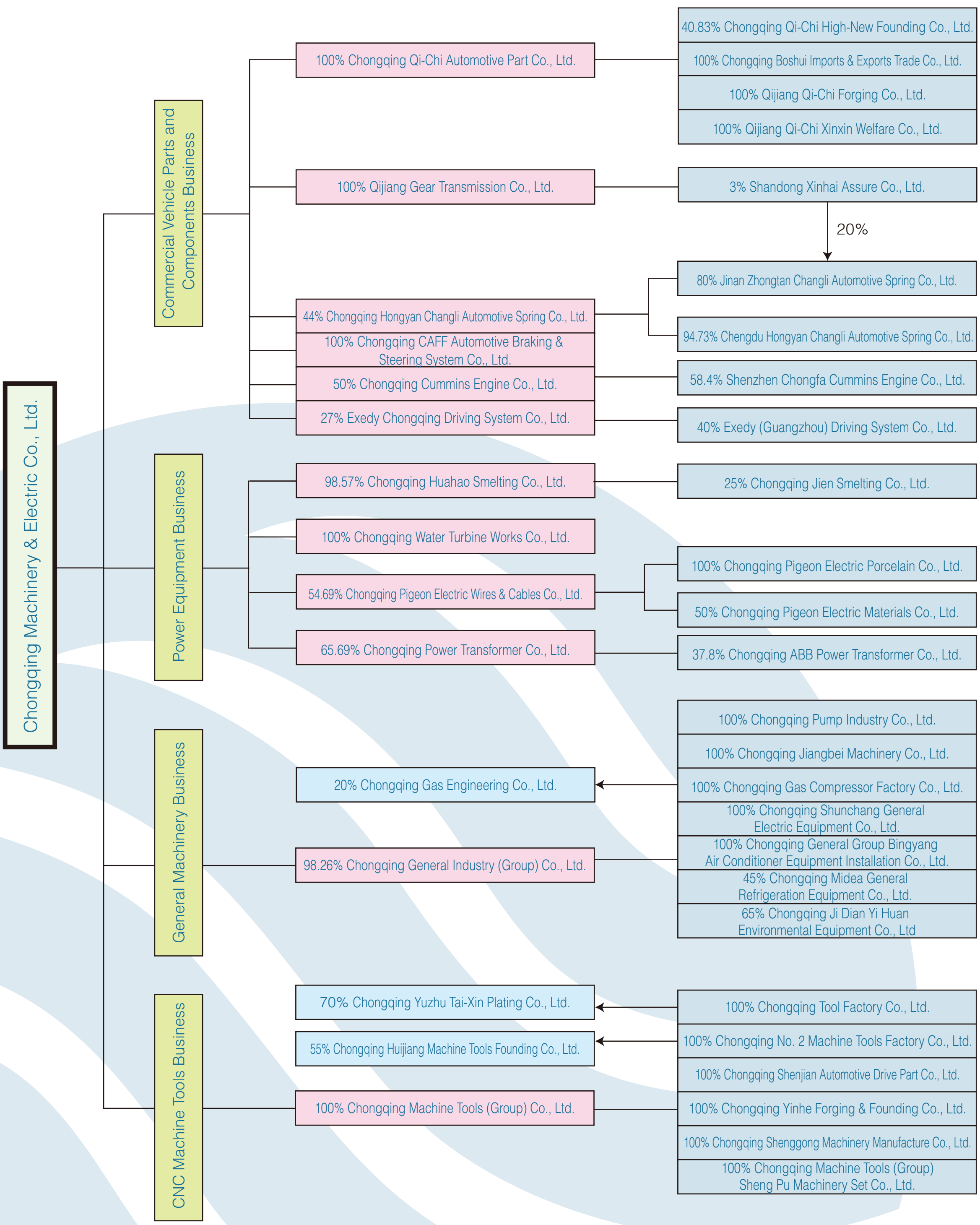
31 December

FINANCIAL HIGHLIGHTS

(RMB'000)	2005	2006	2007	2008	**2009**
Revenue and profit					
Revenue	3,089,947	4,284,255	5,485,500	5,949,655	**6,893,290**
Profit before taxation	462,975	389,362	519,729	602,557	**684,470**
Taxation	(50,167)	(48,094)	(45,906)	(78,676)	**(59,914)**
Profit for the year	412,808	341,268	473,823	523,881	**624,556**
Attributable to					
Equity holders of the Company	381,024	302,027	450,015	503,531	**594,277**
Minority interest	31,784	39,241	23,808	20,350	**30,279**
Dividends — Proposed final dividends	—	—	—	—	**221,078**
Earnings per share attributable to equity holders of the Company — Basic *(RMB)*	0.19	0.15	0.20	0.16	**0.16**
Assets and liabilities					
Non-current assets	1,512,238	1,716,133	2,006,776	2,254,156	**2,554,216**
Current assets	2,330,038	2,630,077	3,618,614	5,271,690	**6,194,348**
Current liabilities	2,332,258	2,548,269	3,199,885	3,543,477	**3,951,129**
Net current assets/(liabilities)	(2,220)	81,808	418,729	1,728,213	**2,243,219**
Total assets less current liabilities	1,510,018	1,797,941	2,425,505	3,982,369	**4,797,435**
Non-current liabilities	937,584	348,625	513,230	511,530	**678,163**
Net assets	572,434	1,449,316	1,912,275	3,470,839	**4,119,272**
Equity attributable to equity holders of the Company	514,538	1,246,565	1,865,733	3,418,345	**4,045,392**
Minority interest	57,896	202,751	46,542	52,494	**73,880**

GROUP STRUCTURE

STRUCTURE OF CHONGQING MACHINERY & ELECTRIC CO., LTD.



RESULTS HIGHLIGHTS

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

The revenue of the Group for the year ended 31 December 2009 amounted to approximately RMB6,893.3 million, representing an increase of approximately 15.9% as compared with approximately RMB5,949.7 million for last year.

Profit attributable to the equity holders of the Company for the year ended 31 December 2009 was approximately RMB594.3 million, representing an increase of approximately 18% as compared with approximately RMB503.5 million for last year.

Basic earnings per share for the year ended 31 December 2009 was approximately RMB0.16 (2008: RMB0.16).

The board of directors (the "Board") proposed to declare a final dividend of RMB0.06 per share for the year ended 31 December 2009.

The Group continually benefited from the PRC government's favorable policies on infrastructure construction, the preferential policies on balanced reform and development between the urban and rural areas in Chongqing, and RMB4 trillion of investment for stimulating economy. These favourable factors will facilitate the Group to maintain sustainable business growth. Meanwhile, the Group will continue to improve its core businesses, including commercial vehicle parts and components business, power equipment business, general machinery business and CNC machine tools business while seeking external merger and acquisition, speeding up technology development, improving management, controlling costs and enhancing efficiency. The Group will continually develop products with high growth and superior quality and expand production capacity to fully meet the market demand.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to announce the annual results of the Group for the year ended 31 December 2009 (the "Period"). The Group's annual results have been audited by the Company's auditor, PricewaterhouseCoopers. It is my pleasure to present the annual results of the Group as well as sustainable development strategy and outlook with shareholders of the Company.

RESULTS REVIEW

In 2009, the global economy remained sluggish due to the fallout of the global financial crisis in 2008. The Group was also confronted with severe challenges. However, the management of the Group managed to turn crisis into opportunity by adopting various proactive and effective measures to address these challenges. Leveraging on relentless efforts from the management and all employees, the Group's business recovered at a fast pace in the second half of the year 2009.

Looking back to 2009, market demand was languish amid the worldwide economic downturn. The Group's revenue for first half of 2009 was 11% lower than the same period of 2008. However, as the PRC government implemented macro control measures in a timely manner, the Group's principal business recovered quarter by quarter. In 2009, the PRC government adopted a loose monetary policy, uplifted the export tax rebate rate for several times and vigorously invested RMB4 trillion in power, transportation, environmental protection, medical care, education and infrastructure sectors to stimulate economy and maintain growth. As a result, the Group's revenue for 2009 was 15.9% higher than the same period of 2008. The Group's business has seen recovery at a rapid pace.

During the Period, commercial vehicle parts and components, power equipment and CNC machine tools segments, which are three of our four major business segments, have recorded fast growth. The general machinery segment suffered from minor contraction due to deficient demand and shrinking export. In addition, profit from associates decreased due to the inclusion of profit from Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear") into the Company's revenue from principal operation after 51% equity interest in Qijiang Gear was acquired by the Company, which resulted in a decrease in investment income.

Revenue of the Group for the year ended 31 December 2009 was approximately RMB6,893.3 million (2008: RMB5,949.7 million), representing an increase of approximately RMB943.6 million or approximately 15.9% over last year. Profit attributable to shareholders of the Company amounted to approximately RMB594.3 million (2008: RMB503.5 million), representing an increase of approximately RMB90.8 million or approximately 18% over last year.

During the Period, the Group's administrative expenses accounted for 7.8% of the revenue while distribution and selling expenses accounted for 3.7%, generally decreased as compared with the financial results of last year. The Group kept a healthy financial position during the period. As at 31 December 2009, total cash and bank deposits of the Group amounted to approximately RMB2,607.1 million, slightly lower than last year by 0.6%.

For the year ended 31 December 2009, earnings per share was approximately RMB0.16 (2008: RMB0.16). Total assets amounted to approximately RMB8,748.6 million (2008: RMB7,525.8 million), while total liabilities amounted to approximately RMB4,629.3 million (2008: RMB4,055 million). Total equity attributable to the shareholders was approximately RMB4,045.4 million (2008: RMB3,418.3 million). Net asset value per share was approximately RMB1.12 (2008: RMB0.94).

BUSINESS REVIEW AND OUTLOOK

Commercial vehicle parts and components (engine, gear box and other products)

The PRC government first moved to revitalize the domestic automobile industry since the fourth quarter in 2008 and adopted a new standard for emission of automobile exhaust gas. This enabled the industry to take the lead in the recovery. The commercial vehicle parts and components business of the Group has seen remarkable recovery. Meanwhile, market demand for engine sector resumed growth in second half of 2009 as driven by power, shipping and construction machinery industries as well as the acceleration of product mix adjustment. In 2009, the commercial vehicle parts and components business generally grew its sales by 25.5% as compared with 2008, mainly due to the inclusion of approximately RMB650.5 million of revenue from Qijiang Gear into this segment's revenue after 51% equity interest in Qijiang Gear was acquired by the Company during the period. It is expected that China will continue its favourable policies for automobile consumption in 2010. Leveraging on the construction of domestic infrastructures and acceleration of urbanization, market demand is expected to thrive. The business is projected to keep growing, but at a slower pace. Overall, this segment will record a steady growth.

During the period, the Group acquired 102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Qi-Chi Forging Co. Ltd ("Qijiang Forging") at a total consideration of RMB256.61 million. Upon completion of the acquisition, the Group held 100% equity interest in Qijiang Gear and 48% equity interest in Qijiang Forging directly. As a result, Qijiang Gear became a wholly-owned subsidiary of the Group. The Group through Qijiang Gear held the remaining 52% equity interest in Qijiang Forging, and Qijiang Forging also became a wholly-owned subsidiary of the Group. The complete acquisition of equity interest of the two companies would help the Group to implement its independent development strategy for commercial vehicle parts and components business or attract world-renowned companies with more advanced technology for restructuring and growth.

In 2010, the Group will continue to expand investment for independent R&D, put more efforts in new product development and proactively develop high efficiency diesel engine and gear transmission system products. The Group will vigorously promote the commercial operations, e.g. QSK high powered diesel engine new products and city bus gear boxes, so as to cater for the market demand. Further, the Group will accelerate the quality upgrade by developing proprietary vehicle air suspension system, braking system and steering system, which will be the Group's key products for exploring new market in future.

Power equipment (hydroelectric generation equipment, electrical wires, cables and materials, high voltage transformer and other products)

As China gradually invested RMB4 trillion in construction of infrastructure in 2009, expansion of power network and refurbishment of existing construction facilities, recovery of real estate market, together with the independent R&D technology advantage and the designation by National Development and Reform Commission as national level of its production base for impact-type hydroelectric turbine generators with high hydraulic heads, the segment saw series of favourable factors. During the period, the Company launched many new products to meet the rapidly increasing market demand. Especially, wire and cable business had seen robust demand. In 2009, sales of power equipment business increased by 21.1% as compared with last year. It is expected in the year 2010 that hydroelectric turbine generators business will keep stable growth as supported by more favourable policies of the State for construction of infrastructures in transportation, energy and power industries. Meanwhile, as production technology improves, and demands from European Union and Southeast Asia increase, more hydroelectric turbine generators will be exported. As driven by the real estate market, wire and cable business is likely to keep rapid growth through exploration of new business and new market as well as expansion of production capacity of electrical ceramics products. As production capacity expands and user industries increases, non-ferrous metal powders business is to witness fast growth due to the robust demand. However, large high voltage transformer business is expected to contract due to the intensifying competition from domestic peers with rapid growth.

In 2009, in the process of quality upgrade, the Group has promoted and launched commercial operations of new product projects. Main projects include commercialization of impact-type wheel CNC machine-shaping technology, development of 800KV and above ultra-high voltage transformer, high-voltage electrical ceramics, 1 million kilowatts ultra-critical generating units, wind power generating units, copper bar for nuclear power generating units and special copper materials, and cables for 2MW wind power generating units. The Group will enhance the leading position of its technology in the industry, which will provide more market potentials for the Group's products in 2010.

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

In 2009, general machinery business was impaired by the lingering economic recession. Though the Group enhanced the construction of distribution and after-sale service network for more market share, the business was negatively impacted by the insufficient demand from steel and metallurgical industries as well as shrinking export. In 2009, sales of general machinery business generally decreased by 3.1% as compared with last year. In 2010, as steel and metallurgical industries is expected to recover, especially driven by growing industries such as petrochemical, natural gas, environmental protection, aviation, nuclear power and wind power, the Group is expected to receive more new orders by virtue of its niche market positioning advantage and vigorous market demand. The business is expected to pick up its fast growing momentum in 2010, while the intensified competition will drag its gross profit level down.

In 2010, the Group expects that the PRC government is to implement mandatory environmental protection measures in respect of nine industries with overcapacity, including cement, coal and steel, etc. so as to strictly execute its emission reduction targets, in response to the Copenhagen Climate Change Summit held by the United Nations in December 2009. In order to meet the emission reduction requirements, enterprises have to buy new environmental protection, automatic and efficient equipments. To promote diversified products, the Group has commenced production of wind power rotor blade at multiple wind sites for hanging products, obtained the safety certification of pump products for nuclear power generation and completed research and development on centrifugal charging pump and water pressure test pump of diode end-pump for nuclear power station. Technical innovation projects including development and trial production of mother-son CNG station, flat automatic discharge centrifuges, hermetic scraper centrifuges and 2-3MW wind power rotor blade, research and development of AP1000 cold water units for the 3rd generation nuclear power station as well as 2nd generation fan products have achieved expected results. These enabled the Company to achieve expected competitive advantage in market expansion.

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

Demand for CNC machine tools gradually recovered in 2009. As the central government had implemented a stimulus package aiming for stabilizing and stimulating economy and expanding domestic demand in the second half of 2009, this business growth was visibly driven up by the rapid growth in automobile market. Automobile and wind power industries saw stronger demand for gear-producing machines, which boosted the market demand. In 2009, sales of CNC machine tools business generally increased by 13.3% as compared with last year. In 2010, CNC machine tools business is expected to benefit from the recovery of China's economy, especially the rising demand from automobile sector. Meanwhile, material technical improvement projects in agricultural machinery, construction machinery, mining machinery and wind power will provide strong supports for the business to achieve stable growth. Accordingly, the business is projected to maintain steady increase in operating revenue and profit.

In order to seize the opportunities from the rapidly developing wind power industry and strong demand for large high precision CNC machine tools, we will further increase investment in technical improvement and step up new product development. Especially, the successful development and sale of large and high-end CNC gear-producing machines like YD31125CNC6 and Y31320CNC6 will provide strong support for new market and sector expansion. At the same time, we will strengthen mid and high-end lathe development, and aim for trial production of the mid to large CNC lathes with specification over Φ500 and Φ630. Meanwhile, we will facilitate product mix upgrade, accelerate R&D for large module gear hobbing cutter, large module hard alloy mobile facer and large module gear shaping cutter, and strive for early mass production. Especially, the Company successfully entered into an acquisition agreement with Precision Technologies Group Limited on 10 March 2010. Leveraging on its product integration advantages, we are confident that the Group is well positioned to expand its market share in 2010, especially to penetrate into high-end market and gradually substitute imported products in 2010.

DEVELOPMENT STRATEGY

The Group will develop and implement the following development strategies in 2010:

(I) Accelerate adjustment and upgrade to transform growth mode

The Group continuously put great efforts in adjustment of industry structure, product mix, capital structure and organization structure, and completed upgrade in industry, technology, product, talents and management, so as to establish diversified core industry, technology, product and market, thus improving its core competitiveness and fostering new growth points with international advanced standard in China. Meanwhile, it aims to improve profitability by focusing on uplifting both production and efficiency.

(II) Speed up project construction to upgrade core technology and production capacity

The Group is to further push ahead the construction of projects financed by the proceeds from the initial public offering, and concentrate its strength and resources to accelerate 10 key projects, including the air suspension system under construction, copper powder, high-voltage electrical ceramics, hydroelectric turbine generators, high pressure compressors and CNC machine tools, which will bolster the Group's sustainable development and improve the overall profitability of the Group. More efforts will be put in the introduction and digestion of core technology, cooperation in R&D and independent innovation. At the same time, we will step up implementation of the matured projects, and the establishment of strategic technological support and reservation for rolling development of projects, so as to enhance core technology and production capacity.

(III) Accelerate R&D of high value-added products to improve profitability

By virtue of its existing technology and R&D resources, the Group will further speed up the development of products with high profitability and growth. Through carrying out in-depth cooperation with colleges and institutions, solid technological supports will be rendered for technological innovation of business segment. Meanwhile, we strive to build and foster our brands. Especially, we attach great importance to R&D of high powered diesel engine, rotor blade, cable and copper bar for wind power generation, pump and special cold water units for nuclear power station, 800KV ultra-high voltage transformer and high speed dry cutting gear hobbing machine, and proactively introduce them to market for improvement of the Group's profitability.

(IV) Expedite capital operation, actively promote joint venture, cooperation, merger, acquisition and reorganization

We will promote merger, acquisition, reorganization, joint venture and cooperation so as to realize the Group's adjustment in equity structure, industry structure and product mix. We will proactively press ahead joint venture and cooperation, stably proceed with merger and acquisition projects, thus enhancing the strength and image of the Group during the year 2010.

(V) Enhance market analysis and forecast to explore new market

We will vigorously reinforce macro economy forecast and analysis, track industry development trend, follow up market dynamics, and enhance research and judgment to secure orders. By promoting intensive sales, we aim to expand customer network and lower marketing cost. We will leverage on state export tariff policy to explore the international market and expand export. Meanwhile, we are to enhance reaction capacity of our marketing team in marketing strategy, so as to accommodate the changing operating environment. The sales performance incentive mechanism will be improved while building of distribution and after-sale service network will be enhanced. The Group will continue to increase investment in distribution and service network, encourage and support distributors to become our loyal partners and explore new market.

(VI) Speed up the promotion of lean management to improve management standards

We will improve the internal risk control system of the Group, promote lean management, consolidate the existing results, build up lean talents team, concept and culture, and establish a long-term mechanism to improve the management standards of the Company. By integrating the management function of operating departments, we aim to improve efficiency, enhance management on budget and financial analysis, and optimize cost control. Meanwhile, we attach importance to operation quality of assets, and dedicate to improve efficiency of capital turnover, return on net assets and return on equity. Facilitating capital concentration effect, we will tighten fund control and lower financing costs. Through stringent procurement management, improvement of product quality, reduction of quality and loss, we strive to reduce cost and improve efficiency.

AWARDS

During the Period, the Group was granted the following awards:

- The Group was granted as "Top 10 Advancing Listed Company Award"(「十大進取上市公司」) on award presentation ceremony "Impact on China celebrating the 60th anniversary of the People's Republic of China" by Hong Kong Wenweipo;

- "2007-2008 Best New Product Award in Chongqing" was granted to the enhanced Steyr series spiral bevel gears with big torque of Qijiang Gear(a subsidiary of the Group), KTA38G2A engine of Chongqing Cummins Engine Co., Ltd. ("Cummins"), Qingling TF front drive axle, suspension arm and steering rod assembly of Chongqing CAFF Automotive Braking & Steering System Co., Ltd., TEC/500KV Smart electricity transformer of Chongqing ABB Power Transformer Co. Ltd., and YS31 series CNC high speed dry cutting gear hobbing machine of Chongqing Machine Tool (Group) Co., Ltd. "Machine Tool Group";

- "Contributors to the Nation in Chongqing City" award was granted to 7 subsidiaries of the Group, including Cummins, Qijiang Gear, Chongqing Water Turbine Works Co., Ltd. ("Water Turbine Works"), Chongqing Pigeon Electric Wires & Cables Co., Ltd. ("Chongqing Pigeon"), Chongqing Huahao Smelting Co., Ltd., Chongqing General Industry (Group) Co., Ltd. ("General Group") and Machine Tool Group;

- "Famous Brand in China" award was granted to Chongqing Pigeon of the Group.

SUMMARY

Looking into 2010, global economy is expected to keep depressed in its recovery period while China's economy will maintain its stable growth momentum. The Group is expected to continually benefit from the "Strategic Development of Western China", RMB4 trillion stimulus package launched by the PRC government for boosting economy and enhancing infrastructure construction, as well as the preferential policies issued by the State Council on promoting the balanced reform and development between the urban and rural areas in Chongqing. These favorable factors will facilitate the sustainable growth of the 4 major business segments of Group. The Group will continue to develop diversified products and implement sound corporate governance mode. By virtue of innovative pursue, pragmatic attitude, tenacious will and strong work style, we spare no efforts to achieve our goals and continue our development direction which combines organic development and acquisition and merger. Through building integrated core industry chain, we will seize opportunity for development and integration to improve our quality and core competitiveness at all fronts. We endeavour to become the largest and the most creative industrial equipments and machinery products manufacturer in Northwest China.

The management and I hold confidence in future development of the Group, and we will continue to create more value and returns for our shareholders.

I would like to extend my gratitude to our staff for their relentless efforts. Guided by the corporate culture of "creative, efficient, execution and beyond", they will grow together with the Group and achieve tremendous success. Meanwhile, on behalf of the Board, I would like to express our heartfelt gratitude to all of our shareholders, clients and suppliers for their long-term support and trust. On behalf of the Group, my sincere appreciation also goes to all of you.

Executive Director and Chairman
Xie Hua Jun

Chongqing, the PRC, 10 April 2010

OUTLOOK AND PROSPECT

Principal business to keep stable growth in 2010

In 2009, China's economy recovered and stabilized in positive territory, but not on fundamental basis. We are confronted with extremely complicated situation, in which positive and negative factors are offsetting, conflicts are overlapping, and domestic and overseas factors are interacting. In 2010, the State will continue its proactive fiscal policy and moderately easy monetary policy to address the global financial crisis. Meanwhile, it is to keep policies consistent and speed up transformation of economic growth mode, aiming for a steady and rapidly economic growth. We believe that development environment in 2010 will be more favourable than 2009. In order to sustain growth, the Group will timely adjust and enhance orientation and flexibility of all works in line with the new situation and new condition, and appropriately control the intensity, pace and key points during the consistent implementation of measures.

Principal Business Orders

Since the second half of 2009, part of the Group's business has resumed normal sales, production and operation. As of March 2010, principal business orders of the Company had exceeded 55% of the planned product quantity target for 2010, especially, industrial pumps, hydroelectric generators and gear-producing machines had covered their scheduled product quantity target for 2010, which created favorable conditions for achievement of the annual sales target for 2010.

Stable Raw Material Prices Beneficial to Cost Control

The Group has over 4,700 suppliers, covering commercial vehicle parts and components, power equipment, general machinery and CNC machine tools segments. We will continue to promote the implementation of "Toyota Production System". We concentrated raw material procurement, gradually shifting from the large procurement through wholesalers in the past to direct purchase from steel and copper producers. Purchase price and production cost were effectively reduced, thus achieving higher operating profit margin. We expect that raw material prices will keep stable through 2010.

Pushing Management Innovation and Improving Management Level

During the reporting period, the Group has been in strict compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), operated in a prudent and standard manner and standardized its operation, involving improvements to its management information system, performance assessment system, fund management system, risk control mechanism and cost control measures . We promoted the concept of corporate culture revolution and the operation principles "creative, efficient, execution and beyond" to be as one standard for day to day operation, internal control and project construction.

Accelerating implementation of projects and optimizing industrial structure

In accordance with the investment projects financed by raised proceeds as set out in the prospectus and adjustment on investment projects determined at 2009 annual general meeting, the Group focused on enhancing technology development and self-innovation ability, upgrading products and adopting advanced technical process and equipment to increase production capacity. The planned total investment for such key projects was approximately RMB1,035.75 million. As at December 2009, approximately RMB492.07 million was actually invested, accounting for approximately 47.5% of total planned investment. The 2000T reconstruction of old production line, being the Production Technology Innovation Project for Copper and Copper Based Powder, has been completed and commenced mass production. New production line for water atomization alloyed powder also started trial production. For wind power rotor blade project, we commenced mass production of MW-level rotor blade; the 850kw wind power rotor blade has been installed at wind site in Shiyanping, Wulong and started to generate power for the grid; we also succeeded in trial manufacturing of 1.25MW wind power rotor blade and produced an aggregate of 107 units in 2009. In addition, the relocation and technical renovation of Chongqing Pump Industry Co., Ltd. has been completed.

According to requirements for the Group's development strategy, after studying investment opportunities in new industry and new area, we identified two new investment projects for forging and vehicle axle and conducted on preliminary research.

Attaching emphasis on technology collaboration, merger and consolidation

The Group attached great emphasis on basic R&D ability, while actively pushing ahead technology progress and product renovation. As at December 2009, out of 16 key enterprises of the Group, there were 12 municipal level enterprise technical centers, 1 national level enterprise technical center and 1 national level enterprise testing center. Backed up by these enterprise technical centers, we undertook important technology research projects and achieved obvious outcomes either independently or through cooperation with relevant institutions. As a result, 24 products were recognized as municipal level key new products, including special transmission for urban bus, QR512 transmission gear, improved NT engine, high-head mixed flow type hydro turbine generator units, copper wire for pole coil of 600MW above hydro-electric turbine generator units, multi collar type centrifugal compressor, mode 700TA vertical long shaft pump for nucleus power purpose and mode 2D8-2.5/9-76 natural gas compressors. Since the outburst of global financial crisis, traditional markets for many enterprises have been seriously impacted. However, various business of the Group through implementing the deployment of increasing adjustments to product structure, put more efforts in development of new product and market. As such, the proportion of revenue from new products increased in the total operating revenue of the Company. New product output value ratio amounted to approximately 56%, about 10 percentage points higher than that in 2008. For example, special transmission for urban bus of Qijiang Gear, which passed municipal level appraisal, recorded sales revenue of approximately RMB314.64 million in 2009. Mode NT855-C280S10 improved NT engine of Cummins, which passed municipal level technical appraisal, recorded a sales revenue of approximately RMB125.73 million. The debut of the first sample unit of QSK19 β ushered in the era of CCEC high powered electronic fuel injection engine and bridged the technology gap for domestic high powered electronic-controlled engine. These products also commenced that to be sold in the market. The first unit of K50CKD engine in the PRC was born and 20 units was sold. Chongqing Pump successfully developed centrifugal upward injection pump and water pressure test pump which are important equipments for nuclear power stations and obtained certification from experts. Two specialized projects "Modular design high speed, high precise and large scale CNC gear hobbing machine" and "Modular design high speed, high precise CNC rotary worktable" of Machine Tools Group were listed as national key technology project and was granted approximately RMB10.68 million by the national key technology development fund.

CNC machine-shaping impact-type hydro turbines sets of the Hydro Turbine Company filled up the gap in domestic technology. An order of approximately 7.89 million euros was placed from Italy company for such complete sets to be delivered from 2010 to 2011.

As for merger and acquisitions, the Group particularly sought to acquire enterprises with potentials and advanced technology which could complement the Group's core industry chain and stay in line with the long term development the Group at appropriate timing. During the Period, the Group has achieved following goals:

1) Completion of the acquisition of equity interests of Qijiang Gear and Qijiang Forging. The acquisition of equity interest in the two companies would help the Group implement its independent development strategy for commercial vehicle parts and components business or introduce world-renowned companies with more advanced technology for restructuring and growth.

2) In order to reduce management efforts and time, consolidate resources and give prominence to principal operations, the Group consolidated five enterprises, namely, Chongqing Qi-Chi Automotive Part Co., Ltd., Chongqing Qi-Chi High-New Founding Co., Ltd., Qijiang Forging, Chongqing Boshui Imports & Exports Trade Co., Ltd. and Qijiang Qi-Chi Xinxin Welfare Co., Ltd.. The Group as the first step acquired in cash 52% equity interests of Qijiang Forging held by Qijiang Gear, then injected all equity interest in four enterprises (Chongqing Qi-Chi High-New Founding Co., Ltd., Qijiang Forging, Chongqing Boshui Imports & Exports Trade Co., Ltd. and Qijiang Qi-Chi Xinxin Welfare Co., Ltd.) held by it into Chongqing Qi-Chi Automotive Part Co., Ltd. and thus these four enterprises became its subsidiaries.

3) The Company completed the merger between Chongqing Shenjian Automotive Drive Part Co., Ltd., a wholly-owned subsidiary of Machine Tools Group, and Chongqing Haoyue Machinery Manufacture Co., Ltd.. The latter had cancelled its business registration. In December 2009, the Company completed the merger between General Group and Chongqing Zhengtong Founding Co., Ltd.. The latter had cancelled its business registration. In 30 March 2010, the Company completed the merger between General Group and Chongqing General Yunxiu Co., Ltd.. The latter had cancelled its business registration.

4) Restructuring project between Qijiang Gear and strategic investors with advanced technology and market advantages are still in process.

RESULTS OVERVIEW

Operation Analysis

Commercial vehicle parts and components

During the reporting period, the PRC government first moved to revitalize the domestic automobile industry since the second half of 2009, adopted a new standard for the emission of automobile exhaust gas and introduced a series of preferential policies aiming at boosting the development of the automobile industry. The Group has experienced noticeable growth in this segment. Due to the rapidly rising demand for diesel engine from building construction, industries, transportation infrastructure and shipping sectors, commercial vehicle parts and components segment kept a steady sales growth. Revenue for the year amounted to approximately RMB2,101.6 million, an increase of approximately RMB427.1 million or approximately 25.5% as compared with approximately RMB1,674.5 million for 2008.

During the Period, the Group accelerated the construction of its investment project - Automobiles Air Suspension Technology Renovation Project (Phase I) with new automobile air suspension products stepping into experimental stage. On 5 February 2009, the Company entered into an agreement with Shanghai Electric (Group) Corporation to further acquire 102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Forging at a total consideration of RMB256.61 million. Upon the acquisition, Qijiang Gear became a wholly-owned subsidiary of the Group. The Group through Qijiang Gear held the remaining 52% equity interest in Qijiang Forging, therefore Qijiang Forging also became a wholly-owned subsidiary of the Group. In future, the Group would be able to implement its independent development strategy for commercial vehicle parts and components business or attract world-renowned companies with more advanced technology for restructuring and development.

Power equipment

During the reporting period, sales of the power equipment segment maintained a stable growth, mainly due to the significant increase in revenue from wires and cables segment. Revenue for the year amounted to approximately RMB2,295.9 million, an increase of approximately RMB399.3 million or approximately 21.1% as compared with approximately RMB1,896.6 million for 2008.

During 2009, technical renovations completed by the Group included the Technical Innovation Project for Commercialization Production Base of Hydroelectric Equipment Complete Systems (Phase I) and the Production Technology Innovation Project for Copper and Copper Based Powder (Phase I). Plants of Chongqing Pigeon Electric Porcelain Company Limited (重慶鴿牌電瓷有限公司) had been relocated and put into production.

General Machinery

During the reporting period, revenue form general machinery segment such as centrifugers, gas compressors, refrigeration machines and industrial fans business was affected by depressed market demand and declined exports. Turnover for the year amounted to approximately RMB1,174.3 million, a decrease of approximately RMB37.8 million or approximately 3.1% as compared with approximately RMB1,212.1 million for 2008.

During 2009, the Group had wholly relocated Chongqing General Industry (Group) Co., Ltd. and production base for rotor blades used for large wind power generators into Chayuan New District Industrial Park of Chongqing City and put them into production.

Meanwhile, the Group commenced production of wind power rotor blade multiple wind sites for hanging products. Chongqing Pump Industry Co.,Ltd. ("Chongqing Pump") successfully developed centrifugal upward injection pump and water pressure test pump which are important equipments for nuclear power stations and obtained certification from experts. Expected results have been achieved in technology renovation of Mother-son CNG Station and flat automatic discharge centrifuges. More market share could be expected through market development assisted by adjustment to product structure and development of new products.

CNC machine tools

During the reporting period, the CNC machine tools business was driven by rapid growth in automobile market with revenue from gear processing machines, complex precision metal-cutting tools, CNC lathes and machine centers businesses growing stably. Turnover for the year amounted to approximately RMB1,321.5 million, an increase of approximately RMB155 million or approximately 13.3% as compared with approximately RMB1,166.5 million for 2008.

Product mix of CNC machine tools segment experienced appropriate consolidation in 2009, including the Production Technical Innovation Project (I) for Large Precise High-speed CNC Gear-Producing Machine, the Technical Innovation Project (Phase I) for Modern High-Precision, High-Efficiency and Special-Purpose Tool, the R&D Manufacturing Technology Innovation Project (Phase I) for φ300~φ500 Serial Medium CNC Lathe and Turning and Milling Machining Centers. The Company has adjusted its strategy to increase investment in technology development for key industries, and will in particular manufacture heavy CNC machine tools and cutting tools for wind power and heavy chemical industries etc. In order to facilitate development of a diversified product structure, the Group accelerated R&D of large module gear hobbing cutter, large module hard alloy mobile facer and large module gear shaping cutter, with an aim to realizing commercial production and sales as soon as possible.

On 28 December 2009, Chongqing Machine Tools (Group) Co., Ltd. and the Construction Management Office of B Section of Chayuan New District Industrial Park of Nan'an District, Chongqing City, the PRC entered into an investment agreement (the "Agreement") in respect of acquisition of land with site area of approximately 285,081 sq.m. (approximately 427.62 mu) at consideration of no less than RMB480 per sq.m. for construction of new machine tools production base. The Agreement considered to be effective upon the acquisition of the land through public "tender, auction and listing-for-sale". For details of the Agreement, please refer to the announcement of the Company dated 8 January 2010.

SALES

For the year ended 31 December 2009, the Group's total revenue amounted to approximately RMB6,893.3 million, an increase of approximately RMB943.6 million or approximately 15.9% as compared with approximately RMB5,949.7 million for 2008.

Overall, the revenue of commercial vehicle parts and components was approximately RMB2,101.6 million (accounting for approximately 30.5% of total revenue), an increase of approximately 25.5% from last year; revenue of power equipments was approximately RMB2,295.9 million (accounting for approximately 33.3% of total revenue), an increase of approximately 21.1%; revenue of CNC machine tools was approximately RMB1,321.5 million (accounting for approximately 19.2% of total revenue), an increase of approximately 13.3%; and revenue of general machinery was approximately RMB1,174.3 million (accounting for approximately 17% of total revenue), a decrease of approximately 3.1%; however the revenue increased as a whole.

GROSS PROFIT

The gross profit for 2009 was approximately RMB1,247 million, increased by approximately RMB71.6 million or approximately 6.1%, as compared with approximately RMB1,175.4 million for last year, accounting for approximately 18.1% of sales.

As compared with last year, although gross profit for general machinery and CNC machine tools decreased in 2009, gross profit and the proportion of sales of commercial vehicle parts and components and power equipment increased, with their gross profit margins increased from 24.8% and 8.4% last year to 25.9% and 8.6% in 2009 respectively. As such, our total gross profit increased from last year. Due to the increase in the proportion of business with lower gross profit margin, the overall gross profit margin for the year slightly dropped from 19.8% last year to 18.1%, representing a decrease of approximately 1.7 percentage points.

OTHER INCOME AND GAINS

The other income and gains for 2009 were approximately RMB114 million, an increase of approximately RMB65.4 million or approximately 134.6%, as compared with approximately RMB48.6 million for last year, mainly due to the increase in disposal gains of financial assets at fair value through profit and loss amounting to approximately RMB31.5 million and government subsidies for the Group's development amounting to approximately RMB37.1 million.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for 2009 were approximately RMB787.4 million, an increase of approximately RMB27.3 million or approximately 3.6%, as compared with approximately RMB760.1 million for last year. The selling and administrative expenses accounted for approximately 11.4% of sales, a decrease of approximately 1.4 percentage points as compared with 12.8% for last year.

During the year, our selling costs recorded increased by approximately RMB40.1 million over last year, mainly due to the increase in selling and distribution costs including transportation expenses, costs for the sales staff and various marketing expenses. Administrative expenses decreased by approximately RMB12.7 million over last year, primarily due to a decrease of approximately RMB45.3 million in R&D expenses as compared with last year, and a decrease of approximately RMB22.6 million in assets depreciation and listing fee, which was partially offset by the increase of approximately RMB8.7 million of employees dismissal benefit expenses during the year.

OPERATING PROFIT

The operating profit for 2009 was approximately RMB573.6 million, an increase of approximately RMB109.7 million or approximately 23.6%, as compared with approximately RMB463.9 million for last year. Eliminating the effect of one-off gains included in other income and gains, operating profit increased by approximately RMB44.4 million, or approximately 10.7%, over last year.

FINANCE COSTS

Interest expenses for 2009 were approximately RMB66.6 million, a decrease of approximately RMB20 million or approximately 23.1%, as compared with approximately RMB86.6 million for last year, mainly due to the decrease in lending rate for the period.

SHARE OF PROFITS OF ASSOCIATED COMPANIES

The Company's share of profits of associated companies for the year ended 31 December 2009 was approximately RMB142.3 million, a decrease of approximately RMB39 million or approximately 21.5%, as compared with approximately RMB181.3 million for last year. The decrease was due to the inclusion of profit from Qijiang Gear into the principal operating profit of the Company after the acquisition of 51% equity interest in Qijiang Gear.

INCOME TAX EXPENSES

The corporate income tax expenses for the year ended 31 December 2009 were approximately RMB59.9 million, a decrease of approximately RMB18.8 million, or approximately 23.9%, as compared with approximately RMB78.7 million for last year, mainly due to the decrease in income tax rate applicable to a jointly controlled entity from 25% to 15%.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year ended 31 December 2009 was approximately RMB594.3 million, an increase of approximately RMB90.8 million or approximately 18% as compared with approximately RMB503.5 million for last year. Earnings per share remained at approximately RMB0.16 per share as compared with that of last year. Please refer to Note 34 to the financial statements of this annual report.

BUSINESS PERFORMANCE

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

	Revenue		Gross Profit		Segment Results	
	Year ended 31 December		Year ended 31 December		Year ended 31 December	
	2009	2008	**2009**	2008	**2009**	2008
	(RMB in millions, except for percentage)					
Commercial vehicle parts and components						
Engines	**986.2**	1,121.5	**321.2**	352.0	**253.4**	263.9
Gear boxes	**650.5**	—	**148.4**	—	**37.3**	—
Other products	**464.9**	553.0	**74.2**	63.2	**(2.0)**	(6.1)
Total	**2,101.6**	1,674.5	**543.8**	415.2	**288.7**	257.8
% of total	**30.5%**	28.1%	**43.6%**	35.3%	**50.3%**	55.6%
Power equipment						
Hydroelectric generation equipment	**299.5**	301.2	**101.1**	87.0	**48.0**	46.6
Electrical wires and cables	**1,706.7**	1,272.7	**84.7**	70.2	**72.7**	51.8
Other products	**289.7**	322.7	**11.6**	1.9	**5.4**	(7.5)
Total	**2,295.9**	1,896.6	**197.4**	159.1	**126.1**	90.9
% of total	**33.3%**	31.9%	**15.8%**	13.5%	**22.0%**	19.6%
General machinery						
Total	**1,174.3**	1,212.1	**318.1**	379.6	**102.9**	92.7
% of total	**17.0%**	20.4%	**25.5%**	32.3%	**17.9%**	20.0%
CNC machine tools						
Total	**1,321.5**	1,166.5	**187.7**	221.5	**74.9**	77.5
% of total	**19.2%**	19.6%	**15.1%**	18.9%	**13.1%**	16.7%
Headquarters						
Total	**—**	—	**—**	—	**(19.0)**	(55.0)
% of total	**—%**	—%	**—%**	—%	**(3.3%)**	(11.9%)
Total	**6,893.3**	5,949.7	**1,247.0**	1,175.4	**573.6**	463.9

Commercial vehicle parts and components

Revenue from the commercial vehicle parts and components segment for the year ended 31 December 2009 was approximately RMB2,101.6 million, an increase of approximately RMB427.1 million or approximately 25.5%, as compared with approximately RMB1,674.5 million for the same period last year, primarily due to inclusion of profit of approximately RMB650.5 million from Qijiang Gear into the revenue of this business segment after 51% equity interests in Qijiang Gear was acquired by the Company during the Period. Nevertheless, revenue from the engines business decreased by approximately RMB135.3 million or approximately 12.1% as compared with same period last year while revenue from other products also decreased by approximately RMB88.1 million or approximately 15.9%.

During the Period, gross profit for the commercial vehicle parts and components segment was approximately RMB543.8 million, an increase of approximately RMB128.6 million or approximately 31%, as compared with approximately RMB415.2 million for the same period last year. Gross profit margin increased to 25.9% for 2009 from 24.8% for 2008, primarily due to higher gross profit and sales proportion for engines and gear boxes.

Overall, the result for the commercial vehicle parts and components segment for the year ended 31 December 2009 was approximately RMB288.7 million, an increase of approximately RMB30.9 million or approximately 12%, as compared with approximately RMB257.8 million for the same period last year.

Power equipment

Revenue from the power equipment segment for the year ended 31 December 2009 was approximately RMB2,295.9 million, an increase of approximately RMB399.3 million or approximately 21.1%, as compared with approximately RMB1,896.6 million for the same period last year, primarily due to an increase in revenue of approximately RMB434 million, or approximately 34.1%, from electrical wires and cables. Nevertheless, revenue from the hydroelectric generation equipment decreased by approximately RMB1.7 million, or approximately 0.56% and revenue from other products decreased by approximately RMB33 million, or approximately 10.2%.

During the Period, gross profit for the power equipment segment was approximately RMB197.4 million, an increase of approximately RMB38.3 million or approximately 24.1%, as compared with approximately RMB159.1 million for the same period last year. Gross profit margin increased to 8.6% for 2009 from 8.4% for 2008, primarily due to the increase in gross profit margin for hydro turbine generators from 28.9% for 2008 to 33.8% for 2009, an increase of 4.9 percentage points.

Overall, the result for the power equipment segment for the year ended 31 December 2009 was approximately RMB126.1 million, an increase of approximately RMB35.2 million or approximately 38.7%, as compared with approximately RMB90.9 million for the same period last year.

General Machinery

Revenue from the general machinery segment for the year ended 31 December 2009 was approximately RMB1,174.3 million, a decrease of approximately RMB37.8 million or approximately 3.1% as compared with approximately RMB1,212.1 million for the same period last year, primarily due to decreases in revenue from industrial pumps, separation machines and gas compressors business as affected by insufficient market demand and declined export.

During the Period, gross profit for the general machinery segment was approximately RMB318.1 million, a decrease of approximately RMB61.5 million or approximately 16.2% as compared with approximately RMB379.6 million in the same period last year. Gross profit margin decreased to 27.1% for 2009 from 31.3% for 2008. The decrease in the gross profit margin of the segment was due to insufficient market demand and declined export as well as lower market price and gross profit margin of industrial pumps and gas compressors.

Overall, the result for the general machinery segment for the year ended 31 December 2009 was approximately RMB102.9 million, an increase of approximately RMB10.2 million or approximately 11%, as compared with approximately RMB92.7 million for the same period last year.

CNC machine tools

Revenue from the CNC machine tools segment for the year ended 31 December 2009 was approximately RMB1,321.5 million, an increase of approximately RMB155 million or approximately 13.3%, as compared with approximately RMB1,166.5 million for the same period last year, primarily due to increases in revenue from gear-producing machines, complex precision metal cutting tools, CNC lathes and machine centers business as driven by rapid growth in automobile market.

During the Period, gross profit for the CNC machine tools segment was approximately RMB187.7 million, a decrease of approximately RMB33.8 million or approximately 15.3%, as compared with approximately RMB221.5 million in the same period last year. Gross profit margin decreased to 14.2% for 2009 from 19% for the same period of 2008, primarily due to adjustment of market prices and an increase in price of raw materials (particularly steel) in the second half of 2009.

Overall, the result for the CNC machine tools segment for the year ended 31 December 2009 was approximately RMB74.9 million, a decrease of approximately RMB2.6 million or approximately 3.4%, as compared with RMB77.5 million for the same period last year.

CASH FLOW

The Group's cash and bank deposits (including restricted cash) amounted to approximately RMB2,607.1 million as at 31 December 2009 (31 December 2008: RMB2,622.6 million), representing a decrease of approximately RMB15.5 million or approximately 0.6% as compared with last year.

During the Period, the Group had a net cash inflow from operating activities of approximately RMB198.9 million (31 December 2008: RMB444.4 million), a net cash outflow from investing activities of approximately RMB382.3 million (31 December 2008: RMB335.4 million), and a net cash inflow from financing activities of approximately RMB63.6 million (31 December 2008: RMB1,165.2 million).

ASSETS AND LIABILITIES

As at 31 December 2009, the Group had total assets of approximately RMB8,748.6 million, representing an increase of approximately RMB1,222.8 million as compared with approximately RMB7,525.8 million as at 31 December 2008. Total current assets amounted to approximately RMB6,194.3 million, increased by approximately RMB922.6 million as compared with approximately RMB5,271.7 million as at 31 December 2008, accounting for approximately 70.8% of total assets. However, total non-current assets was approximately RMB2,554.2 million, representing an increase of approximately RMB300.0 million as compared with approximately RMB2,254.2 million as at 31 December 2008, and accounting for approximately 29.2% of total assets.

As at 31 December 2009, total liabilities of the Group amounted to approximately RMB4,629.3 million, representing an increase of approximately RMB574.3 million as compared with approximately RMB4,055 million as at 31 December 2008. Total current liabilities were approximately RMB3,951.1 million, an increase of approximately RMB407.6 million as compared with approximately RMB3,543.5 million as at 31 December 2008, accounting for approximately 85.4% of total liabilities. However, total non-current liabilities were approximately RMB678.2 million, representing an increase of approximately RMB166.7 million as compared with approximately RMB511.5 million as at 31 December 2008, and accounting for approximately 14.6% of total liabilities.

As at 31 December 2009, net current assets of the Group were approximately RMB2,243.2 million, representing an increase of approximately RMB515 million as compared with approximately RMB1,728.2 million as at 31 December 2008.

CURRENT RATIO

As at 31 December 2009, current ratio (the ratio of current assets over current liabilities) of the Group, increased from 1.49:1 for 2008 to 1.57:1 for 2009.

GEARING RATIO

As at 31 December 2009, by comparing the borrowing and the total capital, the Group's gearing ratio was 22.6% (31 December 2008: 22%).

INDEBTEDNESS

As at 31 December 2009, the Group had an aggregate bank and other borrowings of approximately RMB1,199.8 million, representing an increase of approximately RMB225 million as compared with approximately RMB974.8 million as at 31 December 2008.

Borrowings repayable by the Group within one year were approximately RMB843.8 million, representing an increase of approximately RMB143 million as compared with approximately RMB700.8 million as at 31 December 2008. Borrowings repayable after one year were approximately RMB356 million.

PLEDGES OF ASSETS

As at 31 December 2009, approximately RMB419.8 million of the Group was deposited with the banks with security or restricted for use (31 December 2008: RMB314.2 million). In addition, certain bank borrowings of the Group were secured by certain land use rights, plants and machineries and inventories of the Group, which had a net book value of approximately RMB389.3 million as at 31 December 2009 (31 December 2008: RMB305.3 million).

CONTINGENT LIABILITIES

As at 31 December 2009, the Group had no significant contingent liabilities.

SIGNIFICANT EVENTS

During the year, the Company entered into an agreement with Shanghai Electric (Group) Corporation to further acquire 102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Forging at a total consideration of RMB256.61 million. Upon completion of the transaction, the Company holds 100% equity interest in Qijiang Gear and 48% equity interest in Qijiang Forging directly. Qijiang Gear became a wholly-owned subsidiary of the Company. The Company through Qijiang Gear held the remaining 52% equity interest in Qijiang Forging, and Qijiang Forging also became a wholly-owned subsidiary of the Company.

In addition, the first extraordinary general meeting of the Company was held on 25 June 2009, at which the following matters were considered and approved:

1) the transactions amount as at 31 December 2008 which exceeds the amount as set out in the Master Supplies Agreement was ratified and approved;

2) the annual proposed caps of the price payable by the Parent Company and its associates to the Group under the Master Sales Agreement for the financial year ended 31 December 2009 was revised from RMB68,000,000 to RMB130,000,000;

3) the annual proposed caps of the price payable by the Parent Company and its associates to the Group under the Master Sales Agreement for the financial year ended 31 December 2010 was revised from RMB75,000,000 to RMB160,000,000;

4) the annual proposed caps of the price payable by the Group to the Parent Company and its associates under the Master Supplies Agreement for the financial year ended 31 December 2009 was revised from RMB35,000,000 to RMB120,000,000;

5) the annual proposed caps of the price payable by the Group to the Parent Company and its associates under the Master Supplies Agreement for the financial year ended 31 December 2010 was revised from RMB35,000,000 to RMB140,000,000;

6) the annual proposed caps of the price payable by the Group to the Parent Company and its associates under the Master Leasing Agreement for the financial year ended 31 December 2009 was revised from RMB11,000,000 to RMB17,000,000;

7) the annual proposed caps of the price payable by the Group to the Parent Company and its associates under the Master Leasing Agreement for the financial year ended 31 December 2010 was revised from RMB15,000,000 to RMB22,000,000.

The 2008 annual general meeting of the Company was held on 25 June 2009, at which the following matters were considered and approved:

1) The use of proceeds from listing was adjusted as follows:

   (1) According to the prospectus, approximately 21.5% or approximately HK$281 million would originally be invested in commercial vehicle parts and components segment.

      i. Approximately 10.7%, or approximately HK$140 million, would originally be used for technological improvements and capacity expansion for the braking and steering systems business. The Company did not actually invest. Main reasons being that the project involves relocation and technological improvement. As the completion of IPO was later than originally planned, the project was basically completed during the IPO and fund was gradually financed. Meanwhile, as the second half of 2008 had seen market changes and actual proceeds fell short of expectation, investment in the project will not be considered.

      ii. Approximately 8.0%, or approximately HK$105 million, would originally be used for technological improvements and capacity expansion (including approximately 0.6%, or approximately HK$8 million, for upgrading an existing research and development center which was expected to be completed by December 2008) for the gear transmission systems business, with emphasis on automobile transmissions, cylinder gears and steel castings, subject to approval from our strategic partner. The Company did not actually invest, mainly attributable to no approval being obtained from former strategic partner.

iii. Approximately 2.8%, or approximately HK$37 million, would originally be used for technological improvements and capacity expansion for the vehicle suspension systems business, with emphasis on air suspensions system, subject to approval from our strategic partner. Total investment for the project was planned to be approximately RMB150 million. In order to control investment risks, the Board proposed to implement the project under the principal of "overall planning, investment in batches" and decided to implement the project in phases. After the completion of phase I, implementation plan for phase II will be decided upon result of phase I. Total investment for phase I was approximately RMB38 million, of which approximately RMB16.72 million was financed by the proceeds of the Company. The project is being implemented as planned.

(2) According to the prospectus, approximately 17.0%, or approximately HK$222 million, would originally be used for our power equipment segment.

i. Approximately 8.6%, or approximately HK$112 million, would originally be used for technological improvements and capacity expansion for the hydroelectric generation equipment business, with emphasis on complete line of equipment base construction. Total investment for the project was planned to be approximately RMB500 million. In order to control investment risks, the Board proposed to implement the project under the principal of "overall planning, investment in batches" and decided to implement the project in phases. Total investment for phase I was approximately RMB55 million, of which approximately RMB50 million was invested by the Company using the proceeds through capital increase. The project is being implemented as planned.

ii. Approximately 5.0%, or approximately HK$65 million, would originally be used for technological improvements and capacity expansion for the electrical wires, cables and materials business, with emphasis on specialized cables with environmentally-friendly features and high-voltage ceramics. Total investment for the project was planned to be approximately RMB152.95 million. After various researches and adjustments, total investment of the project was set to be approximately RMB121.20 million, of which the Company invested approximately RMB18 million initially. The project is being implemented as planned.

iii. Approximately 3.4%, or approximately HK$44 million, would originally be used for technological improvements and capacity expansion for the nonferrous metal materials business, with emphasis on copper powder and copper material extension products. Total investment for the project was planned to be approximately RMB100 million. In order to control investment risks, the Board proposed to implement the project under the principal of "overall planning, investment in batches", and decided to implement the project in phases. Total investment for phase I of the project is approximately RMB42 million, of which approximately RMB22 million was invested by the Company using the proceeds through unilateral share capital increase. The project is being implemented as planned.

(3) According to the prospectus, approximately 15.2%, or approximately HK$199 million, would originally be used for our general machinery segment.

i. Approximately 6.6%, or approximately HK$86 million, would originally be used for product expansion, construction of a production base for wind power turbine blades and a production base for specialized refrigeration machines, industrial pumps and industrial fans used by nuclear power stations. Total investment for the project was planned to be approximately RMB299.80 million. In order to control investment risks, the Board proposed to implement the project under the principal of "overall planning, investment in batches", and decided to implement the project in phases. Total investment for phase I of the project was approximately RMB107.55 million, of which approximately RMB80 million was invested by the Company using the proceeds through unilateral share capital increase. Approximately RMB65.49 million was invested initially. The project is being implemented as planned. Backed by energy and environment protection policy of the State, general industry is developing at remarkable speed which outpaced enterprise production capacity and called for further effort in renovation for tech upgrade and reprocessing to build commercialized wind power production base in line with state industry trend as soon as possible. Considering the shortage of corporate construction fund, it is proposed to make the second batch of investment of RMB14.51 million as soon as possible.

ii. Approximately 3.9%, or approximately HK$51 million, would originally be used for technological improvements and capacity expansion for the industrial pumps business. Total investment for the project was planned to be approximately RMB225 million, of which approximately RMB90 million was invested by the Company using the proceeds through unilateral share capital increase. Approximately RMB38.84 million was invested initially. The project is being implemented as planned. The product is performing favourably with high gross margin in the market, but the production capacity was seriously inadequate. The renovation is for capacity expansion, production tech upgrade, solutions for complete-line supply of pump product to machinery, electrical and instrument system, the project construction contract expansion capacity and actual condition of enterprise construction fund shortage. It is recommended to make the second batch of investment of approximately RMB51.16 million as soon as possible.

iii. Approximately 2.1%, or approximately HK$27 million, would originally be used for technological improvements and capacity expansion for the gas compressors business, with emphasis on complete-line equipment for high volume primary and secondary stations and high pressure compressors. Total investment for the project was planned to be approximately RMB100 million, of which approximately RMB70 million was financed by the proceeds of the Company. Approximately RMB20.56 million was invested initially. The project is being implemented as planned. As the product is of high gross margin and inadequate capacity, the investment is to step up tech renovation and equipment investment, expand product capacity, supplement and optimize processing and equipment deployment. Together with the shortage of corporate construction fund, it is proposed to make the second batch of investment of approximately RMB49.44 million as soon as possible.

iv. Approximately 2.6%, or approximately HK$34 million, would originally be used for technological improvements and capacity expansion for the separation machines business, with emphasis on specialized chemical, environmental, agricultural and bio-engineering products. The Company did not actually invest. Main reasons being that as the lands for the relocation in line with the Company's development strategy have not been finalized.

(4) According to the prospectus, approximately 12.8%, or approximately HK$167 million, will be originally used for our CNC machine tools segment.

i. Approximately 8.6%, or approximately HK$112 million, would be originally used for technological improvements and capacity expansion (including funds for construction of a national-level or top tier technology center which is expected to be completed by December 2010) for the gear-producing machines business, with emphasis on high speed, precision CNC machines. Total investment for the project was planned to be approximately RMB260 million, of which approximately RMB150 million was financed by proceeds of the Company. Approximately RMB85.30 million was initially invested. The project is being implemented as planned. With favourable industry development trend, especially strong demand in large high accuracy gear-producing machines with high gross margin, competitors are increasing investment in this sector. Given the inadequate capacity, especially, the existing location and equipments that fall short of the production demand of large high accuracy gear-producing machines, together with the tight capital for construction, it is proposed to make the second batch of investment of approximately RMB64.70 million as soon as possible.

ii. Approximately 0.8%, or approximately HK$10 million, would originally be used for technological improvements and capacity expansion for the complex precision metal-cutting tools business, with emphasis on specialized tools. Total investment for the project was planned to be approximately RMB226.60 million. In order to control investment risks, the Board proposed to implement the project under the principle of "overall planning, investment in batches", and decided to implement the project in phases. Total investment for phase I was approximately RMB35 million, of which approximately RMB30 million was financed by proceeds of the Company. Approximately RMB7.62 million was initially invested. The project is being implemented as planned. The industry is in relatively stable development trend with minor investment risk. Market demand is extremely strong, particularly for high accuracy and high efficiency cutting tools. Competitors are increasing investment in the sector to expand production scale and overtake market share. Given the inadequate capacity and shortage of advanced equipments which are necessary, more investment is needed to expand production scale and improve high-end product competitiveness to ensure leading position in the industry. It is proposed to make the second batch of investment of approximately RMB22.38 million as soon as possible.

iii. Approximately 3.4%, or approximately HK$44 million, would originally be used for technological improvements and capacity expansion for the CNC lathes and machine centers business, with emphasis on a production base for lathe reproduction technology and large-scale CNC lathes. Total investment for the project was planned to be approximately RMB300 million. In order to control investment risks, the Board proposed to implement the project under the principle of "overall planning, investment in batches", and decided to implement the project in phases. Total investment for phase I was approximately RMB40 million, of which approximately RMB30 million was financed by proceeds of the Company. The project is being implemented as planned.

(5) According to the prospectus, approximately 25.0%, or approximately HK$327 million, will be originally used for the acquisition of companies or products relevant to our businesses. Total fund for the plan was approximately RMB257 million, of which approximately RMB256.61 million was used for acquisition of shares of Qijiang Gear and Qijiang Forging at Chongqing United Assets and Equity Exchange.

(6) According to the prospectus, the remaining portion of the net proceeds would originally be used for working capital and general corporate purposes. The Company will continue to explore business opportunities and to develop our business under the above principles.

2) In light of the amendments to the Listing Rules which were effective from 1 January 2009, whereby the Company may, subject to the Listing Rules and the Articles of Association, send or otherwise make available the corporate communication to the relevant holder of the shares using electronic means, and approve the necessary amendments to the relevant provisions of the Articles of Association so as to allow the Company to send or otherwise make available the corporate communication to the relevant holders of the shares using electronic means.

3) To give a general mandate to the Board of Directors to issue, allot and deal with additional shares not exceeding 20% of the shares of the Company in issue and authorize the Board of Directors to make corresponding amendments to the Articles as it thinks fit so as to reflect the new capital structure upon the allotment or issuance of shares.

The 2009 second extraordinary general meeting of the Company was held on 31 August 2009, at which the following matters were considered and approved:

1) the resignation of Mr. Sun Nengyi as executive Director and chairman and the appointment of Mr. Xie Hua Jun as an executive Director of the Company to hold office from the date of the meeting until expiry of the term of the session of the Board and to authorize the Board to fix the remuneration of Mr. Xie Hua Jun pursuant to the remuneration standard for Directors passed at the 2007 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.

2) the resignation of Mr. Ye Zusheng as a Supervisor and the appointment of Ms. Liao Rong as a Supervisor of the Company to hold office from the date of the meeting until expiry of the term of the session of the Supervisory Committee of the Company and to authorize the Board to fix the remuneration of Ms. Liao Rong pursuant to the remuneration standard for Supervisors passed at the 2007 annual general meeting and to enter into a service agreement with her on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.

3) amendments to Article 11 of the articles of association of the Company, which relates to the Company's business scope.

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

CAPITAL EXPENDITURE

As at 31 December 2009, the total capital expenditure of the Group was approximately RMB695.8 million, which was principally used for acquisition of equity interest in Qijiang Gear and Qijiang Forging and plant expansion, production technology improvement, equipment upgrade and the expansion of production capacity (31 December 2008: RMB344.9 million).

CAPITAL COMMITMENT

As at 31 December 2009, the Group had capital commitments of approximately RMB177.7 million (31 December 2008: RMB186.8 million) in respect of fixed assets and intangible assets.

RISK OF FOREIGN EXCHANGE

The Group uses Renminbi as the reporting currency. During the Period, pressure on Renminbi appreciation was eased due to global economic recession. A slowdown in Renminbi appreciation will strengthen the competitiveness of our export products, but it may bring negative impacts on the import of raw materials, machinery and equipments by the Group from overseas.

As at 31 December 2009, the Group's bank deposits comprise approximately HK$311.2 million, approximately US$0.48 million and approximately EUR$2.63 million (31 December 2008: HK$798 million and approximately US$1.29 million). Save as the above, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

EMPLOYEES

As at 31 December 2009, the Group had a total of 17,372 employees (31 December 2008: 14,819 employees). The increase in employees was mainly due to the acquisition of equity interest in Qijiang Gear and Qijiang Forging by the Group in February 2009. The Group intends to continuously improve incentive schemes that link with the performance reviews of our management and employees, offer better advancement opportunities to our key employees and provide training programs for further development of the staff. It is believed that these measures will help us to attract and retain talents for our businesses.

USE OF PROCEEDS

After deducting related expenses, the net proceeds from the Company's Global Offering on the Stock Exchange on 13 June 2008 amounted to approximately RMB1,008.8 million. For the years ended 31 December 2008 and 2009, approximately RMB774.05 million of net proceeds raised from the issue of new shares had been applied in accordance with the proposed applications set out in the Company's prospectus, which was approved and adjusted at the 2008 annual general meeting held on 25 June 2009, as follows:

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

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

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

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

- approximately HK$90.89 million (equivalent to approximately RMB80 million) was used for product expansion and construction of a production base for wind power turbine blades and a production base for specialized refrigeration machines, industrial pumps and industrial fans used by nuclear power stations.

- approximately HK$102.24 million (equivalent to approximately RMB90 million) was used for technological improvements and capacity expansion for the industrial pumps business.

- approximately HK$79.53 million (equivalent to approximately RMB70 million) was used for technological improvements and capacity expansion for the gas compressors business, with emphasis on complete systems for high capacity first class and second class stations and high pressure compressors.

- approximately HK$96.93 million (equivalent to approximately RMB85.30 million) was used for technological improvements and capacity expansion for the gear producing machines business, with emphasis on high speed, precision CNC machines.

- approximately HK$34.05 million (equivalent to approximately RMB30 million) was used for technological improvements and capacity expansion for the complex precision metal-cutting tools business, with emphasis on specialized tools.

- approximately HK$34.05 million (equivalent to approximately RMB30 million) was used for technological improvements and capacity expansion for the CNC lathes and machine centers business, with emphasis on a production facility for lathe production technology and large scale CNC lathes.

- approximately HK$290.56 million (equivalent to approximately RMB256.61 million) was used for the acquisition of equity interest in Qijiang Gear and Qijiang Forging held from Shanghai Electric Group Corporation.

- approximately HK$28.80 million (equivalent to approximately RMB25.37 million) was used for additional working capital and general corporate purposes.

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The following table sets out information regarding our Directors :

Name	Age	Position
Xie Hua Jun	56	Executive Director, Chairman (Appointed on 31 August 2009)
He Yong	46	Executive Director
Liao Shaohua	46	Executive Director
Chen Xianzheng	55	Executive Director
Huang Yong	47	Non-executive Director
Yu Gang	45	Non-executive Director
Yang Jingpu	54	Non-executive Director
Wu Jian	46	Non-executive Director
Lo Wah Wai	46	Independent Non-executive Director
Ren Xiaochang	53	Independent Non-executive Director
Kong Weiliang	63	Independent Non-executive Director

EXECUTIVE DIRECTORS

Mr. Xie Hua Jun, aged 56, joined the Parent Company in 2009 and served as the Chairman. He has been an Executive Director and the Chairman of the Company since 31 August 2009. Mr. Xie has accumulated over 30 years of experience in corporate management in the production industry. Mr. Xie is a senior economist. From 2000 to 2002, he graduated from the postgraduate program of Public Administration of the Institute of Administration Management (行政管理學院) at Peking University and was awarded a master degree from the School of Public Administration in Chongqing in 2006. Mr. Xie served as the deputy general manager of Chongqing No. 2 Light Industry Supply & Sale Co. (重慶二輕工業供銷總公司) from February 1988 to February 1990, the manager of Chongqing Craft and Art Industry Company (重慶市工藝美術工業公司) from February 1990 to June 1992, the deputy director of Chongqing Light Industry Bureau from June 1992 to June 1998, the secretary-general of Re-employment Office (再就業辦公室) of Chongqing from June 1998 to July 2000, the vice president of Chongqing Chemical And Pharmaceutical Holding (Group) Company from July 2000 to November 2003, the director of Chongqing Sanxia Paints Co., Ltd (a company listed on the Shenzhen Stock Exchange of the PRC, stock code: 000565) from June 2001 to March 2007, the president and director of Chongqing Chemical And Pharmaceutical Holding (Group) Company from November 2003 to June 2006, the deputy director of Chongqing State-owned Assets Supervision and Administration Commission from July 2006 to December 2008 as well as the deputy secretary-general of Chongqing Municipal People's Government from December 2008 to June 2009.

Mr. He Yong, aged 46, joined the Parent Group in 1984 and the Group in December 2002. Since July 2007, he has been an executive Director and the president of our Company. He is responsible for the overall management of our Company. Mr. He has over 20 years of experience in the automobile industry. He has been the general manager of Chongqing Heavy Vehicle Group and the chairman and general manager of Chongqing Hongyan Motor Co. Ltd. since 2005 in charge of the companies' operations, planning, human resources, heavy vehicles manufacturing and sales. Mr. He had been involved in the management of Chongqing Heavy Vehicle Group and Chongqing Hongyan Motor Co. Ltd. as a deputy manager since 2000 and 2003, respectively, in charge of infrastructure, technological improvements, logistics and management of retired staff. Between 1998 and 2000, he was the deputy manager of Sichuan Truck Plant, the predecessor of Chongqing Heavy Vehicle Group. He is a senior engineer who graduated from Hunan University with a bachelor's degree in civil engineering in 1984 and received a master's degree in business administration from Chongqing University in 2006.

Mr. Liao Shaohua, aged 46, joined the Parent Group and the Group in May 1988. Since July 2007, he has been an executive Director and a vice president of our Company. Mr. Liao is responsible for supervising the production and logistics operations of our Company. Mr. Liao has over 20 years of experience in the machine tools industry. Mr. Liao has been the chairman and general manager of Chongqing Machine Tools since December 2005 in charge of board matters, production of machine tools, general management, legal and audit matters. He was also a director of the Parent Group from 2002 to 2007, taking part in major decisions of the board, and was the plant manager of Chongqing Machine Tools Plant Co., Ltd. (the predecessor of Chongqing Machine Tools) from 1998 to 2002 in charge of production of machine tools, general management, legal and audit matters. Mr. Liao is a professor-level senior engineer. He graduated from Chongqing University with a bachelor's degree in automobile manufacture in 1985 and a master's degree in mechanics in 1988. He also obtained his PRC machinery industry senior professional manager qualification in 2005. He has been a deputy director of China Machine Tool Industry Association since 1999 and an expert judge for National Science and Technology Awards since 2008.

Mr. Chen Xianzheng, aged 55, joined the Parent Group in August 1976 and joined the Group in December 2001. Since July 2007, he has been an executive Director of our Company and the secretary to the Board responsible for handling all matters of the Board. Mr. Chen has over 20 years of experience in business management. From July 2006 to July 2007, he was the head of the securities department of the Parent Group, in charge of the Listing. Mr. Chen was the department chief of the asset management department and the enterprise reform department of the Parent Company from 2000 to July 2006 in charge of asset management, reorganization and merger, and general management matters. He worked for the state-managed Jianan Machinery Factory from 1976 to 2000 and was the deputy plant manager from 1995 to 2000 in charge of operations, research and development, restructuring, management and legal matters. Mr. Chen is a senior economist who graduated from the Party School of Chengdu Municipal Commission with a college degree in 1986.

NON-EXECUTIVE DIRECTORS

Mr. Huang Yong, aged 47, joined the Parent Group in July 1984 and the Group in 2004. Since July 2007, he has been a non-executive Director of our Company. Mr. Huang has over 20 years of experience in the automobile industry. Mr. Huang has been a director and the president of the Parent Group since 2004 in charge of operations, assets management and finance. Mr. Huang was the vice chairman and general manager of Chongqing Hongyan Motor Co. Ltd. from 2003 to 2004 in charge of marketing, product development and quality management. Since 2000, Mr. Huang has been involved in the management of Chongqing Heavy Vehicle Group and was the general manager and thereafter the chairman of Chongqing Heavy Vehicle Group in charge of operation, technology development, qualitative management and planning. From 1996 to 2000, Mr. Huang was the deputy plant manager of Sichuan Automobile Manufacturing Plant, and from 1984 to 1996, he worked in Sichuan Automobile Manufacturing Plant. Mr. Huang is a senior engineer who graduated from Hunan University with a bachelor's degree in automobile manufacturing in 1984. He obtained his master's degree in engineering from Chongqing University in 2000.

Mr. Yu Gang, aged 45, joined the Parent Group in October 2003 and the Group in July 2007. Since July 2007, he has been a non-executive Director of our Company. Mr. Yu has been a director and the managing vice president of the Parent Group since 2003. Mr. Yu has over 20 years of experience in the government service and the management of large enterprises. Prior to joining the Company, Mr. Yu was the deputy mayor of Jiangjin Municipal Government from 2001 to 2003 in charge of industrial development of the municipality, the assistant to the mayor of Jiangjin Municipal Government and the section chief of Economic Committee and the minister of the Industry and Transportation Department from 1997 to 2001 in charge of the industrial and economic development of the municipality. Between 1989 and 1997, he was an officer in the Chongqing Municipality Industrial Transportation Department in charge of human resources management, and an officer in the Chongqing Machinery School from 1984 to 1989. Mr. Yu is a senior engineer who graduated from Chongqing Machinery Manufacturing School with a professional degree in machinery engineering in 1984 and from Chongqing Party School in 1997. He also graduated from Southwest Normal School with a master's degree in business management in 2002. He is currently attending an EMBA course in Xiamen University.

Mr. Yang Jingpu, aged 54, joined the Company in August 2007 and has been a non-executive Director of our Company since then. Mr. Yang is currently the chairman and general manager of Jiangong Group in charge of board matters, strategic planning and investment. Mr. Yang has over 15 years of experience in managing large enterprises. Mr. Yang was the general manager of Chongqing Coal Group from 2004 to 2007 responsible for general management and was the deputy director of Chongqing City Coal Industrial Bureau from 2001 to 2004 in charge of restructuring and reformation, operational and administrative management. From 1992 to 2001, Mr. Yang was the deputy director and thereafter, director of Chongqing City Songzao Mining Bureau in charge of coal production, safety, sales and finance. Mr. Yang is a senior economist and a senior engineer. He graduated from Jiaozuo Coal Academy with a bachelor's degree in industrial management engineering in 1988 and a master's degree in mining engineering from Chinese University of Mining and Technology in 2001.

Mr. Wu Jian, aged 46, joined our Company in July 2007 and has been a non-executive Director of the Company since then. Mr. Wu has over 10 years of experience in investment banks and securities market supervision. He served as an arbitrator of Chongqing Arbitration Commission in 2009. From 2006 to 2009, Mr. Wu was a director and chairman of Chongqing Dongyuan Industry Development Co., Ltd. (stock code: 000656), a company listed in Shenzhen Stock Exchange, in charge of matters relating to the board, strategic planning and investment. He also was a non-executive director of Xinan Securities Investment Co., Ltd. (stock code: 600369) which is listed on the Shanghai Stock Exchange in February 2009 and engaged in intermediary business like security issuance and brokerage. He was the deputy general manager of Yufu Company in charge of investment, M&A, restructure, capital market business in December 2005. Mr. Wu was the vice director of the investigation department, and subsequently, the director of the listing department of Chongqing Securities Office (Bureau) of the China Securities Regulatory Commission in charge of investigating illegal securities dealings and listed company matters in Chongqing from 1997 to 2005. Mr. Wu graduated from Shanxi Finance University with a bachelor's degree in economics in 1995 and obtained a master's degree in business administration from Chongqing University in 2001.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Wah Wai, aged 46, joined our Company in January 2008 and has been an independent non-executive Director of our Company and the chairman of our Company's audit committee since January 2008. He had more than eleven years of experience in auditing and business consulting services in an international accounting firm, two years of which were spent in the U.S. Mr. Lo was an independent non-executive director of Far East Pharmaceutical Technology Limited (stock code: 399) in September 2004, a company listed on the Main Board of the Stock Exchange whose subsidiaries are principally engaged in the manufacturing and distribution of pharmaceutical products. A petition was filed on 15 September 2004 to wind up Far East Pharmaceutical Technology Limited in respect of the default of a syndicated bank loan and since then, liquidators have been appointed. Mr. Lo was not involved in the arrangement of the syndicated bank loan and his appointment was made after the said default had occurred. Mr. Lo is also an independent non-executive director of Sino-Tech International Holdings Limited (stock code: 724) (formerly known as Semtech International Holdings Limited), a company listed on the Main Board of the Stock Exchange since September 2004 and engaged in the manufacture and sale of electronic and electrical parts and components and cigarette lighters. He is a practising member of the Hong Kong Institute of Certified Public Accountants and a member of the American Institute of Certified Public Accountants. Mr. Lo graduated from The Chinese University of Hong Kong with a bachelor's degree in business administration in 1986 and New Jersey Institute of Technology, the U.S. with a master's degree in science in 1992.

Mr. Ren Xiaochang, aged 53, joined our Company in July 2007 and has been an independent non-executive Director of the Company and the chairman of our remuneration committee since then. Mr. Ren has over 30 years of experience in the automobile industry. Mr. Ren has been with Chongqing Research Institute of Automobile (renamed as China Automotive Engineering Research Institute) since 1982 and is currently the superintendent and a researcher of it in charge of operational management, strategic planning, human resources and asset management. Mr. Ren is also currently an independent director of China Chang'an Automobile Group Co., Ltd. in charge of matters relating to the board. Mr. Ren graduated from Hunan University with a bachelor's degree in engineering studies in 1982 and the Management School of Wuhan University of Technology with a master's degree in business administration in 2004.

Mr. Kong Weiliang, aged 63, joined the Company in July 2007 and has been an independent non-executive Director of our Company and the chairman of our nomination committee since then. Mr. Kong has nearly 40 years of experience in the sensors industry. Mr. Kong was the chairman of China Silian Sensors Group Corporation Limited from 2001 to March 2007 in charge of matters relating to the board. From 1997 to 2000, Mr. Kong was the vice chairman and the general manager of China Silian Sensors Group Corporation Limited in charge of operations. Prior to that, Mr. Kong was the Deputy Secretary of the Party Committee and Secretary of the Communist Party's Disciplinary Committee of China Silian Sensors Group Corporation Limited from 1993 to 1996 in charge of party matters, human resources and labor relations. Before joining China Silian Sensors Group Corporation Limited, Mr. Kong worked in the Sichuan Sensors Head Factory which is subordinated to China Silian Sensors Group Corporation Limited from 1990 to 1993 as assistant to the factory manager and assistant to factory manager in charge of human resources and in the Sichuan Sensors Fourteenth Factory from 1967 to 1990. Mr. Kong is a senior economist with a college degree in business management from Hefei University of Technology in 1985.

SUPERVISORS

The following table sets out information regarding our Supervisory Committee:

Name	Age	Position
Duan Rongsheng	58	Supervisor and Chairman of Supervisory Committee
Liao Rong	52	Supervisor (Appointed in 31 August 2009)
Wang Xuqi	57	Supervisor
Wu Chongjiang	60	Supervisor
Wang Rongxue	64	Independent Supervisor
He Xiaoping	58	Independent Supervisor

Mr. Duan Rongsheng, aged 58, joined the Parent Group in June 1984 and the Company in July 2007. Since then, he has been a Supervisor of our Company and the chairman of our Supervisory Committee. Mr. Duan is currently a director and deputy party committee secretary of the Parent Group in charge of the Parent Group's party matters, disciplinary supervision and enterprise culture. From September 2000 to March 2009, he served as a deputy chairman in Chongqing Wanli Storage Batteries Co., Ltd.. From 1988 to 2000, Mr. Duan was the deputy department chief and thereafter the department chief of the human resources department of Chongqing Machinery and Industrial Management Bureau. Mr. Duan is a senior economist who graduated from the Central Party School with a bachelor's degree in business management in 1988 and from Southwest Normal School with a master's degree in business management in 2000.

Ms. Liao Rong, aged 52, has been a supervisor of the Company since 31 August 2009. She was awarded a bachelor degree in Economic Management by the Party College of Sichuan Province Committee of CCP(中共四川省委黨校)in July 1996. Ms. Liao is a senior economist and has over 20 years of experience in corporate management. Ms. Liao severed as the deputy general manager of Chongqing office of China Huarong Asset Management Co., Ltd. in May 2008. Ms. Liao graduated from the School of Finance and Trading in Chongqing(重慶財貿學校)with a degree in Banking in August 1980 and graduated from the department of Finance and Business of Sichuan Broadcasting and Television University in July 1986. From September 1983 to February 2000, she worked at the Wan Sheng sub branch of Chongqing branch(重慶市分行萬盛區支行)of the Industrial and Commercial Bank of China, during which she served as the department head of the credit department(信貸科科長), assistant to the governor(行長助理), vice governor(副行長)and secretary of commission for discipline inspection. From March 2000 to May 2008, she worked at the Chongqing office of China Huarong Asset Management Co., Ltd. (中國華融資產管理公司重慶辦事處), during which she served as the senior deputy manager, the senior manager of the general department(綜合部高級經理), senior manager of operation department, senior manager of claim department as well as the senior manager of business department.

Ms. Wang Rongxue, aged 64, joined the Company in July 2007 and has been an independent Supervisor of our Company since then. Prior to her retirement, Ms. Wang was the chairman to the state-owned enterprise supervisory board of the Chongqing Municipal People's Government and the assistant inspector of the Chongqing City Economic Committee of the Chongqing Bureau of Metallurgical Industry. From 2000 to 2007, she was responsible for supervising Chongqing Jiangong Group, Chongqing Gongcheng Jianshe Co., Ltd, Chongqing Chengshi Jianshe Investment Co., Ltd., Chongqing Ranqi Group, Chongqing Zhaobiao Group, Chongqing Huayi Group and Chongqing Liangyou Group. Ms. Wang joined the Chongqing Bureau of Metallurgical Industry in 1978 and was responsible for the education of industry participants and was the section chief of the cadre administration department from 1990 to 2000 in charge of human resources. Ms. Wang graduated from Chongqing University with a college degree in metallurgy in 1970.

Ms. He Xiaoping, aged 58, joined the Parent Group in May 1975 and the Company in July 2007. Since then, she has been an independent Supervisor of our Company. Ms. He has over 30 years of experience in the automobile industry. Prior to her retirement, Ms. He has been the senior specialist of Chongqing Hongyan Changli in charge of product development, sales and finance. From 1997 to 2007, Ms. He was the deputy general manager of Chongqing Heavy Vehicle Group Hongyan Automobile Spring Co., Ltd. and the deputy general manager of Chongqing Hongyan Changli in charge of operational management, supply, sales and finance. From 1975 to 2001, Ms. He worked in various departments of Chongqing Hongyan Automobile Spring Factory and was a section chief, assistant to the plant manager and deputy plant manager, in charge of production, planning, statistics, sales and operational management. Ms. He is an economist who graduated from the Central Party School with a bachelor's degree in business management in 1996.

Mr. Wang Xuqi, aged 57, joined the Parent Group and the Group in December 1976. Since July 2007, he has been a Supervisor of the Company. Mr. Wang has 30 years of experience in nonferrous metal refining. Since 2002, Mr. Wang has also been the chairman and general manager of Huahao Smelting in charge of matters relating to the board, operational management, administrative matters, finance and marketing. Mr. Wang is a director of the Parent Group and has been the chairman and general manager of Chongqing Smelter (Group) Corporation Limited since 1998 in charge of matters relating to the board, operational management, administrative matters, finance and marketing. He has been the deputy general manager of Chongqing Smelter Factory since 1993 in charge of human resources and enterprise management. Mr. Wang has been involved in the management of Chongqing Smelter Factory since 1987. Mr. Wang graduated from Chongqing Normal School with a bachelor's degree in Chinese language in 1987 and from Asia International Open University in Macau with a master's degree in business management in 2004.

Mr. Wu Chongjiang, aged 60, joined the Parent Group and the Group in September 1969. Since July 2007, he has been a Supervisor of our Company. Mr. Wu has 30 years of experience in the manufacturing of gas compressors. Since 2002, Mr. Wu has been an executive director and general manager of Chongqing Gas Compressor in charge of operational management, human resources, finance and administrative matters. Mr. Wu was the plant manager of Chongqing Gas Compressor Factory (the predecessor of Chongqing Gas Compressor) from 1996 to 2002 in charge of production, human resources, finance and administrative matters and the deputy plant manager of Chongqing Gas Compressor Factory, from 1990 to 1996, in charge of production and sales. Mr. Wu graduated from Chongqing Industrial School with a college degree in die-casting in 1969.

SENIOR MANAGEMENT

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

Name	Age	Position
He Yong	46	President
Liao Shaohua	46	Vice President
Zhang Ke	57	Vice President
Wang Nongcheng	57	Vice President
Miao Xiaoping	54	Financial Controller
Kam Chun Ying, Francis	43	Qualified Accountant

Mr. He Yong, aged 46, is an executive Director and the president of our Company. For details regarding Mr. He's experience, please refer to the subsection entitled "Executive Directors" above.

Mr. Liao Shaohua, aged 46, is an executive Director and a vice president of our Company. For details regarding Mr. Liao's experience, please refer to the subsection entitled "Executive Directors" above.

Mr. Zhang Ke, aged 57, joined the Parent Group and the Group in November 1971. Since July 2007, he has been a vice president of the Company in charge of securities and audit. Mr. Zhang has over 20 years of experience in hydroelectric equipment manufacturing. Mr. Zhang has been the chairman and the general manager of Chongqing Water Turbine (the predecessor of Chongqing Water Turbine Works Co., Ltd.) since February 1998 in charge of matters of the board, operational management, turbine sales, capital flow, cost management and human resources and was the deputy plant manager of Chongqing Water Turbine Plant from 1991 to 1998 in charge of party matters including disciplinary matters, infrastructure, technological improvements, and labour relations. Since 1988, he participated in the management of Chongqing Water Turbine and was responsible for labour relations. Mr. Zhang graduated from Sichuan College of Education with a bachelor's degree in political education in 1986.

Mr. Wang Nongcheng, aged 57, joined the Parent Group in December 1987 and joined the Group in July 2007. Since July 2007, he has been a vice president of the Company. Mr. Wang is responsible for the strategic planning and capital management of the Company. Mr. Wang has over 20 years of experience in the general machinery industry. From 2000 to 2007, Mr. Wang was the chief engineer of the Parent Group and the head of planning and development department and the industry development department in charge of strategic research, planning and development and securities. From 1991 to 2000, Mr. Wang was the deputy department chief of Chongqing Bureau of Machinery Industry in charge of technological development, product development and informational marketing. Mr. Wang is a senior engineer who graduated from Chongqing University with a bachelor's degree in machinery in 1983.

Ms. Miao Xiaoping, aged 54, joined the Parent Group in February 1979 and joined the Group in December 2001. Since July 2007, she has been the financial controller of the Company. Ms. Miao has been the deputy department chief of the assets and finance department of our Group since 2000 in charge of accounts, finance and asset management. In 2000, Ms. Miao was an investigator and deputy department chief of the finance department of Chongqing Machinery and Industry Management Bureau in charge of accounts, finance and asset management. Ms. Miao is a senior accountant who graduated from Shanghai Machinery School with a college degree in price management in 1986 and from Southwest Teacher's School with a master's degree in economic management studies in 2000.

Mr. Kam Chun Ying, Francis, aged 43, joined the Company in February 2008. Since then, he has been the qualified accountant of our Company. Prior to joining our Company, Mr. Kam was the financial controller of TFH Management Limited, and was responsible for finance operations and corporate compliance in both the private and listed companies within that group. Between August 1986 and April 1989, Mr. Kam worked for Deloitte Touche Tohmatsu, previously known as Deloitte Haskins Sells, as a senior account assistant and has over 20 years of experience in corporate and finance management. He has been a member of the Hong Kong Institute of Certified Public Accountants since June 1996 and a fellow of the Chartered Association of Certified Accountants since June 2001. Mr. Kam graduated from Heriot-Watt University in the United Kingdom in November 2004 with a master's degree in business administration.

DIRECTORS' REPORT

The Board of the Company is pleased to present the annual report and the audited financial statements of the Company for the year ended 31 December 2009.

PRINCIPAL BUSINESS

The Company is principally engaged in designing, manufacturing and sales of commercial vehicle parts and components, power equipment, general machinery and CNC machine tools. The principal businesses of its major subsidiaries are set out in Note 5 to the consolidated financial statements.

RESULTS

The results of the Group for the year ended 31 December 2009 are set out in the consolidated statement of comprehensive income in this annual report on pages 97 to 99.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.06 per share (including tax) for the year ended 31 December 2009, which is calculated based on the total share capital of 3,684,640,154 shares for the year ended 31 December 2009, totalling RMB221,078,409.24. Subject to approval by shareholders at the annual general meeting to be convened on Tuesday, 15 June 2010, the proposed final dividend will be paid on or about 30 July 2010 to shareholders whose names appear on the Register of Members of the Company on 15 June 2010 ("Record Date").

WITHHOLDING OF ENTERPRISE INCOME TAX FOR NON-RESIDENT CORPORATE SHAREHOLDERS

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

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

If any resident enterprise (as defined in the EIT Law) whose name appears on the H Share Register of Members which is duly incorporated in the PRC or under the laws of a foreign country (or a territory) but with a PRC-based de facto management body does not wish to have the 10% enterprise income tax to be withheld by the Company, it should lodge all transfers with and submit a legal opinion issued by a PRC certified lawyer (with affixation of common seal of the law firm thereto) that establishes its resident enterprise status to the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 14 May 2010. Any natural person investor whose H shares are registered in the name of any such non-individual shareholders and who does not wish to have any enterprise income tax to be withheld by the Company, may consider transferring the legal title of the relevant H shares into his or her own name and lodging all relevant transfer instruments accompanied by the H share certificates with the Company's H Share Registrars for registration no later than 4:30 p.m. on 14 May 2010. Shareholders are recommended to consult their tax advisors regarding tax issues in respect of the ownership and disposal of H shares in the PRC and Hong Kong and other tax effects.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 17 May 2010 to Tuesday, 15 June 2010 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and attending and voting at the annual general meeting, all transfers accompanied by the relevant shares certificates must be lodged with the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 14 May 2010.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31 December 2009, equity attributable to the shareholders of the Group amounted to approximately RMB4,045.4 million (31 December 2008: approximately RMB3,418.3 million). The Group funded its working capital by internal cash flow and proceeds of approximately HK$1,306 million raised from the IPO in Hong Kong last year. As at 31 December 2009, the Group's gearing ratio(calculated as borrowings divided by total capital (total capital comprises equity and borrowings as shown in the consolidated financial statements)) was approximately 22.6% (31 December 2008: 22%). The Group's current ratio (being the current assets as a percentage of current liabilities) improved to 1.57:1 in 2009 from 1.49:1 in 2008.

As at 31 December 2009, cash, bank balances and time deposits (including restricted cash) were approximately RMB2,607.1 million, indicating a healthy financial position. (31 December 2008: approximately RMB2,622.6 million)

FINANCIAL HIGHLIGHTS

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

INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group invested approximately RMB419.1 million in acquisition of property, plant and equipment for business expansion (31 December 2008: approximately RMB340.9 million). Details of the changes in investment properties, property, plant and equipment of the Group and the Company are set out in Note 7 and Note 6 to the consolidated financial statements respectively.

SHARE CAPITAL

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

There was no change in the share capital of the Company during the year ended 31 December 2009. Details of the share capital of the Company are set out in Note 18 to the consolidated financial statements.

RESERVES

Details of changes in reserves of the Group and the Company during the year under review are set out in Note 19 to the consolidated financial statements.

CHARITY DONATIONS

During the period, the Group's charity donation amounted to approximately RMB1.4 million (31 December 2008: approximately RMB2.71 million).

MAJOR CUSTOMERS AND SUPPLIERS

Set out below are revenues derived from products sales and service provision to major customers as a percentage of the Group's total revenue during the reporting period:

Chongqing Second Light Industry Supply and Marketing Corporation (重慶二輕工業供銷總公司)	6.38%
Chongqing Port Logistics Economic and Trade Co., Ltd.	2.00%
Cummins (China) Investment Co., Ltd.	1.94%
Zhengzhou Yutong Bus Co., Ltd.	1.81%
Kinglong United Automobile Industry (Suzhou) Co., Ltd.	0.95%
Total amount of the top five customers	13.08%

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

Set out below are costs expensed for purchase of products and services from major suppliers as a percentage of the Group's total cost of sales during the reporting period:

Chongqing Port Logistic Economic and Trade Co., Ltd.	6.91%
Chongqing Yunnan Copper Co., Ltd.(重慶雲南銅業有限公司)	6.45%
Chongqing Xinchao Industrial Co., Ltd.	2.27%
Chongqing Jindui Industrial Co., Ltd.(重慶金兑實業有限公司)	2.08%
Chongqing Bosai Minerals Group Co., Ltd. (重慶市博賽礦業(集團)股份有限公司)	1.60%
Total amount of the top five suppliers	19.31%

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

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

COMPETING INTEREST

As at 31 December 2009, the non-competition agreement entered into by and between the Company and Chongqing Machinery and Electronic Holding (Group) Co., Ltd. (the Parent company of the Company) on 18 January 2008 remained effective. Please refer to the Prospectus for details.

DIRECTORS AND SUPERVISORS

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

Executive Directors	**Appointment Date**
Sun Nengyi *(Chairman)*	27 July 2007 (resigned on 31 August 2009)
Xie Hua Jun *(Chairman)*	31 August 2009
He Yong	27 July 2007
Liao Shaohua	27 July 2007
Chen Xianzheng	27 July 2007
Non-executive Directors	
Huang Yong	27 July 2007
Yu Gang	27 July 2007
Yang Jingpu	9 August 2007
Wu Jian	27 July 2007
Independent Non-executive Directors	
Lo Wah Wai	10 January 2008
Ren Xiaochang	27 July 2007
Kong Weiliang	27 July 2007
Supervisors	
Duan Rongsheng	27 July 2007
Ye Zusheng	27 July 2007 (resigned on 31 August 2009)
Liao Rong	31 August 2009
Wang Rongxue	27 July 2007
He Xiaoping	27 July 2007
Wang Xuqi	27 July 2007
Wu Chongjiang	27 July 2007

CONFIRMATION OF INDEPENDENCY OF INDEPENDENT NONEXECUTIVE DIRECTORS

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

DIRECTORS' SERVICE CONTRACTS

Chairman of the Board and other executive directors of the Company all entered into service contracts with the Company in March 2008 and September 2009. Pursuant to such service contracts and the Articles of Association, except for Xie Hua Jun whose term commenced from September 2009 and will expire on the expiry date of the current Board session, each Executive Director will hold office for a term of three years starting from their respective appointment date. Upon expiry, such contracts can be renewed under the relevant provisions of the Articles of Association and the Listing Rules, and Directors may offer themselves for re-election at annual general meetings. The contract may be terminated by giving not less than three months' notice in writing by either party on the other, or according to terms thereof.

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

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

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

BIOGRAPHIES OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Biographical details of Directors, Supervisors and senior management of the Company are set out on pages 48 to 59 of this annual report.

DIRECTORS' REMUNERATION

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

INTERESTS OF DIRECTORS AND SUPERVISORS IN CONTRACTS AND CONNECTED TRANSACTIONS

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

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the year ended 31 December 2009, none of the Company and its subsidiaries purchased, sold or redeemed any listed securities of the Company.

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

As at 31 December 2009, none of the directors, chief executive or supervisors of the Company had any interests or short positions in the shares, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange.

DIRECTORS' RIGHTS TO ACQUIRE SHARES AND BONDS

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

SIGNIFICANT LITIGATION

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

SIGNIFICANT EVENTS

Please refer to page 34 of this Annual report.

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

As at 31 December 2009, so far as the Directors are aware, the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

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

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

(L): *Long Position*

H shares of RMB$1.00 each of the Company

Name of Shareholders	Number of shares	Capacity	Note	Percentage of total issued H shares *(%)*	Percentage of total issued shares *(%)*
GE Asset Management Incorporated	100,244,000	Beneficial owner		9.11(L)	2.72(L)
National Council for Social Security Fund	95,287,470	Beneficial owner		8.66(L)	2.59(L)
Hang Seng Bank Trustee International Limited	89,702,000	Trustee (Other than a bare trustee)	(3)	8.15(L)	2.43(L)
To Hau Yin	89,702,000	Interest of child under 18 and or spouse	(3)	8.15(L)	2.43(L)
Cheah Cheng Hye	89,702,000	founder of discretionary trust	(3)	8.15(L)	2.43(L)
Value Partners Group Limited	89,702,000	Interest in controlled corporations	(3)	8.15(L)	2.43(L)
Value Partners Limited	89,702,000	Investment manager	(3)	8.15(L)	2.43(L)
Cheah Company Limited	89,702,000	Interest in controlled corporations	(3)	8.15(L)	2.43(L)
Cheah Capital Management Limited	89,702,000	Interest in controlled corporations	(3)	8.15(L)	2.43(L)
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000	Interest in custodian's company	(4)	7.93(L)	2.37(L)
The Bank of New York Mellon Corporation	87,276,000	Interest in controlled corporations	(4)	7.93(L) 7.93(P)	2.37(L) 2.37(P)
The Hamon Investment Group Pte Limited	78,394,000	Investment manager	(5)	7.13 (L)	2.13(L)
The Dreyfus Corporation	67,180,000	Investment manager		6.11(L)	1.82(L)
UBS AG	66,571,265	Beneficial owner, interest in controlled corporation and person having a security interest in shares	(6)	6.05(L)	1.81(L)

(L): Long Position
(P): Lending Pool

Notes:

1. Chongqing Machinery and Electronic Holding (Group) Co., Ltd., Chongqing Yufu Asset Management Co., Ltd. and Chongqing Jiangong Group Co.,Ltd. were wholly owned by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government which was deemed to be interested in 1,924,225,189 domestic shares, 232,132,514 domestic shares and 232,132,514 domestic shares of the Company respectively.

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

3. Value Partners Limited holds 89,702,000 H shares of the Company directly as investment manager. Value Partners Limited is wholly controlled by Value Partners Group Limited, which in turn is controlled as to 35.65% by Cheah Capital Management Limited. Cheah Capital Management Limited is wholly controlled by Cheah Company Limited, which in turn is wholly controlled by Hang Seng Bank Trustee International Limited (as trustee of The C H Cheah Family Trust). Cheah Cheng Hye is the founder of the said trust while To Hau Yin is the spouse of Cheah Cheng Hye. The interested in 89,702,000 H shares mentioned above relates to the same block of shares in the Company.

4. The Bank of New York Mellon Corporation holds 100% interest in The Bank of New York Mellon (formerly known as "The Bank of New York"), which holds 87,276,000 of H shares of the Company. The interest in 87,276,000 H shares relates to the same block of shares in the Company and includes a lending pool of 87,276,000 of H shares of the Company.

5. The Hamon Investment Group Pte Limited was interested in 78,394,000 H shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	**Percentage of ownership in controlled corporation** *(%)*	**Number of shares**
Hamon Asset Management Limited	100	6,514,000
Hamon U.S. Investment Advisors Limited	100	67,180,000
Hamon Investment Management Limited	100	4,700,000

6. UBS AG was interested in 66,571,265 H shares of the Company, among which 53,738,365 shares by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	**Percentage of ownership in controlled corporation** *(%)*	**Number of shares**
UBS Global Asset Management (Americas) Inc	100	51,854,409
UBS Global Asset Management (Australia) Ltd	100	1,883,956

Save as disclosed above, the directors are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were require to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2009.

CONTINUING CONNECTED TRANSACTIONS

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

Continuing connected transactions

Master Sales Agreement

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

Additionally, in case where there is a material fluctuation in the prices of any or all of the Products, the parties will re-negotiate the terms of the Master Sales Agreement in good faith by way of entering into a supplemental agreement or a new master sales agreement. The Master Sales Agreement is valid for a period of three years from the date of the agreement and renewable for another three years by the Company giving at least three months' notice prior to the expiry of the initial term. Pursuant to this agreement and the caps adjusted at the Company's extraordinary general meeting held on 25 June 2009 ("EGM"), the annual caps of sales amounts for the three years ended 2008, 2009 and 2010 are set at RMB62 million, RMB130 million and RMB160 million respectively.

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

- price set by the PRC Government; if no such price, or

- not lower than the maximum of the guide prices set by the PRC Government for such Products; if there is no set price and no guide prices, or

- market price as reference; if there is no market price for certain products as reference, or

- an agreed price which is equivalent to the actual or reasonable costs of producing such Products of the Group together with a reasonable profit. A "reasonable profit" is a profit that is agreed between the parties as being no more than 10% of the actual cost or reasonable cost incurred for the provision of the Products.

For the year ended 31 December 2009, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB83.7 million.

Master Supplies Agreement

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

Additionally, in case where there is a material fluctuation in the price of any or all of the Supplies, the parties will re-negotiate the terms of the Master Supplies Agreement in good faith by way of entering into a supplemental agreement or a new master supplies agreement. The Master Supplies Agreement is valid for a period of three years from the date of the agreement and renewable for another three years by the Company giving at least three months' notice prior to the expiry of the initial term. According to the agreement and the caps adjusted at the EGM, the annual caps of supplies amounts for the three years ended 2008, 2009 and 2010 are set at RMB56.9 million, RMB120 million and RMB140 million respectively.

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

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

For the year ended 31 December 2009, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB112.3 million.

Master Leasing Agreement

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

According to the agreement, the Parent Group leased a total area of 176,274 sq.m. and 18,236 sq.m. of land and buildings respectively to the Company. The Master Leasing Agreement is valid for a period of three years and renewable for another three years by the Company giving three months' notice prior to the expiry of the initial term. According to the agreement and the caps adjusted at the EGM, the annual caps of leasing amounts for the three years ended 2008, 2009 and 2010 are set at RMB10 million, RMB17 million and RMB22 million respectively.

For the year ended 31 December 2009, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB12.7 million.

Master Integrated Service Agreement

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

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

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

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

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

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

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

For the year ended 31 December 2009, the services fee paid by the Company to the Parent Company and its associates under the Master Integrated Service Agreement was approximately RMB0.1 million.

Equipment Leasing Agreement

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

As agreed by both parties, the rent payable by Huahao Smelting for each of the three years ended 31 December 2010 was RMB0.376 million. During the year ended 31 December 2009, the Company no longer leased production equipment under the Equipment Leasing Agreement from the Parent Company and its associates.

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

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

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

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

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

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

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

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

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

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

PRE-EMPTIVE RIGHTS

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

COMMITTEES UNDER THE BOARD

The Company has established Audit Committee and Remuneration Committee. Biographical details of committees under the Board are set out in the section of Corporate Governance on pages 84 to 91 of this annual report.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2009, the Group had a total of approximately 17,372 employees (31 December 2008: 14,819 employees). The increase in the number of employees was due to the acquisition of equity interests in Qijiang Gear and Qijiang Forging in February 2009. Their salaries are determined based on the market trends and their performance, and welfare includes insurance and pension schemes.

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

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

POST BALANCE SHEET DATE EVENTS

Details of a significant event after the balance sheet date are set out in Note 43 to the consolidated financial statements.

PUBLIC FLOAT

During the year ended 31 December 2009, the Company had 1,100,187,470 H shares in its total share capital of 3,684,640,154 shares. Therefore, public shareholding was 29.86%, indicating a sufficient public float throughout the year.

AUDITORS

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

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

The annual results announcement has been published on the Company's website (http://www.chinacqme.com) and the Stock Exchange's website (http://www.hkex.com.hk).The annual report will also be available at the Company's and the Stock Exchange's websites on or about 10 April 2010 and will be dispatched to shareholders of the Company thereafter according to the means they chose to receive corporate communications.

By Order of the Board
Executive Director and Chairman
Xie Hua Jun

Chongqing, the PRC, 10 April 2010

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

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

During the reporting period, the Supervisory Committee performed its duties in an active and effective way and fulfilled its tasks in a diligent and prudent manner. It reviewed the interim results, annual final accounts, financial budget and profit distribution plans of the Company as well as participated in the review of the auditor's report and made constructive advice through convening three meetings, attending three general meetings, sitting in ten Board meetings and conducting on-site inspections for relevant matters.

With respect to annual progress of the Company in 2009, the Supervisory Committee has the following views:

- The Supervisory Committee has supervised the operating activities of the Company. It believes that the Company has established a relatively mature internal control system and an internal control management structure, and has made great efforts to improve and execute the system and structure, such as the 12 internal control systems (including Management Regulations on Commissioned Audit, Management Measures for Investment Projects and Audit Method for Economic Responsibility) launched by the Company, this effectively prevented operating risks for the Company.

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

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

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

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

Based on supervision and inspection in 2009, the Supervisory Committee is of the opinion that the members of the Board, General Manager and other senior management members strictly complied with the principle of honesty, diligence, and good faith, acted truthfully in the best interest of the Company and performed their duties according to the Company's Articles of Association. The Company is operated rationally and the internal control is improving gradually. Transactions between the Company and its connected parties were conducted in the interests of the Company and the shareholders as a whole and on a fair and reasonable basis. As at the date hereof, none of the Directors, General Manager and other senior management was found abusing authority to impair the interests of Company and shareholders and the legitimate rights of its employees, or acting in contradiction with the laws, regulations and the Articles of Association of the Company.

The Supervisory Committee is satisfied with the business activities and results of the Company for 2009, and is confident in the prospect of the Company.

The Supervisory Committee has duly reviewed and approved the directors' report, audited financial report and other proposals to be proposed at the 2009 annual general meeting of the Company.

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

Chongqing, the PRC, 10 April 2010

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICE

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

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2009 in compliance with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted procedures governing directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Specific confirmation has been obtained from all directors to confirm compliance with the Model Code during the year ended 31 December 2009.

THE BOARD

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

According to Provision A2.1 of Code on Corporate Governance Practices, the Chairman and General Manager should be assumed by different members of the Board with distinct roles and responsibility. Mr. Xie Hua Jun was appointed by the Board as an executive director and Chairman of the Company on 31 August 2009, who is responsible for the Group's overall strategic planning and provides such leadership to the Board that the Board can operate effectively and timely discusses all significant matters. Mr. Sun Nengyi, having reached the statutory retirement age, had resigned as an executive director and Chairman of the Company with effect from 31 August 2009. The General Manager, Mr. He Yong, is an executive director and is responsible for the Group's daily operation and business directions. The management is responsible for the daily operation and management.

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

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

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

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

ATTENDANCE OF DIRECTORS TO BOARD MEETINGS

From 1 January 2009 to 31 December 2009, the Board held 10 meetings.

Attendance of Directors to the Board meetings is as follows:

Name of Director	Position	Meetings attended/ total meetings held
Sun Nengyi (Resigned on 31 August 2009)	Executive Director, Chairman	7/10
Xie Hua Jun (Appointed on 31 August 2009)	Executive Director, Chairman	3/10
He Yong	Executive Director	10/10
Liao Shaohua	Executive Director	10/10
Chen Xianzheng	Executive Director	10/10
Huang Yong	Non-executive Director	10/10
Yu Gang	Non-executive Director	10/10
Yang Jingpu	Non-executive Director	10/10
Wu Jian	Non-executive Director	10/10
Lo Wah Wai	Independent Non-executive Director	10/10
Ren Xiaochang	Independent Non-executive Director	10/10
Kong Weiliang	Independent Non-executive Director	10/10

Biographical details of Directors are set out on pages 48 to 53 of this annual report.

THE TERM OF OFFICE OF INDEPENDENT NON-EXECUTIVE DIRECTOR

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

REMUNERATION COMMITTEE

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

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

The Remuneration Committee convened 1 meeting during the year, attendance of which is as follows:

Name of Director	Position	Meetings attended/ total meetings held
Ren Xiaochang *(Chairman)*	Independent Non-executive Director	1/1
Lo Wah Wai	Independent Non-executive Director	1/1
Yu Gang	Non-executive Director	1/1

NOMINATION COMMITTEE

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

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

The Nomination Committee convened 2 meetings after the listing of the Company, attendance of which is as follows:

Name of Director	Position	Meetings attended/ total meetings held
Kong Weiliang *(Chairman)*	Independent Non-executive Director	2/2
Ren Xiaochang	Independent Non-executive Director	2/2
Huang Yong	Non-executive Director	2/2

AUDIT COMMITTEE

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

At the moment, the Audit Committee consists of 2 independent non-executive Directors and 1 non-executive Director. The Remuneration Committee convened 3 meetings during the year, attendance of which is as follows:

Name of Director	Position	Meetings attended/ total meetings held
Lo Wah Wai *(Chairman)*	Independent Non-executive Director	3/3
Kong Weiliang	Independent Non-executive Director	3/3
Wu Jian	Non-executive Director	3/3

During the year, the Audit Committee approved at the meeting, the 2009 Condensed Consolidated Interim Financial Statements as reviewed by PricewaterhouseCoopers, considered and discussed the accounting policies as set out in the financial report and the Company's financial position and internal control with external auditors, qualified accountants and the management.

SUPERVISORY COMMITTEE

The Supervisory Committee comprises 6 members, 2 of whom are independent Supervisors. The Supervisory Committee is responsible for supervising the Board and its members as well as the senior management, so as to safeguard the interests of the Shareholders. In 2009, the Supervisory Committee has examined the financial position and the legal compliance of the operations of the Company and conducted the due diligence review of the senior management through convening Supervisory Committee's meetings and attending the Board meetings, and general meetings of the Company, as well as undertaking its duties in a proactive and diligent manner under the principles of due care.

Mr. Ye Zushen resigned as a Supervisor of the Company with effect from 31 August 2009. Meanwhile, Ms. Liao Rong was appointed as a Supervisor of the Company with effect from 31 August 2009.

INTERNAL CONTROL

During the year, the Board implemented an internal control system with an aim to reasonably ensure the safeguard of the assets of the Group, the proper maintenance of accounting records, the compliance with relevant laws and the availability of complete and reliable financial information to the management. The Board also constantly improved the internal control system to better identify and control investment and business risks of the Group. However, such a system was not designed to completely eliminate the risk of failure to achieve the business objectives of the Group. Therefore it can provide reasonable but not absolute assurance against material misstatement of the management as well as financial information and records, or financial fraud or losses.

The internal audit department of the Company supervises the compliance with the asset preservation policy and the efficacy and efficiency of operational procedures, formulates regular audit plans to determine the focus and frequency of inspections and makes advice and suggestions for improvement.

ENHANCEMENT OF INTERNAL CONTROL

In order to better play its role as "convoy escort" and create an "third defense line" for the risk management of the Company, the Company carried out an overall inspection on the internal audits of its subsidiaries and obtained exact information on the status and improvements of the internal audits of the Company during the year. On 16 October 2009, a seminar on internal audit was convened by the Supervisory Committee requiring attendance of subsidiaries of the Company, at which the following internal audit objectives were set:

1. To carry out a comprehensive analysis on staff positions, scientifically valuate and reasonably formulate position missions and duties, skill requirements and key performance indicators, aiming at effective human resources management;

2. To expand internal audit department and its independency, staffed with audit persons and promote experienced talents to be included in the rank assessment for annual-based salary system for management leaders;

3. To implement an overall hierarchical management system, with a view to ensure that the key subsidiaries be staffed with audit persons to perform internal audits for subordinate enterprises and correct business objectives and management measure in a timely manner.

ACCOUNTABILITY AND AUDITORS

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

The Company has appointed PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company as the international and PRC auditors of the Company respectively. The fees for the services provided by the above auditors to the Group for the year ended 31 December 2009 amounted to approximately RMB8.4 million (2008: approximately RMB9.27 million.).

GENERAL MEETINGS

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

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

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

The Company has established a department to be responsible for investor relations and places strong emphasis on its communications with investors, and considers that maintaining an on-going and open communications with investors can promote investors' understanding of and confidence in the Company. During the year, the Company organized a number of roadshows, investors' conferences and telephone interviews and communicated with over 90 different institutional investors in order to enhance the Group's relationship with the investor community and its understanding of the Group's operations and developments.

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

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

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

We have audited the consolidated financial statements of Chongqing Machinery & Electric Co., Ltd (the "Company") and its subsidiaries (together, the "Group") set out on pages 94 to 240, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2009 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 10 April 2010

BALANCE SHEETS

(All amounts in RMB unless otherwise stated)

		Group		Company	
		As at 31 December		As at 31 December	
		2009	2008	**2009**	2008
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	6	**1,659,174**	1,182,845	**2,848**	2,208
Investment properties	7	**24,108**	26,498	**—**	—
Lease prepayments	8	**274,741**	279,223	**—**	—
Intangible assets	9	**84,910**	47,555	**—**	—
Investments in associates	10	**427,661**	641,597	**198,294**	383,149
Investments in subsidiaries	11	**—**	—	**1,811,988**	1,219,554
Investments in jointly controlled entities	12	**—**	—	**200,929**	200,929
Trade and other receivables	14	**—**	—	**178,957**	193,957
Deferred income tax assets	23	**66,891**	72,951	**—**	—
Available-for-sale financial assets		**6,545**	3,318	**—**	—
Other non-current assets		**10,186**	169	**—**	—
		2,554,216	2,254,156	**2,393,016**	1,999,797
Current assets					
Inventories	13	**1,290,816**	1,232,120	**—**	—
Trade and other receivables	14	**2,130,646**	1,230,764	**209,261**	62,694
Amount due from customers for contract work	15	**157,766**	181,162	**—**	—
Available-for-sale financial assets		**8,000**	—	**—**	—
Held-to-maturity financial assets		**—**	5,000	**—**	—
Restricted cash	16	**419,758**	314,190	**—**	—
Cash and cash equivalents	17	**2,187,362**	2,308,454	**983,827**	1,053,287
		6,194,348	5,271,690	**1,193,088**	1,115,981
Total assets		**8,748,564**	7,525,846	**3,586,104**	3,115,778

(All amounts in RMB unless otherwise stated)

		Group		Company	
		As at 31 December		As at 31 December	
		2009	2008	**2009**	2008
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	18	**3,684,640**	3,684,640	**3,684,640**	3,684,640
Reserves	19	**(882,299)**	(952,715)	**(895,843)**	(933,489)
Retained earnings					
— Proposed final dividend	20	**221,078**	—	**221,078**	—
— Others	19	**1,021,973**	686,420	**332,162**	16,864
		4,045,392	3,418,345	**3,342,037**	2,768,015
Minority interest		**73,880**	52,494	**—**	—
Total equity		**4,119,272**	3,470,839	**3,342,037**	2,768,015
LIABILITIES					
Non-current liabilities					
Borrowings	21	**355,968**	273,995	**179,000**	194,000
Deferred income	22	**166,381**	105,312	**—**	—
Deferred income tax liabilities	23	**11,251**	393	**—**	—
Long-term employee benefit obligations	24	**144,563**	131,830	**—**	—
		678,163	511,530	**179,000**	194,000

(All amounts in RMB unless otherwise stated)

	Note	Group As at 31 December 2009 RMB'000	Group As at 31 December 2008 RMB'000	Company As at 31 December 2009 RMB'000	Company As at 31 December 2008 RMB'000
Current liabilities					
Trade and other payables	25	**3,013,883**	2,727,724	**50,067**	147,763
Amount due to customers for contract work	15	**14,414**	11,906	**—**	—
Current income tax liabilities		**46,167**	71,279	**—**	—
Borrowings	21	**843,857**	700,790	**15,000**	6,000
Current portion of long-term employee benefit obligations	24	**13,346**	8,160	**—**	—
Provisions for warranty	26	**19,462**	23,618	**—**	—
		3,951,129	3,543,477	**65,067**	153,763
Total liabilities		**4,629,292**	4,055,007	**244,067**	347,763
Total equity and liabilities		**8,748,564**	7,525,846	**3,586,104**	3,115,778
Net current assets		**2,243,219**	1,728,213	**1,128,021**	962,218
Total assets less current liabilities		**4,797,435**	3,982,369	**3,521,037**	2,962,015

The notes on pages 104 to 240 are an integral part of these financial statements.

The financial statements on pages 94 to 240 were approved by the Board of Directors on 10 April 2010 and were signed on its behalf.

Director *Director*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2009	2008
	Note	***RMB'000***	*RMB'000*
Revenue	5	**6,893,290**	5,949,655
Cost of sales	27	**(5,646,278)**	(4,774,237)
Gross profit		**1,247,012**	1,175,418
Distribution costs	27	**(253,056)**	(213,005)
Administrative expenses	27	**(534,386)**	(547,126)
Other gains, net	29	**47,375**	13,486
Other income	30	**66,606**	35,160
Operating profit		**573,551**	463,933
Finance income		**35,208**	43,904
Finance costs		**(66,620)**	(86,586)
Finance costs, net	31	**(31,412)**	(42,682)
Share of profit of associates	10	**142,331**	181,306
Profit before income tax		**684,470**	602,557
Income tax expense	32	**(59,914)**	(78,676)
Profit for the year		**624,556**	523,881

(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2009	2008
	Note	***RMB'000***	*RMB'000*
Other comprehensive income:			
Recognition of fair value change relating to acquisition of subsidiary		**30,612**	—
Change in fair value of available-for-sale financial assets		**3,227**	(6,442)
Income tax relating to change in fair value of available-for-sale financial assets		**(1,069)**	966
Other comprehensive income for the year, net of tax		**32,770**	(5,476)
Total comprehensive income for the year		**657,326**	518,405
Profit attributable to:			
Equity holders of the Company		**594,277**	503,531
Minority interest		**30,279**	20,350
		624,556	523,881

(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2009	2008
	Note	***RMB'000***	*RMB'000*
Total comprehensive income attributable to:			
Equity holders of the Company		**627,047**	498,055
Minority interest		**30,279**	20,350
		657,326	518,405
Earning per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic and diluted	34	**0.16**	0.16
Dividends proposed after the balance sheet date to all shareholders	20	**221,078**	—

The notes on pages 104 to 240 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in RMB unless otherwise stated)

		Attributable to equity holders of the Company					
		Share capital	Other reserves	Retained earnings	Total	Minority interest	Total equity
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
			Note 19	*Note 19*			
Balance at 1 January 2008		2,679,740	(1,032,248)	218,241	1,865,733	46,542	1,912,275
Comprehensive income							
Profit for the year		—	—	503,531	503,531	20,350	523,881
Other comprehensive income							
Changes in fair value of available-for-sales financial assets, net of tax		—	(5,476)	—	(5,476)	—	(5,476)
Total comprehensive income		—	(5,476)	503,531	498,055	20,350	518,405
Transactions with owners							
Proceeds from issuance of share capital		1,004,900	149,200	—	1,154,100	—	1,154,100
Share issuance costs		—	(99,543)	—	(99,543)	—	(99,543)
Dividends		—	—	—	—	(29,350)	(29,350)
Capital contribution of cash from minority shareholders		—	—	—	—	14,952	14,952
Transfer to reserves		—	35,352	(35,352)	—	—	—
Total transactions with owners		1,004,900	85,009	(35,352)	1,054,557	(14,398)	1,040,159
Balance at 31 December 2008		3,684,640	(952,715)	686,420	3,418,345	52,494	3,470,839

(All amounts in RMB unless otherwise stated)

		Attributable to equity holders of the Company					
	Note	Share capital RMB'000	Other reserves RMB'000 Note 19	Retained earnings RMB'000 Note 19	Total RMB'000	Minority interest RMB'000	Total equity RMB'000
Balance at 1 January 2009		3,684,640	(952,715)	686,420	3,418,345	52,494	3,470,839
Comprehensive income							
Profit for the year		—	—	594,277	594,277	30,279	624,556
Other comprehensive income							
Recognition of fair value change relating to acquisition of subsidiary	38	—	30,612	—	30,612	—	30,612
Changes in fair value of available-for-sales financial assets, net of tax		—	2,158	—	2,158	—	2,158
Total other comprehensive income		—	32,770	—	32,770	—	32,770
Total comprehensive income		—	32,770	594,277	627,047	30,279	657,326
Transactions with owners							
Dividends		—	—	—	—	(9,049)	(9,049)
Capital contribution of cash from minority shareholders		—	—	—	—	156	156
Transfer to reserves		—	37,646	(37,646)	—	—	—
Total transactions with owners		—	37,646	(37,646)	—	(8,893)	(8,893)
Balance at 31 December 2009		3,684,640	(882,299)	1,243,051	4,045,392	73,880	4,119,272

The notes on pages 104 to 240 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in RMB unless otherwise stated)

	Note	Year ended 31 December 2009 RMB'000	2008 RMB'000
Cash flows from operating activities			
Cash generated from operations	35	**343,384**	580,473
Interest paid		**(66,413)**	(84,556)
Income tax paid		**(78,084)**	(51,491)
Net cash generated from operating activities		**198,887**	444,426
Cash flows from investing activities			
Proceeds from return of investments		**36,506**	—
Purchase of available-for-sale financial assets		**(8,000)**	—
Additional investment to associates		**—**	(16,720)
Purchase of held-to-maturity investments		**—**	(5,000)
Purchases of property, plant and equipment and investment properties		**(420,554)**	(360,701)
Increase in lease prepayments		**(2,744)**	(26,121)
Purchase of intangible assets		**(4,648)**	(3,944)
Acquisition of subsidiary, net of cash acquired	38	**(172,086)**	—
Proceeds from disposal of property, plant and equipment	35	**22,956**	6,830
Interest received		**35,208**	43,904
Dividends received		**131,042**	26,357
Net cash used in investing activities		**(382,320)**	(335,395)

(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2009	2008
	Note	***RMB'000***	*RMB'000*
Cash flows from financing activities			
Proceeds from borrowings		**919,161**	720,062
Repayments of borrowings		**(796,382)**	(578,092)
Proceeds from issuance of new shares		**—**	1,075,192
Share issuance costs paid		**(14,252)**	(31,103)
Finance lease paid		**(5,550)**	(1,392)
Contribution from minority shareholders		**156**	14,952
Dividends paid to equity holders of the Company		**—**	(5,566)
Dividends paid to jointly controlled entities shareholders		**(36,623)**	—
Dividends paid to minority shareholders		**(2,866)**	(28,901)
Net cash generated from financing activities		**63,644**	1,165,152
Net (decrease)/increase in cash and cash equivalents		**(119,789)**	1,274,183
Cash and cash equivalents at beginning of the year		**2,308,454**	1,036,079
Exchange losses on cash and cash equivalents		**(1,303)**	(1,808)
Cash and cash equivalents at end of the year	17	**2,187,362**	2,308,454

The notes on pages 104 to 240 are an integral part of these financial statements.

1. GENERAL INFORMATION

Chongqing Machinery & Electric Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") are principally engaged in manufacturing and sales of commercial vehicle parts and components, general machinery, machinery tools and power equipment. The Group has operations mainly in the People's Republic of China (the "PRC" or "China").

The Company was established in the PRC on 27 July 2007 as a joint stock company with limited liability as part of the reorganisation of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. ("CQMEHG") in preparation for a listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited. CQMEHG is a state-owned enterprise established in the PRC and has been directly under the administration and control of the State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government. The address of the Company's registered office is No. 155, Zhongshan Third Road, Yu Zhong District, Chongqing 400015, the PRC.

The H shares of the Company were listed on the Main Board of the Stock Exchange of Hong Kong Limited on 13 June 2008. Details of movements in the Company's share capital are set out in Note 18 to the consolidated financial statements.

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 10 April 2010.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of preparation

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

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has adopted the following new and amended HKFRSs as of 1 January 2009:

- HKFRS 7 'Financial instruments - Disclosures' (amendment) - effective 1 January 2009. The amendment requires enhanced disclosures about fair value measurement and liquidity risk. In particular, the amendment requires disclosure of fair value measurements by level of a fair value measurement hierarchy. As the change in accounting policy only results in additional disclosures, there is no impact on earnings per share.

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

2.1 Basis of preparation *(Continued)*

(a) New and amended standards adopted by the Group *(Continued)*

- HKAS 1 (revised). 'Presentation of financial statements' - effective 1 January 2009. The revised standard prohibits the presentation of items of income and expenses (that is, 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity in a statement of comprehensive income. As a result the Group presents in the consolidated statement of changes in equity all owner changes in equity, whereas all non-owner changes in equity are presented in the consolidated statement of comprehensive income. Comparative information has been re-presented so that it also is in conformity with the revised standard. Since the change in accounting policy only impacts presentation aspects, there is no impact on earnings per share.

- HKAS 23 (amendment), 'Borrowing costs' - effective 1 January 2009. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs is removed. The Group has already adopted the policy in prior years to capitalise eligible borrowings costs, including borrowing costs of funds borrowed generally and used for the purpose of obtaining a qualifying asset, therefore the revised standard has no material impact on the Group's financial statements.

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

2.1 Basis of preparation *(Continued)*

(a) New and amended standards adopted by the Group *(Continued)*

- HKFRS 8, 'Operating segments' - effective 1 January 2009. HKFRS 8 replaces HKAS 14, 'segment reporting', and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented. In addition, the segments are reported in a manner that is more consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated by management to groups of cash-generating units on a segment level, the change in reportable segments has required a reallocation of goodwill of RMB15,380,000 from the 'commercial vehicle parts' operating segment to 'all other segments'. Comparatives for 2008 in Note 5 have been restated. However, such restatement in note disclosure does not have any impact on the balance sheets.

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

2.1 Basis of preparation *(Continued)*

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

The following standards and amendments to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2010 or later periods, but the Group has not early adopted them:

- HK(IFRIC) 17, 'Distribution of non-cash assets to owners' (effective on or after 1 July 2009). The interpretation is part of the HKICPA's annual improvements project published in May 2009. This interpretation provides guidance on accounting for arrangements whereby an entity distributes non-cash assets to shareholders either as a distribution of reserves or as dividends. HKFRS 5 has also been amended to require that assets are classified as held for distribution only when they are available for distribution in their present condition and the distribution is highly probable. The Group and the Company will apply HK(IFRIC) 17 from 1 January 2010. It is not expected to have a material impact on the Group's or the Company's financial statements.

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

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

2.1 Basis of preparation *(Continued)*

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

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

- HKAS 38 (amendment), 'Intangible Assets' (effective from 1 July 2009). The amendment is part of the HKICPA's annual improvements project published in May 2009 and the Group and the Company will apply HKAS 38 (amendment) from the date HKFRS 3 (revised) is adopted. The amendment clarifies guidance in measuring the fair value of an intangible asset acquired in a business combination and it permits the grouping of intangible assets as a single asset if each asset has similar useful economic lives. The amendment will not result in a material impact on the Group's or the Company's financial statements.

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

2.1 Basis of preparation *(Continued)*

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

- HKFRS 5 (amendment), 'Measurement of non-current assets (or disposal groups) classified as held-for-sale'. The amendment is part of the HKICPA's annual improvements project published in May 2009. The amendment provides clarification that HKFRS 5 specifies the disclosures required in respect of non-current assets (or disposal groups) classified as held for sale or discontinued operations. It also clarifies that the general requirement of HKAS 1 still apply, particularly paragraph 15 (to achieve a fair presentation) and paragraph 125 (sources of estimation uncertainty) of HKAS 1. The Group and the Company will apply HKFRS 5 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or the Company's financial statements.

- HKAS 1 (amendment), 'Presentation of financial statements'. The amendment is part of the HKICPA's annual improvements project published in May 2009. The amendment provides clarification that the potential settlement of a liability by the issue of equity is not relevant to its classification as current or non current. By amending the definition of current liability, the amendment permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) not withstanding the fact that the entity could be required by the counterparty to settle in shares at any time. The Group and the Company will apply HKAS 1 (amendment) from 1 January 2010. It is not expected to have a material impact on the Group's or the Company's financial statements.

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

2.1 Basis of preparation *(Continued)*

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

- HKFRS 2 (amendments), 'group cash-settled share-based payment transactions' (effective from 1 January 2010). In addition to incorporating HK(IFRIC)-Int 8, 'scope of HKFRS 2', and HK(IFRIC)-Int 11, 'HKFRS 2 - group and treasury share transactions', the amendments expand on the guidance in HK(IFRIC) 11 to address the classification of group arrangements that were not covered by the interpretation. The new guidance is not expected to have a material impact on the Group's financial statements.

2.2 Consolidation

(a) Subsidiaries

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

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable tangible and intangible assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement (Note 2.8).

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

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.9). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions and minority interest

The Group treats transactions with minority interest as transactions with equity holders of the Company. For purchases from minority interest, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to minority interest are also recorded in equity.

(c) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss. See Note 2.9 for the impairment of non-financial assets including goodwill.

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

2.2 Consolidation *(Continued)*

(c) Associates *(Continued)*

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

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

Dilution gains and losses in investments in associates are recognised in the income statement.

In the Company's balance sheet the investments in associated companies are stated at cost less provision for impairment losses (Note 2.9). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

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

2.2 Consolidation *(Continued)*

(d) Jointly controlled entities

A jointly controlled entity is a joint venture in respect of which a contractual arrangement is established among the participating venturers whereby the Group together with the other venturers undertakes an economic activity which is subject to joint control and none of the venturers has unilateral control over the economic activity. The Group's interests in jointly controlled entities are accounted for by proportionate consolidation. The Group combines its share of the joint ventures' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint venture that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that result from the Group's purchase of assets from the joint venture until it re-sells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Company's balance sheet, the investments in jointly controlled entities are stated at cost less provision for impairment losses (Note 2.9). The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

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

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the operating management committee that makes strategic decisions.

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation when items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses are presented in the income statement within 'finance income or cost'.

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

2.4 Foreign currency translation *(Continued)*

(b) Transactions and balances *(Continued)*

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

Translation differences on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in profit or loss as part of the fair value gain or loss. Translation differences on non-monetary financial assets such as equities classified as available-for-sale are included in the available-for-sale reserve in equity.

2.5 Property, plant and equipment

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

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

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

2.5 Property, plant and equipment *(Continued)*

Depreciation is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.9).

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

Assets under construction represent buildings under construction and plant and equipment pending installation, and are stated at cost. Costs include construction and acquisition costs. No provision for depreciation is made on assets under construction until such time as the relevant assets are completed and ready for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

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

2.6 Investment properties

Investment properties, comprising office buildings, are held for long-term rental yields. Investment properties are initially recognised at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate the depreciable amounts over the estimated useful life of 45 years. The residual values and useful lives of investment properties are reviewed and adjusted as appropriate, at each balance sheet date. Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

2.7 Lease prepayments

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

2.8 Intangible assets

(a) Goodwill

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

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

2.8 Intangible assets *(Continued)*

(a) Goodwill *(Continued)*

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

(b) Technical know-how

Separately acquired technical know-how is shown at historical cost. Technical know-how acquired in a business combination is recognised at fair value at the acquisition date. Technical know-how has a finite useful life and is carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of technical know-how over its estimated useful life of 6 to 10 years.

(c) Brand and customer relationships

Brand and customer relationships acquired in a business combination are recognised at fair value at the acquisition date. Brand has an indefinite useful life and is tested annually for impairment and carried at cost less accumulated impairment losses. Customer relationships have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of customer relationships over the estimated useful life of 10 years.

(d) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives of 2 to 5 years.

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

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

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

Impairment testing of the investments in subsidiaries, associates or jointly controlled entities is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary, associate or jointly controlled entity in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.10 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell if their carrying amount is to be recovered principally through a sale transaction rather than through continuing use.

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

2.11 Financial assets

2.11.1 Classification

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade and other receivables', 'restricted cash' and 'cash and cash equivalents' in the balance sheet (Notes 2.16 and 2.17).

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

2.11 Financial assets *(Continued)*

2.11.1 Classification *(Continued)*

(c) *Available-for-sale financial assets*

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

(d) *Held-to-maturity financial assets*

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

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

2.11 Financial assets *(Continued)*

2.11.2 Recognition and measurement

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

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

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

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

2.11 Financial assets *(Continued)*

2.11.2 Recognition and measurement *(Continued)*

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

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

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

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

2.13 Impairment of financial assets *(Continued)*

(a) Assets carried at amortised cost *(Continued)*

The criteria that the group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

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

2.13 Impairment of financial assets *(Continued)*

(a) Assets carried at amortised cost *(Continued)*

The Group first assesses whether objective evidence of impairment exists.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The asset's carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated income statement.

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

2.13 Impairment of financial assets *(Continued)*

(b) Assets classified as available-for-sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. For debt securities, the Group uses the criteria refer to (a) above. In the case of equity investments classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss - is removed from equity and recognised in the separate consolidated income statement. Impairment losses recognised in the separate consolidated income statement on equity instruments are not reversed through the separate consolidated income statement. If, in a subsequent period, the fair value of a debt instrument classified as available-for-sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the separate consolidated income statement.

2.14 Derivative financial instruments and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group has no derivative instruments that qualifying for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

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

2.15 Inventories

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

2.16 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

2.17 Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts.

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

2.18 Share capital

Share capital is classified as equity.

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

2.19 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

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

2.20 Borrowings and borrowing costs

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

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

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

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

2.21 Current and deferred income tax

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

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

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

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

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

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

2.21 Current and deferred income tax *(Continued)*

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee benefits

(a) Pension obligations

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

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

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

2.22 Employee benefits *(Continued)*

(a) Pension obligations *(Continued)*

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

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

(b) Other post-employment obligations

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

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

2.22 Employee benefits *(Continued)*

(c) Early retirement benefits

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

(d) Housing fund and other benefits

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

(e) Bonus entitlement

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

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

2.22 Employee benefits *(Continued)*

(f) Termination benefits

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

2.23 Provisions

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

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

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

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

2.24 Government grants

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

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

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

2.25 Construction contracts

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

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

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

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

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

2.25 Construction contracts *(Continued)*

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

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

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

2.26 Revenue recognition

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

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

2.26 Revenue recognition *(Continued)*

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

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

(b) Revenue from construction contracts

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

(c) Sales of services

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

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

2.26 Revenue recognition *(Continued)*

(d) Interest income

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

(e) Rental income

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

(f) Dividend income

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

2.27 Leases

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

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

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

2.27 Leases *(Continued)*

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

2.28 Research and development

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

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

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

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

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

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

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

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

2.28 Research and development *(Continued)*

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

No development costs were capitalised by the Group during the years ended 31 December 2009 and 2008.

2.29 Dividend distribution

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

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

Risk management is carried out by finance department under policies approved by the Board of Directors.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(a) Market risk

(i) Foreign exchange risk

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

As at 31 December 2009, if RMB had weakened/strengthened by 1% against HKD with all other variables held constant, the Group's net profit for the year would have been approximately RMB2,330,000 higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD-denominated bank deposits.

(ii) Cash flow and fair value interest rate risk

The Group's income and operating cash flows are substantially independent of changes in market interest rates. As at 31 December 2009, substantially all the Group's bank deposits and borrowings are at fixed rates, and certain borrowings are subject to the dynamic adjustments by the People's Bank of China and expose the Group to both cash flow interest rate risk and fair value interest-rate risk. The Group currently does not hedge its exposure to interest rate risk.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Cash flow and fair value interest rate risk (Continued)

As at 31 December 2009, if the interest rate of the Group's bank deposits had been increased/decreased by 10% and all other variables were held constant, the Group's net profit for the year would increase/decrease by approximately RMB2,993,000.

As at 31 December 2009, if the interest rate of the Group's bank borrowings had been increased/decreased by 10% and all other variables were held constant, the Group's net profit for the year would decrease/increase by approximately RMB5,247,000.

(b) Credit risk

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

As at 31 December 2009 and 2008, substantially all the Group's bank deposits are deposited in major banks which are state-owned entities incorporated in the PRC, which management believes are of high credit quality without significant credit risk. The Group's bank deposits as at 31 December 2009 and 2008 were as follows:

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Big four commercial banks *(i)*	**647,935**	602,225
Other listed banks	**1,910,286**	1,895,391
Other non-listed banks	**46,850**	123,624
	2,605,071	2,621,240

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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

All the Group's trade and other receivables have no collateral. However, the Group has policies in place to ensure that sales are made to customers with appropriate credit history and the Group performs periodic credit evaluations of its customers. The Group assesses the credit quality of each customer by taking into account its financial position, past experience and other factors. Credit limit and terms are reviewed on periodic basis, and the financial department is responsible for such monitoring procedures. In determining whether allowance for bad and doubtful debts is required, the Group takes into consideration the future cash flows, aging status and the likelihood of collection. In this regards, the directors of the Company are satisfied that the risks are minimal and adequate allowance for doubtful debts, if any, has been made in the financial statements after assessing the collectability of individual debts. Further quantitative disclosures in respect of the impairment of trade and other receivables are set out in Note 14.

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

(c) Liquidity risk

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

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

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

Group	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2009				
Bank borrowings	847,307	148,553	224,461	26,059
Other borrowings	37,016	—	—	—
Trade and other payables	2,708,383	—	—	—
At 31 December 2008				
Bank borrowings	714,040	52,697	184,942	90,523
Other borrowings	32,091	—	—	—
Trade and other payables	2,445,245	—	—	—

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

Company	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2009				
Bank borrowings	28,572	37,796	152,062	24,278
Trade and other payables	49,401	—	—	—
At 31 December 2008				
Bank borrowings	19,705	28,715	140,295	73,390
Trade and other payables	147,550	—	—	—

3.2 Capital risk management

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

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

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.2 Capital risk management *(Continued)*

The gearing ratios at 31 December 2009 and 2008 were as follows:

	31 December 2009	31 December 2008
	RMB'000	*RMB'000*
Total borrowings	**1,199,825**	974,785
Total equity	**4,119,272**	3,470,839
Total capital	**5,319,097**	4,445,624
Gearing ratio	**23%**	22%

3.3 Fair value estimation

Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value, this requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

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

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(Continued)*

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2009.

	Level 1	Level 2	Level 3	Total
Assets				
Available-for-sale financial assets				
— Equity securities	6,545	—	—	6,545
— Others	—	8,000	—	8,000
Total assets	6,545	8,000	—	14,545

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. A market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1. Instruments included in level 1 comprise primarily equity investments classified as trading securities or available-for-sale.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. These valuation techniques maximise the use of observable market data where it is available and rely as little as possible on entity specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(Continued)*

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted cash, trade and other receivables and held-to-maturity financial assets; and financial liabilities including trade and other payables, short-term borrowings, approximate their fair values due to their short maturities. The fair value of non-current financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments as disclosed in Note 21.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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

(a) Current income tax and deferred tax

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

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

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

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

As at 31 December 2009, the Group has deferred tax assets of approximately RMB66,891,000. To the extent that it is probable that taxable profit will be available against which the deductible temporary differences will be utilised, deferred tax assets are recognised for temporary differences arising from impairment provisions taken on inventory and receivables, deferred income, retirement benefit obligations and warranty and other accrued expense. Should the Group be required to increase the tax rate, every 1% increment in tax rate would render a further write up of deferred tax asset of approximately RMB4,380,000.

(b) Impairment of non-financial assets

Non-financial assets are reviewed for impairment in accordance with the accounting policy stated in Note 2.9. The recoverable amount of an asset or a cash-generating unit is determined based on value-in-use calculations. The value-in-use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value, which has been prepared on the basis of management's assumptions and estimates. Detailed sensitivity analyses have been performed and management is confident that the carrying amount of the relevant assets will be recovered in full.

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

(c) Pension benefits

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

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

Key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 24.

5. SEGMENT INFORMATION

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

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

The operating management committee assesses the performance of the operating segments based on a measure of operating profit. Interest income and expenditure are not included in the result for each operating segment that is reviewed by operating management committee.

5. SEGMENT INFORMATION *(CONTINUED)*

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

The segment information provided to the operating management committee for the reportable segments for the year ended 31 December 2009 is as follows:

	Engines *RMB'000*	Gear boxes *RMB'000*	Hydroelectric generation equipment *RMB'000*	Electrical wires and cables *RMB'000*	General machinery *RMB'000*	Machinery tools *RMB'000*	High-voltage transformers *RMB'000*	All other segments *RMB'000*	Total Group *RMB'000*
Segment revenue	986,195	650,542	299,459	1,713,276	1,174,308	1,324,632	–	754,549	6,902,961
Inter-segment revenue	–	–	–	(6,534)	–	(3,137)	–	–	(9,671)
Revenue from external customers	986,195	650,542	299,459	1,706,742	1,174,308	1,321,495	–	754,549	6,893,290
Operating profit	253,446	37,314	47,988	72,708	102,890	74,922	–	(15,717)	573,551
Finance income	6,738	474	3,364	4,015	3,621	4,996	–	12,000	35,208
Finance costs	301	(4,576)	(5,139)	(13,132)	(9,004)	(15,349)	–	(19,721)	(66,620)
Share of profit from associates	–	(3,311)	–	–	19,409	–	112,113	14,120	142,331
Profit before income tax									684,470
Income tax expense	(12,993)	(5,681)	(3,750)	(9,565)	(12,171)	(14,630)	–	(1,124)	(59,914)
Profit for the year									624,556

5. SEGMENT INFORMATION *(CONTINUED)*

	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wires and cables	General machinery	Machinery tools	High-voltage transformers	All other segments	Total Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Depreciation on property, plant and equipment and investment properties	10,850	19,135	7,824	13,566	15,288	27,117	—	18,325	112,105
Amortisation of lease prepayments and intangible assets	3,095	3,413	781	2,126	3,923	1,595	—	530	15,463
(Write-back)/write down of inventories	(222)	123	—	233	1,774	1,505	—	295	3,708
(Reversal of)/provision for impairment on trade and other receivables	(5,687)	2,246	1,997	(211)	3,704	(14,928)	—	589	(12,290)
Total assets	367,516	924,832	664,576	977,756	2,109,997	1,262,538	248,003	2,193,346	8,748,564
Total assets include:									
Investments in associates	—	—	—	—	73,728	—	248,003	105,930	427,661
Additions to non-current assets (other than financial instruments and deferred tax assets)	25,416	250,344	17,509	57,135	233,336	64,544	—	47,558	695,842

5. SEGMENT INFORMATION *(CONTINUED)*

The segment information for the year ended 31 December 2008 is as follows:

	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wires and cables	General machinery	Machinery tools	High-voltage transformers	All other segments	Total Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	1,121,456	—	301,216	1,280,839	1,212,098	1,177,302	—	875,666	5,968,577
Inter-segment revenue	—	—	—	(8,152)	—	(10,770)	—	—	(18,922)
Revenue from external customers	1,121,456	—	301,216	1,272,687	1,212,098	1,166,532	—	875,666	5,949,655
Operating profit	263,918	—	46,602	51,843	92,755	77,570	—	(68,755)	463,933
Finance income	4,711	—	3,319	6,392	6,547	3,447	—	19,488	43,904
Finance costs	830	—	(6,064)	(26,306)	(11,073)	(15,675)	—	(28,298)	(86,586)
Share of profit from associates	—	26,333	—	—	11,503	—	141,702	1,768	181,306
Profit before income tax									602,557
Income tax expense	(59,143)	—	(2,882)	(5,605)	(4,758)	(179)	—	(6,109)	(78,676)
Profit for the year									523,881

5. SEGMENT INFORMATION *(CONTINUED)*

	Engines RMB'000	Gear boxes RMB'000	Hydroelectric generation equipment RMB'000	Electrical wires and cables RMB'000	General machinery RMB'000	Machinery tools RMB'000	High-voltage transformers RMB'000	All other segments RMB'000	Total Group RMB'000
Depreciation on property, plant and equipment and investment properties	10,769	—	9,030	12,361	11,835	21,030	—	14,659	79,684
Amortisation of lease prepayments and intangible assets	—	—	771	334	3,787	1,769	—	4,804	11,465
(Write-back)/write down of inventories	(1,806)	—	—	—	3,230	1,406	—	8,096	10,926
Provision for/(reversal of) impairment on trade and other receivables	1,601	—	(5,455)	439	3,592	868	—	(462)	583
Total assets	806,205	256,413	658,967	732,229	1,960,530	1,072,423	257,039	1,782,040	7,525,846
Total assets include:									
Investments in associates	—	256,413	—	—	56,569	—	257,039	71,576	641,597
Additions to non-current assets (other than financial instruments and deferred tax assets)	14,440	—	2,877	64,517	140,644	83,255	—	65,251	370,984

The entity is domiciled in the PRC. The result of its revenue from external customers in the PRC for the 12 months ended 31 December 2009 is approximately RMB6,844,389,000 (for the year ended 31 December 2008: RMB5,849,197,000), and the total of its revenue from external customers from other countries is approximately RMB48,901,000 (for the year ended 31 December 2008: RMB100,458,000).

At 31 December 2009 and 31 December 2008, all the non-current assets are located in the PRC.

6. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and plants	Equipment and machinery	Motor vehicles	Others	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008						
Cost	508,500	964,929	57,000	2,172	215,495	1,748,096
Accumulated depreciation and impairment	(192,703)	(532,146)	(24,767)	(1,044)	—	(750,660)
Net book amount	315,797	432,783	32,233	1,128	215,495	997,436
Year ended 31 December 2008						
Opening net book amount	315,797	432,783	32,233	1,128	215,495	997,436
Reclassification	132,901	103,464	4,921	(1,128)	(240,158)	—
Additions	3,204	39,771	5,568	—	292,376	340,919
Disposals *(c)*	(31,154)	(14,459)	(658)	—	(30,747)	(77,018)
Depreciation charge	(17,295)	(51,770)	(8,229)	—	—	(77,294)
Impairment charge	—	(1,181)	(17)	—	—	(1,198)
Closing net book amount	403,453	508,608	33,818	—	236,966	1,182,845
At 31 December 2008						
Cost	579,996	1,060,382	64,101	—	236,966	1,941,445
Accumulated depreciation and impairment	(176,543)	(551,774)	(30,283)	—	—	(758,600)
Net book amount	403,453	508,608	33,818	—	236,966	1,182,845

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

Group ***(Continued)***

	Buildings and plants	Equipment and machinery	Motor vehicles	Others	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2009						
Opening net book amount	403,453	508,608	33,818	—	236,966	1,182,845
Acquisition of subsidiary *(Note 38)*	31,542	176,832	4,452	—	7,401	220,227
Reclassification	8,561	216,217	17,080	—	(241,858)	—
Additions	684	28,568	2,758	—	387,039	419,049
Disposals *(c)*	(12,774)	(5,630)	(1,174)	—	(33,546)	(53,124)
Depreciation charge	(19,712)	(81,912)	(8,091)	—	—	(109,715)
Impairment charge	—	(108)	—	—	—	(108)
Closing net book amount	411,754	842,575	48,843	—	356,002	1,659,174
At 31 December 2009						
Cost	586,813	1,592,815	89,463	—	358,560	2,627,651
Accumulated depreciation and impairment	(175,059)	(750,240)	(40,620)	—	(2,558)	(968,477)
Net book amount	411,754	842,575	48,843	—	356,002	1,659,174

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

Company

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

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

Company ***(Continued)***

	Equipment and machinery	Motor vehicles	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Year ended 31 December 2009				
Opening net book amount	556	1,652	—	2,208
Additions	120	549	373	1,042
Depreciation charge	(164)	(238)	—	(402)
Closing net book amount	512	1,963	373	2,848
At 31 December 2009				
Cost	914	2,470	373	3,757
Accumulated depreciation	(402)	(507)	—	(909)
Net book amount	512	1,963	373	2,848

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

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cost of sales	**84,689**	51,765	**—**	—
Administrative expenses	**25,026**	25,529	**402**	319
	109,715	77,294	**402**	319

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

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

(b) Bank borrowings were secured by certain of the Group's property, plant and equipment with an aggregate carrying value of approximately RMB201,471,000 as at 31 December 2009 (2008: RMB87,685,000) (Note 21).

(c) Property, plant and equipment with net book value of approximately RMB21,029,000 (2008: RMB71,954,000) were disposed and such amounts were deducted from the advances from government as relocation expenses (Note 25 (b)).

(d) Lease rental expenses amounting to approximately RMB16,799,000 (2008: RMB10,636,000) relating to the lease of property are included in the income statement (Note 27).

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

	Group	
	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Cost - capitalised finance leases	**15,721**	15,721
Accumulated depreciation	**(1,543)**	(246)
Net book amount	**14,178**	15,475

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

(f) For the year ended 31 December 2009, interest expense of approximately RMB1,803,000 (2008: RMB2,631,000) arising from borrowings specifically for the construction of property, plant and equipment has been capitalised in the cost of property, plant and equipment at the weighted average interest rate of 7.44% (2008: 9.09%) per annum.

7. INVESTMENT PROPERTIES

	Group	
	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
At beginning of year		
Cost	**38,252**	38,252
Accumulated depreciation	**(11,754)**	(9,364)
Net book amount	**26,498**	28,888
For the year		
Opening net book amount	**26,498**	28,888
Depreciation charge	**(2,390)**	(2,390)
Closing net book amount	**24,108**	26,498
At end of year		
Cost	**38,252**	38,252
Accumulated depreciation	**(14,144)**	(11,754)
Net book amount	**24,108**	26,498
Fair value at end of the year	**162,499**	142,897

7. INVESTMENT PROPERTIES *(CONTINUED)*

As at 31 December 2009, the fair value of the investment properties was arrived at by reference to net rental income allowing for reversionary income potential using the applicable market yields for the property as the discount rate.

As at 31 December 2008, the fair value of the investment properties was based on valuation conducted by Chongqing Zhongding Real Estate & Land Appraisal Co., Ltd., an independent and professionally qualified valuer respectively. Such valuation was based on current prices in an active market for all properties.

Bank borrowings were secured by the investment properties with an aggregate carrying value of approximately RMB24,108,000 as at 31 December 2009 (2008: RMB26,498,000) (Note 21).

The following amounts have been recognised in the income statement:

	Group Year ended 31 December	
	2009 ***RMB'000***	2008 *RMB'000*
Rental income	**8,116**	5,518
Direct operating expenses arising from investment properties that generate rental income	**(2,390)**	(2,390)

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

7. INVESTMENT PROPERTIES *(CONTINUED)*

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

	Group	
	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
In the PRC, held on land use rights with lease term of 45 years	**24,108**	26,498

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

	Group	
	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Not later than 1 year	**7,509**	6,006
Later than 1 year and not later than 5 years	**15,036**	13,452
	22,545	19,458

8. LEASE PREPAYMENTS

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

	Group	
	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
At beginning of the year		
Cost	**312,781**	406,227
Accumulated amortisation	**(33,558)**	(27,840)
Net book amount	**279,223**	378,387
For the year		
Opening net book amount	**279,223**	378,387
Additions	**2,744**	26,121
Disposals	**—**	(119,567)
Amortisation charge	**(7,226)**	(5,718)
Closing net book amount	**274,741**	279,223
At end of the year		
Cost	**315,525**	312,781
Accumulated amortisation	**(40,784)**	(33,558)
Net book amount	**274,741**	279,223

8. LEASE PREPAYMENTS *(CONTINUED)*

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

(b) As at 31 December 2009, bank borrowings were secured by certain of the Group's land use rights with an aggregate carrying value of approximately RMB133,760,000 (2008: RMB141,100,000) (Note 21).

9. INTANGIBLE ASSETS

Group

	Goodwill	Technical know-how	Computer software	Brand	Customer relationships	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008							
Cost	15,368	68,311	7,678	—	—	6,285	97,642
Accumulated amortisation	—	(39,214)	(4,147)	—	—	(4,923)	(48,284)
Net book amount	15,368	29,097	3,531	—	—	1,362	49,358
Year ended 31 December 2008							
Opening net book amount	15,368	29,097	3,531	—	—	1,362	49,358
Additions	—	—	1,526	—	—	2,418	3,944
Amortisation charge	—	(3,662)	(900)	—	—	(1,185)	(5,747)
Closing net book amount	15,368	25,435	4,157	—	—	2,595	47,555

9. INTANGIBLE ASSETS

Group *(Continued)*

	Goodwill	Technical know-how	Computer software	Brand	Customer relationships	Others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 31 December 2008							
Cost	15,368	68,311	9,204	—	—	8,703	101,586
Accumulated amortisation	—	(42,876)	(5,047)	—	—	(6,108)	(54,031)
Net book amount	15,368	25,435	4,157	—	—	2,595	47,555
Year ended 31 December 2009							
Opening net book amount	15,368	25,435	4,157	—	—	2,595	47,555
Acquisition of subsidiary *(Note 38)*	—	7,106	—	16,300	17,538	—	40,944
Additions	—	356	4,292	—	—	—	4,648
Amortisation charge	—	(4,069)	(1,643)	—	(1,525)	(1,000)	(8,237)
Closing net book amount	15,368	28,828	6,806	16,300	16,013	1,595	84,910
At 31 December 2009							
Cost	15,368	75,773	13,496	16,300	17,538	8,703	147,178
Accumulated amortisation	—	(46,945)	(6,690)	—	(1,525)	(7,108)	(62,268)
Net book amount	15,368	28,828	6,806	16,300	16,013	1,595	84,910

9. INTANGIBLE ASSETS *(CONTINUED)*

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

(b) Impairment for goodwill

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

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

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

Gross margin as budgeted	14%
Growth rate	10%
Pre-tax discount rate	18.6%

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

10. INVESTMENTS IN ASSOCIATES

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of the year	**641,597**	474,291	**383,149**	366,429
Additions	**—**	16,720	**—**	16,720
Acquisition of subsidiary *(Note 38)*	**(227,956)**	—	**(184,855)**	—
Share of profit	**142,331**	181,306	**—**	—
Dividend declared	**(128,311)**	(30,720)	**—**	—
At end of the year	**427,661**	641,597	**198,294**	383,149

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

	Group	
	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Total assets	**682,694**	1,083,879
Total liabilities	**(255,033)**	(442,282)
Net assets	**427,661**	641,597

10. INVESTMENTS IN ASSOCIATES *(CONTINUED)*

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

	Group Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Revenue	**452,132**	907,517
Share of profit for the year	**142,331**	181,306

(b) The particulars of the Group's principal associates are set out in Note 40.

11. INVESTMENTS IN SUBSIDIARIES - COMPANY

All the subsidiaries are unlisted.

The particulars of the Group's principal subsidiaries are set out in Note 40.

12. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Group

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

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Assets		
Non-current assets	**131,869**	131,852
Current assets	**534,187**	675,016
	666,056	806,868
Liabilities		
Current liabilities	**(419,293)**	(369,854)
Net assets	**246,763**	437,014

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

Group *(Continued)*

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

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Income	**987,264**	1,200,489
Expenses	**(726,778)**	(930,663)
Profit before income tax	**260,486**	269,826
Income tax expense	**(12,993)**	(59,143)
Profit for the year	**247,493**	210,683

(b) The particulars of the Group's jointly controlled entities are set out in Note 40. All the jointly controlled entities are unlisted.

13. INVENTORIES

	Group As at 31 December 2009 RMB'000	2008 RMB'000
Raw materials	339,684	286,063
Work in progress	560,526	415,671
Finished goods	360,182	517,196
Consumables	30,424	13,190
	1,290,816	1,232,120

For the year ended 31 December 2009, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB5,108,436,000 (2008: RMB4,139,432,000).

For the year ended 31 December 2009, write-down of inventories recognised in cost of sales in the income statement amounted to approximately RMB3,708,000 (2008: RMB10,926,000).

As at 31 December 2009, the Group's inventories with carrying value of approximately RMB30,000,000 (2008: RMB50,000,000) were secured for the Group's borrowings (Note 21).

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	As at 31 December		As at 31 December	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and bills receivables *(a)*	**2,005,622**	1,178,539	**950**	—
Less: provision for impairment of trade receivables	**(226,639)**	(235,974)	**—**	—
Trade and bills receivables - net	**1,778,983**	942,565	**950**	—
Deposits paid	**45,764**	15,915	**3**	—
Less: provision for impairment of deposits paid	**(10,031)**	(9,707)	**—**	—
Deposits paid - net	**35,733**	6,208	**3**	—
Prepayments	**216,235**	192,122	**—**	—
Staff advances	**29,560**	28,898	**88**	—
Other receivables due from related parties *(Note 39)*	**4,468**	27,816	**383,294**	251,924
Others	**83,660**	55,223	**3,883**	4,727
Less: provision for impairment of receivables other than trade receivables and deposits paid	**(17,993)**	(22,068)	**—**	—
	2,130,646	1,230,764	**388,218**	256,651
Less: long-term other receivables	**—**	—	**(178,957)**	(193,957)
Current portion	**2,130,646**	1,230,764	**209,261**	62,694

14. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

	Group As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Less than 30 days	**542,618**	243,261
31 days to 90 days	**618,005**	307,708
91 days to 1 year	**474,759**	364,287
1 year to 2 years	**179,945**	83,697
2 years to 3 years	**40,673**	37,384
Over 3 years	**149,622**	142,202
	2,005,622	1,178,539

As at 31 December 2009 and 2008, full provision has been made by the Group for trade receivables aged over 3 years.

Trade receivables that are less than nine months past due are generally not considered individually impaired. As at 31 December 2009, trade receivables of approximately RMB541,097,000 (2008: RMB343,890,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The analysis of ageing, which were counted from the day of recognition of trade receivables, is as follows:

	Group As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
91 days to 1 year	**412,706**	313,726
1 year to 2 years	**125,034**	26,390
2 years to 3 years	**3,357**	3,774
	541,097	343,890

14. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

As at 31 December 2009, trade receivables of RMB303,902,000 (2008: RMB283,680,000) were individually impaired and provided for. The amount of the provision was RMB226,639,000 as at 31 December 2009 (2008: RMB235,974,000). The individually impaired receivables mainly relate to certain customers, which are in difficult financial situations. It was assessed that a portion of the receivables is expected to be recovered based on the past collection history under similar circumstances. The ageing of these receivables is as follows:

	Group	
	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
91 days to 1 year	**62,053**	50,561
1 year to 2 years	**54,911**	57,307
2 years to 3 years	**37,316**	33,610
Over 3 years	**149,622**	142,202
	303,902	283,680

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

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

14. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

Group

Trade receivables	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
At beginning of the year	**235,974**	253,009
(Reversal of)/provision for impairment of receivables	**(8,667)**	1,384
Acquisition of subsidiary *(Note 38)*	**1,261**	—
Receivables written off during the year as uncollectible	**(1,929)**	(18,419)
At end of the year	**226,639**	235,974

Deposits paid	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
At beginning of the year	**9,707**	14,877
Provision for/(reversal of) impairment of receivables	**324**	(5,170)
At end of the year	**10,031**	9,707

14. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

Other items	**Year ended 31 December**	
	2009	2008
	RMB'000	*RMB'000*
At beginning of the year	**22,068**	17,699
(Reversal of)/provision for impairment of receivables	**(3,947)**	4,369
Receivables written off during the year as uncollectible	**(128)**	—
At end of the year	**17,993**	22,068

The Group has recognised the provision for impairment of receivables in administrative expenses in the income statement.

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

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

15. CONTRACT WORK-IN-PROGRESS

	Group	
	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Contract cost incurred plus recognised profit less recognised losses	**869,555**	1,019,934
Less: progress billings	**(726,203)**	(850,678)
Contract work-in-progress	**143,352**	169,256
Representing:		
Amount due from customers for contract work	**157,766**	181,162
Amount due to customers for contract work	**(14,414)**	(11,906)
	143,352	169,256

	Group	
	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Contract revenue recognised as revenue in the year	**247,420**	284,654

16. RESTRICTED CASH

	Group	
	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Restricted cash denominated in RMB	**419,758**	314,190

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

17. CASH AND CASH EQUIVALENTS

	Group		Company	
	As at 31 December		As at 31 December	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash on hand	**2,049**	1,404	**10**	—
Cash at bank	**411,239**	1,494,814	**110,874**	546,200
Short-term bank deposits *(a)*	**1,774,074**	812,236	**872,943**	507,087
	2,187,362	2,308,454	**983,827**	1,053,287
Cash and cash equivalents denominated in:				
— RMB	**1,884,374**	1,595,307	**709,797**	349,455
— HKD	**274,030**	703,832	**274,030**	703,832
— USD	**3,247**	9,315	**—**	—
— EUR	**25,711**	—	**—**	—
	2,187,362	2,308,454	**983,827**	1,053,287

17. CASH AND CASH EQUIVALENTS *(CONTINUED)*

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

18. SHARE CAPITAL

	Number of Shares In thousand	Domestic shares In thousand	H shares In thousand	Total shares In thousand
Registered, issued and fully paid				
At 1 January 2008 (nominal value of RMB1.00 each)	2,679,740	2,679,740	—	2,679,740
Domestic shares converted into H shares *(a)*	—	(95,287)	95,287	—
Issue of new shares *(b)*	1,004,900	—	1,004,900	1,004,900
At 31 December 2008 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640
At 31 December 2009 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640

18. SHARE CAPITAL *(CONTINUED)*

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

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

The Company raised net proceeds of approximately RMB1,033,507,000 from the sales of 1,004,900,000 H shares, of which paid-up share capital was RMB1,004,900,000 and the resulted capital reserve was approximately RMB28,607,000.

19. RESERVES

Group

	Capital reserve	Other reserves: Share issuance costs	Other reserves: Investment revaluation reserve	Statutory reserve fund	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	(1,031,270)	(21,050)	7,701	12,371	218,241	(814,007)
Profit for the year	—	—	—	—	503,531	503,531
Proceeds from issuance of share capital	28,607	120,593	—	—	—	149,200
Share issuance costs	—	(99,543)	—	—	—	(99,543)
Changes in fair value of available-for-sales financial assets, net of tax	—	—	(5,476)	—	—	(5,476)
Transfer to reserves	—	—	—	35,352	(35,352)	—
At 31 December 2008	(1,002,663)	—	2,225	47,723	686,420	(266,295)
At 1 January 2009	(1,002,663)	—	2,225	47,723	686,420	(266,295)
Profit for the year	—	—	—	—	594,277	594,277
Recognition of fair value change relating to acquisition of subsidiary *(Note 38)*	30,612	—	—	—	—	30,612
Changes in fair value of available-for-sales financial assets, net of tax	—	—	2,158	—	—	2,158
Transfer to reserves	—	—	—	37,646	(37,646)	—
At 31 December 2009	(972,051)	—	4,383	85,369	1,243,051	360,752

19. RESERVES *(CONTINUED)*

Statement of changes in equity of the Company for the year ended 31 December 2009.

Company

	Other reserves				
	Capital reserve	Share issuance costs	Statutory reserve fund	(Accumulated deficit)/ Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2008	(1,009,819)	(21,050)	12,371	(10,611)	(1,029,109)
Proceeds from issuance of share capital	28,607	120,593	—	—	149,200
Share issuance costs	—	(99,543)	—	—	(99,543)
Profit for the year	—	—	—	62,827	62,827
Transfer to reserves	—	—	35,352	(35,352)	—
At 31 December 2008	(981,212)	—	47,723	16,864	(916,625)
At 1 January 2009	(981,212)	—	47,723	16,864	(916,625)
Profit for the year	—	—	—	574,022	574,022
Transfer to reserves	—	—	37,646	(37,646)	—
At 31 December 2009	(981,212)	—	85,369	553,240	(342,603)

19. RESERVES *(CONTINUED)*

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

Pursuant to the Articles of Association of the Company, approximately RMB37,646,000 was appropriated to the statutory surplus reserve fund from the net profit for the year ended 31 December 2009 (2008: RMB35,352,000).

20. DIVIDENDS

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Dividends proposed after the balance sheet date:		
— final dividend	**221,078**	—

The Board of Directors, in a meeting held on 10 April 2010, proposed to distribute a final dividend for 2009 to equity holders of the Company of approximately RMB221,078,000 (RMB0.06 per share), based on total number of shares which are in issue as at 31 December 2009. Such dividend is to be approved at the Annual General Meeting on 15 June 2010. These financial statements do not reflect this dividend payable.

21. BORROWINGS

	Group		Company	
	As at 31 December		As at 31 December	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current				
Bank borrowings *(1)*	**351,713**	264,673	**179,000**	194,000
Finance lease liabilities *(2)*	**4,255**	9,322	**—**	—
	355,968	273,995	**179,000**	194,000
Current				
Bank and other borrowings *(1)*	**838,790**	696,051	**15,000**	6,000
Finance lease liabilities *(2)*	**5,067**	4,739	**—**	—
	843,857	700,790	**15,000**	6,000
Total borrowings	**1,199,825**	974,785	**194,000**	200,000

21. BORROWINGS *(CONTINUED)*

(1) Bank and other borrowings

	Group		Company	
	As at 31 December		As at 31 December	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current				
Long-term bank borrowings				
— secured *(a)*	**—**	9,000	**—**	—
— unsecured *(b)*	**351,713**	255,673	**179,000**	194,000
	351,713	264,673	**179,000**	194,000
Current				
Short-term bank borrowings				
— secured *(a)*	**356,241**	382,670	**—**	—
— unsecured *(b)*	**445,540**	281,290	**15,000**	6,000
	801,781	663,960	**15,000**	6,000

21. BORROWINGS *(CONTINUED)*

(1) Bank and other borrowings *(Continued)*

	Group		Company	
	As at 31 December		As at 31 December	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Other unsecured borrowings				
— due to independent third parties *(c)*	**32,009**	32,091	**—**	—
— due to related parties *(d)*	**5,000**	—	**—**	—
	37,009	32,091	**—**	—
	838,790	696,051	**15,000**	6,000
	1,190,503	960,724	**194,000**	200,000

(a) As at 31 December 2009, all these bank borrowings were secured by certain of the Group's property, plant and equipment, investment properties, land use rights and inventories (Notes 6, 7, 8 and 13).

21. BORROWINGS *(CONTINUED)*

(1) Bank and other borrowings *(Continued)*

(b) As at 31 December 2009 and 2008, a portion of unsecured bank borrowings of approximately RMB45,000,000 and RMB5,000,000 were guaranteed by the following parties respectively:

	Group		Company	
	As at 31 December		As at 31 December	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Chongqing CAFF Automotive Spare Parts Co. Ltd.	**40,000**	—	**—**	—
Chairman of a subsidiary	**5,000**	5,000	**—**	—
	45,000	5,000	**—**	—

(c) As at 31 December 2009 and 2008, borrowings due to independent third parties mainly represent amounts advanced from a potential customer to support the Group's construction of certain production facilities for the manufacturing of products to this customer.

(d) As at 31 December 2009, borrowings due to related parties mainly represent amounts advanced from an associate of the Group.

21. BORROWINGS *(CONTINUED)*

(1) Bank and other borrowings *(Continued)*

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

	Group		Company	
	As at 31 December		As at 31 December	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Total borrowings				
— Within 1 year	**838,790**	696,051	**15,000**	6,000
— Between 1 and 2 years	**129,000**	34,000	**25,000**	15,000
— Between 2 and 5 years	**197,000**	160,000	**130,000**	110,000
— Over 5 years	**25,713**	70,673	**24,000**	69,000
	1,190,503	960,724	**194,000**	200,000

(f) As at 31 December 2009 and 2008, all the carrying amounts of the Group's borrowings are denominated in RMB.

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

	Group		Company	
	As at 31 December		As at 31 December	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings	**5.93%**	6.93%	**5.94%**	7.77%
Other borrowings	**0.72%**	—	**—**	—

21. BORROWINGS *(CONTINUED)*

(1) Bank and other borrowings *(Continued)*

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

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

	Group As at 31 December		Company As at 31 December	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amount	**351,713**	264,673	**179,000**	194,000
Fair value	**354,392**	265,506	**179,406**	194,482

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at respective balance sheet dates, ranged from 5.4% to 7.44% (2008: 5.4% to 7.44%).

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

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Fixed rate		
— Expiring within 1 year	**14,000**	10,000
— Expiring beyond 1 year	**116,720**	26,590
	130,720	36,590

21. BORROWINGS *(CONTINUED)*

(2) Finance lease liabilities

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

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Gross finance lease liabilities - minimum lease payments		
No later than 1 year	**5,571**	5,571
Later than 1 year and no later than 5 years	**4,403**	9,974
	9,974	15,545
Unrecognised future finance charge on finance leases	**(652)**	(1,484)
Present value of finance lease liabilities	**9,322**	14,061

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

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
— No later than 1 year	**5,067**	4,739
— Later than 1 year and no later than 5 years	**4,255**	9,322
	9,322	14,061

22. DEFERRED INCOME

	Group	
	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
At beginning of the year	**105,312**	105,655
Additions		
— government grants related to assets	**79,970**	11,584
Amortisation *(Note 27)*	**(18,901)**	(11,927)
At end of the year	**166,381**	105,312

During the year ended 31 December 2009, the Group had obtained grants from local government of approximately RMB40,283,000 (2008: RMB11,584,000), in relation to strengthening and improving the quality of certain of the Group's machinery and equipment. As such, these government grants were accounted for as deferred income and amortised over the estimated useful life of the related machinery and equipment which ranged from 7 to 14 years. In addition, for the year ended 31 December 2009, approximately RMB19,987,000 and RMB19,700,000 have been transferred from advances from government as a result of completion of a subsidiary's relocation and completion of improvements on certain manufacturing technology respectively (Note 25(b)). During the year ended 31 December 2009, approximately RMB18,901,000 (2008: RMB11,927,000) of deferred income was amortised and credited to cost of sales.

23. DEFERRED INCOME TAX

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

	Group	
	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Deferred tax assets		
— Deferred tax assets to be recovered after more than 12 months	**23,069**	38,401
— Deferred tax assets to be recovered within 12 months	**43,822**	34,550
	66,891	72,951
Deferred tax liabilities		
— Deferred tax liabilities to be recovered more than 12 months	**(10,461)**	—
— Deferred tax liabilities to be recovered within 12 months	**(790)**	(393)
	(11,251)	(393)
	55,640	72,558

23. DEFERRED INCOME TAX *(CONTINUED)*

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

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

	Group	
	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
At beginning of the year	**72,558**	65,778
Recognised in the income statement *(Note 32)*	**(13,796)**	5,814
Acquisition of subsidiary *(Note 38)*	**(2,053)**	—
Recognised in equity	**(1,069)**	966
At end of the year	**55,640**	72,558

23. DEFERRED INCOME TAX *(CONTINUED)*

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

Deferred tax assets

	Provision for impairment of assets *RMB'000*	Deferred income *RMB'000*	Retirement and termination benefit obligations *RMB'000*	Warranty and other accrued expenses *RMB'000*	Total *RMB'000*
At 1 January 2008	43,068	11,237	9,957	2,875	67,137
Recognised in the income statement *(Note 32)*	(4,195)	(951)	(3,094)	14,054	5,814
At 31 December 2008	38,873	10,286	6,863	16,929	72,951
Acquisition of subsidiary *(Note 38)*	3,906	127	—	840	4,873
Recognised in the income statement *(Note 32)*	(4,764)	(6,586)	8,184	(7,767)	(10,933)
At 31 December 2009	38,015	3,827	15,047	10,002	66,891

23. DEFERRED INCOME TAX *(CONTINUED)*

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

Deferred tax liabilities

	Recognition of fair value change relating to acquisition of subsidiary *RMB'000*	Changes in fair value of available-for-sale financial assets *RMB'000*	Total *RMB'000*
At 1 January 2008	—	(1,359)	(1,359)
Recognised in equity	—	966	966
At 31 December 2008	—	(393)	(393)
Recognised in equity	—	(1,069)	(1,069)
Acquisition of subsidiary *(Note 38)*	(6,926)	—	(6,926)
Recognised in the income statement *(Note 32)*	(2,863)	—	(2,863)
At 31 December 2009	(9,789)	(1,462)	(11,251)

23. DEFERRED INCOME TAX *(CONTINUED)*

(c) In accordance with the PRC tax law or other tax regulations applicable to those companies in their respective jurisdictions, tax losses may be carried forward against future taxable income. As at 31 December 2009, the Group did not recognise deferred tax assets of approximately RMB28,375,000 (2008: RMB16,180,000) of tax losses amounting to approximately RMB118,902,000 (2008: RMB107,864,000), as management believes it is more than likely that such tax losses would not be utilised before they expire. As at 31 December 2008 and 2009, the tax losses carried forward are as follows:

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Year of expiry of tax losses		
— 2009	**—**	14,815
— 2010	**13,500**	13,500
— 2011	**25,424**	25,424
— 2012	**27,195**	27,195
— 2013	**26,930**	26,930
— 2014	**25,853**	—
	118,902	107,864

24. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

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

	Group As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Non-current		
Retirement benefit obligations	**98,751**	109,050
Termination benefit obligations	**45,812**	22,780
	144,563	131,830
Current		
Retirement benefit obligations	**4,195**	5,290
Termination benefit obligations	**9,151**	2,870
	13,346	8,160
	157,909	139,990

	Group As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Present value of defined benefits obligations	**164,773**	149,560
Unrecognised actuarial gains	**(6,864)**	(9,570)
Liability on the balance sheet	**157,909**	139,990
Less: current portion	**(13,346)**	(8,160)
	144,563	131,830

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

The movements of retirement and termination benefit obligations for the years ended 31 December 2008 and 2009 are as follows:

	Group Year ended 31 December	
	2009 ***RMB'000***	2008 *RMB'000*
At beginning of the year	**139,990**	138,300
For the year		
— Interest cost	**4,776**	6,050
— Actuarial gains	**(16,606)**	(24,400)
— Additions on termination benefit obligations	**37,580**	28,880
— Payment	**(7,831)**	(8,840)
At end of the year	**157,909**	139,990

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

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

(a) Discount rates adopted (per annum):

	As at 31 December	
	2009 ***RMB'000***	2008 *RMB'000*
Discount rates	**4.00%**	3.25%

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

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

(b) Trend rate: 5%-12% (2008: 5%-15%);

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

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

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

	Change in assumption	**Impact on overall liability**
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 4.8%/2.7%

25. TRADE AND OTHER PAYABLES

	Group As at 31 December		**Company As at 31 December**	
	2009	2008	**2009**	2008
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and bills payables *(a)*	**1,635,227**	1,183,519	**—**	—
Other taxes payables	**139,682**	115,601	**360**	25
Other payables	**245,587**	284,822	**49,401**	147,550
Accrued payroll and welfare	**165,818**	166,878	**306**	188
Advances from customers	**569,682**	666,147	**—**	—
Advances from government *(b)*	**257,887**	310,757	**—**	—
	3,013,883	2,727,724	**50,067**	147,763

25. TRADE AND OTHER PAYABLES *(CONTINUED)*

(a) As at 31 December 2008 and 2009, the ageing analysis of the trade and bills payables was as follows:

	Group As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Less than 30 days	**610,364**	282,486
31 days than 90 days	**446,478**	347,045
91 days to 1 year	**481,287**	468,927
1 year to 2 years	**42,385**	52,625
2 years to 3 years	**16,210**	11,163
Over 3 years	**38,503**	21,273
	1,635,227	1,183,519

(b) Prior to 31 December 2008, certain subsidiaries of the Group had received grants of approximately RMB556,419,000 from the local government in respect of compensations for relocation of their manufacturing plants, which included compensation for relocation expenses, purchase of new land use rights and construction of new production plants and properties. As the relocation of such subsidiaries had not been fully completed as at 31 December 2008, after netting off the relocation expenses of approximately RMB262,392,000, the remaining balance of grants received of approximately RMB294,027,000 was recorded as advances from government as at 31 December 2008.

25. TRADE AND OTHER PAYABLES *(CONTINUED)*

(b) *(Continued)*

For the year ended 31 December 2009, the subsidiaries received additional government grants of approximately RMB48,128,000. As one of the subsidiaries has completed its relocation, after netting off the relocation expenses of approximately RMB23,306,000 (including property, plant and equipment with net book value of approximately RMB9,221,000 (Note 6(c))) for the year ended 31 December 2009, the remaining balance of grants received of approximately RMB19,987,000 was transferred to deferred income. As the relocation of the remaining subsidiaries had not been fully completed as at 31 December 2009, after netting off the relocation expenses of approximately RMB43,505,000 (including property, plant and equipment with net book value of approximately RMB11,808,000 (Note 6(c))) for the year ended 31 December 2008, the remaining balance of the grants received of approximately RMB255,357,000 was recorded as advance from government as at 31 December 2009.

In addition, prior to 31 December 2008, the Group had received grants of approximately RMB24,030,000 from the local government in respect of improvement of the Group's manufacturing technology. As such activities have only commenced and partly completed by 31 December 2008, the remaining balance of the grants received of approximately RMB16,730,000 was recorded as advances from government as at 31 December 2008. For the year ended 31 December 2009, the Group had received additional grants of approximately RMB5,500,000. As such activities have only partly completed by 31 December 2009, RMB19,700,000 was transferred to deferred income and the remaining balance of the grants received of approximately RMB2,530,000 was recorded as advances from government.

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

26. PROVISIONS FOR WARRANTY

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

	Provision for warranty *RMB'000*
At 1 January 2008	19,165
Charged to the income statement	13,975
Utilised during the year	(9,522)
At 31 December 2008	23,618
Charged to the income statement	12,527
Utilised during the year	(16,683)
At 31 December 2009	19,462

27. EXPENSE BY NATURE

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Depreciation on property, plant and equipment *(Note 6)*	**109,715**	77,294
Depreciation on investment properties *(Note 7)*	**2,390**	2,390
Amortisation of lease prepayments *(Note 8)*	**7,226**	5,718
Amortisation of intangible assets *(Note 9)*	**8,237**	5,747
Amortisation of deferred income *(Note 22)*	**(18,901)**	(11,927)
Employee benefit expense *(Note 28)*	**700,671**	514,765
Changes in inventories of finished goods and work in progress	**8,451**	(152,473)
Raw materials and consumables used	**5,099,985**	4,291,905
Transportation	**70,416**	50,192
Research expense	**53,504**	98,801
Technology usage fee	**10,065**	13,558
Utilities	**116,283**	75,745
Repairs and maintenance expenditure on property, plant and equipment	**40,137**	46,247
Operating lease rentals relating to the lease of property	**16,799**	10,636
Write-down of inventories *(Note 13)*	**3,708**	10,926
(Reversal of)/provision for impairment of receivables *(Note 14)*	**(12,290)**	583
Provision for impairment of property, plant and equipment *(Note 6)*	**108**	1,198
Provision for warranty *(Note 26)*	**12,527**	13,975
Auditors' remuneration	**8,400**	9,270
Other expenses	**196,289**	469,818
Total cost of sales, distribution costs and administrative expenses	**6,433,720**	5,534,368

28. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**492,856**	392,085
Contributions to pension plans *(a)*	**93,656**	64,493
Supplemental pension benefits to qualified employees *(b)*		
— interest cost	**4,776**	6,050
— actuarial gains	**(16,606)**	(24,400)
Housing benefits *(c)*	**15,612**	9,876
Termination benefits	**37,580**	28,880
Welfare, medical and other expenses	**72,797**	37,781
	700,671	514,765

(a) The employees of the Group participate in various retirement benefit plans organised by the relevant municipal and provincial government in the PRC under which the Group is required to make monthly contributions to these plans at rates ranging from 17% to 25%, depending on the applicable local regulations, of the employees' basic salary for the years ended 31 December 2009 and 2008.

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

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

29. OTHER GAINS, NET

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Gain on waiver of other tax payable	**4,350**	6,130
Gain on disposal of property, plant and equipment	**1,793**	1,490
Gain on disposal of financial assets at fair value through profit and loss	**31,506**	—
Acquisition of subsidiary *(Note 38)*	**5,588**	—
Others	**4,138**	5,866
	47,375	13,486

30. OTHER INCOME

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Government grants in relation to		
— tax refunds *(a)*	**11,627**	11,107
— further development of manufacturing technology *(b)*	**37,102**	8,412
— relocation for environment protection *(b)*	**10,100**	12,110
— others	**7,777**	3,531
	66,606	35,160

30. OTHER INCOME *(CONTINUED)*

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

(b) During the years ended 31 December 2009 and 2008, the Group received certain grants from local government in compensation of the Group's expenditures on further development of manufacturing technology and relocation for environment protection. Such amounts were considered as government grant relating to expenses and credited to 'other income' in the income statement.

31. FINANCE COSTS, NET

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Finance income		
— Interest income on short-term bank deposits	**35,208**	43,904
Interest expense:		
— Bank borrowings wholly repayable within five years	**(64,666)**	(73,037)
— Bank borrowings wholly repayable after five years	**(1,642)**	(14,115)
— Finance lease liabilities	**(812)**	(257)
Less: amounts capitalised on qualifying assets	**1,803**	2,631
	(65,317)	(84,778)
Net exchange loss	**(1,303)**	(1,808)
Net finance costs	**(31,412)**	(42,682)

32. TAXATION

(a) Income tax expense

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

the Company;

Chongqing Huijiang Machine Tools Founding Co., Ltd.;

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

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

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

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

For the year ended 31 December 2009, the applicable CIT rate of Chongqing Cummins Engine Co., Ltd. is 15% (2008: 25%).

The new CIT rate of 25% of Shenzhen Chongfa Cummins Engine Co., Ltd. will be gradually effective in a 5 years period. For the year ended 31 December 2009, the applicable CIT rate is 20% (2008: 18%).

32. TAXATION *(CONTINUED)*

(a) Income tax expense *(Continued)*

The amount of income tax expense charged to the income statement represents:

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Current income tax:		
— PRC enterprise income tax	**(46,118)**	(84,490)
Deferred tax *(Note 23)*	**(13,796)**	5,814
	(59,914)	(78,676)

32. TAXATION *(CONTINUED)*

(a) Income tax expense *(Continued)*

The difference between the actual income tax charge in the income statement and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Profit before income tax	**684,470**	602,557
Tax calculated at the tax rate of 15%	**(102,671)**	(90,384)
Companies which are subject to different tax rate	**—**	(20,758)
Income not subject to tax		
— share of profit of associates	**21,350**	27,196
— subsidy income not taxable under the tax rules	**—**	1,466
Tax concessions	**1,635**	16,097
Expenses not deductible for tax purposes	**(13,945)**	(10,148)
Utilisation of previously unrecognised tax assets	**1,771**	1,895
Re-measurement of deferred tax		
— change in tax rate	**1,559**	—
Over provision of prior year's current tax	**34,265**	—
Tax losses with no deferred tax asset recognised	**(3,878)**	(4,040)
Tax expense	**(59,914)**	(78,676)

The weighted average tax rate for the year ended 31 December 2009 is 9% (2008: 13%).

32. TAXATION *(CONTINUED)*

(b) Value-added tax ("VAT") and related taxes

All companies now comprising the Group are subject to output VAT generally calculated at 17% of the product selling prices. An input credit is available whereby input VAT previously paid on purchases of raw materials or semi-finished products can be used to offset the output VAT to determine the net VAT payable. From 1 January 2009, input VAT on purchase of equipment can be deducted from output VAT.

(c) Withholding tax ("WHT") for dividend paid to foreign investors

According to the new CIT law and the detailed implementation regulations, foreign shareholders are subject to a 10% WHT for the dividend repatriated by the Company starting from 1 January 2008. For certain treaty jurisdictions such as Hong Kong which has signed tax treaties with the PRC, the WHT rate is 5%.

WHT will be levied on the foreign shareholders for the dividends relating to 2009 (Note 20).

33. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors', supervisors' and senior management's emoluments

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Directors and supervisors		
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,201**	1,219
— Contributions to pension plans	**83**	96
— Discretionary bonuses	**1,229**	1,055
	2,513	2,370
Senior management		
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**324**	324
— Contributions to pension plans	**69**	72
— Discretionary bonuses	**672**	277
	1,065	673
	3,578	3,043

33. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(CONTINUED)*

(a) Directors', supervisors' and senior management's emoluments *(Continued)*

The emoluments received by individual directors, supervisors and senior management are presented as below.

(i) For the year ended 31 December 2009:

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind	Contributions to pension plans	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Directors and supervisors				
Mr. Sun Nengyi	48	—	—	48
Mr. Xie Huajun	40	—	—	40
Mr. He Yong	132	23	280	435
Mr. Liao Shaohua	112	20	428	560
Mr. Chen Xianzheng	108	23	224	355
Mr. Huang Yong	48	—	—	48
Mr. Yu Gang	48	—	—	48
Mr. Yang Jingpu	48	—	—	48
Mr. Wu Jian	48	—	—	48
Mr. Lu Huawei	144	—	—	144
Mr. Ren Xiaochang	68	—	—	68
Mr. Kong Weiliang	68	—	—	68
Mr. Duan Rongsheng	48	—	—	48
Mr. Ye Zusheng	16	—	—	16
Ms. Wang Rongxue	24	—	—	24

33. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(CONTINUED)*

(a) Directors', supervisors' and senior management's emoluments *(Continued)*

(i) For the year ended 31 December 2009: *(Continued)*

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind	Contributions to pension plans	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Directors and supervisors				
Ms. He Xiaoping	24	—	—	24
Mr. Wang Xuqi	74	—	—	74
Ms. Liao Rong	8	—	—	8
Mr. Wu Chongjiang	95	17	297	409
	1,201	83	1,229	2,513
Senior management				
Mr. Zhang Ke	108	23	224	355
Mr. Wang Nongcheng	108	23	224	355
Ms. Miao Xiaoping	108	23	224	355
	324	69	672	1,065
	1,525	152	1,901	3,578

33. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(CONTINUED)*

(a) Directors', supervisors' and senior management's emoluments *(Continued)*

(ii) For the year ended 31 December 2008:

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind	Contributions to pension plans	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Directors and supervisors				
Mr. Sun Nengyi	—	—	—	—
Mr. He Yong	134	24	105	263
Mr. Liao Shaohua	108	16	471	595
Mr. Chen Xianzheng	108	24	59	191
Mr. Huang Yong	61	—	—	61
Mr. Yu Gang	61	—	—	61
Mr. Yang Jingpu	61	—	—	61
Mr. Wu Jian	58	—	—	58
Mr. Lu Huawei	118	—	—	118
Mr. Ren Xiaochang	87	—	—	87
Mr. Kong Weiliang	87	—	—	87
Mr. Duan Rongsheng	61	—	—	61
Mr. Ye Zusheng	31	—	—	31
Ms. Wang Rongxue	31	—	—	31
Ms. He Xiaoping	31	—	—	31
Mr. Wang Xuqi	101	13	228	342
Mr. Wu Chongjiang	81	19	192	292
	1,219	96	1,055	2,370

33. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(CONTINUED)*

(a) Directors', supervisors' and senior management's emoluments *(Continued)*

(ii) For the year ended 31 December 2008: *(Continued)*

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind	Contributions to pension plans	Discretionary bonuses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Senior management				
Mr. Zhang Ke	108	24	162	294
Mr. Wang Nongcheng	108	24	56	188
Ms. Miao Xiaoping	108	24	59	191
	324	72	277	673
	1,543	168	1,332	3,043

33. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(CONTINUED)*

(a) Directors', supervisors' and senior management's emoluments *(Continued)*

The emoluments of the directors, supervisors and senior management of the Company fall within the following bands:

	Year ended 31 December	
	2009	2008
Directors and supervisors		
— Nil to HK$1,000,000 (equivalent to approximately RMB880,480)	**19**	17
Senior management		
— Nil to HK$1,000,000 (equivalent to approximately RMB880,480)	**3**	3
	22	20

For the years ended 31 December 2009 and 2008, no directors, supervisors or senior management of the Company waived any emoluments and no emoluments were paid by the Company to any of the directors, supervisors or senior management as an inducement to join or upon joining the Group or as compensation for loss of office.

33. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(CONTINUED)*

(b) Five highest paid individuals

One of the five highest paid individuals of the Group for the years ended 31 December 2009 and 2008 was also a director of the Company and the emolument was reflected in the analysis presented in Note 33(a) above. The emoluments payable to the remaining four individuals for the year ended 31 December 2009 and 2008 are as follows:

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**360**	375
— Contributions to pension plans	**95**	45
— Discretionary bonuses	**2,020**	2,196
	2,475	2,616

The emoluments of the above four non-director individuals fall within the following bands:

	Year ended 31 December	
	2009	2008
Nil to HK$1,000,000 (equivalent to approximately RMB880,480)	**4**	4

34. EARNINGS PER SHARE

	Year ended 31 December	
	2009	2008
Profit attributable to equity holders of the Company *(RMB'000)*	**594,277**	503,531
Weighted average number of ordinary shares in issue *(thousand)*	**3,684,640**	3,224,061
Basic and diluted earnings per share *(RMB per share)*	**0.16**	0.16

In determining the weighted average number of shares in issue for the year ended 31 December 2008, the 2,679,740,000 shares, existing as at 1 January 2008, were adjusted by the 1,004,900,000 shares issued on 13 June 2008, which were outstanding for six and a half months.

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

35. CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit for the year to net cash generated from operations

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Profit before income tax	**684,470**	602,557
Adjustments for:		
— Depreciation of property, plant and equipment and investment properties	**112,105**	79,684
— Amortisation of intangible assets and lease prepayments	**15,463**	11,465
— Amortisation of deferred income	**(18,901)**	(11,927)
— Write-down of inventories	**3,708**	10,926
— (Reversal of)/provision for impairment in trade and other receivables	**(12,290)**	583
— Provision for impairment in property, plant and equipment	**108**	1,198
— Interest income	**(35,208)**	(43,904)
— Interest expense	**65,317**	86,586
— Share of profit from associates	**(142,331)**	(181,306)
— Net gain on disposal of property, plant and equipment	**(1,793)**	(1,490)
— Gain on disposal of financial assets at fair value through profit and loss *(Note 29)*	**(31,506)**	—
— Gain on waiver of borrowings and other liabilities *(Note 29)*	**(4,350)**	(6,130)
	634,792	548,242

35. CASH GENERATED FROM OPERATIONS *(CONTINUED)*

(a) Reconciliation of profit for the year to net cash generated from operations *(Continued)*

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Changes in working capital:		
— Inventories	**146,895**	(241,605)
— Trade and other receivables	**(577,445)**	(28,299)
— Contract work-in-progress	**25,904**	(2,122)
— Restricted cash	**(105,568)**	(84,395)
— Retirement and termination benefit obligations	**17,919**	1,690
— Trade and other payables	**200,887**	386,962
	(291,408)	32,231
Cash generated from operations	**343,384**	580,473

(b) Proceeds from sale of property, plant and equipment

In the consolidated statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Net book amount	**21,163**	5,340
Gain on disposal of property, plant and equipment	**1,793**	1,490
Proceeds from sale of property, plant and equipment	**22,956**	6,830

36. CONTINGENCIES

As at 31 December 2009, the Group had no material contingencies.

37. COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the end of the report period but not yet incurred is as follows:

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
Property, plant and equipment	**174,561**	184,262
Intangible assets	**3,129**	2,520
	177,690	186,782

(b) Operating lease commitments

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

	As at 31 December	
	2009	2008
	RMB'000	*RMB'000*
No later than 1 year	**18,972**	9,472
Later than 1 year and no later than 5 years	**75,273**	8,190
Later than 5 years	**45,594**	20,822
	139,839	38,484

38. BUSINESS COMBINATIONS

Before February 2009, the Group directly owned 49% and 23.52% equity interests in Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear") and Qijiang Qi-Chi Forging Co., Ltd. (Qijiang Forging) respectively. As Qijiang Gear owned 52% equity interests in Qijiang Forging, the Group in total directly and indirectly owned 49% equity interests of Qijiang Forging. Both Qijiang Gear and Qijiang Forging were accounted for as associates of the Group. In February 2009, the Group acquired the remaining 51% equity interests of Qijiang Gear and 24.48% equity interests of Qijiang Forging for a cash consideration of approximately RMB256,609,000. There is no contingent consideration. Thereafter, Qijiang Gear and Qijiang Forging became wholly owned subsidiaries of the Group.

The acquired business contributed revenues of RMB656,889,000 and net profit of RMB28,413,000 to the Group for the period from acquisition to 31 December 2009. If the acquisition had occurred on 1 January 2009, group revenue would have been RMB6,966,165,000, and consolidated profit for the year ended 31 December 2009 would have been RMB611,871,000. These amounts have been calculated using the Group's accounting policies and by adjusting the results of the subsidiary to reflect the additional depreciation and amortisation that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had applied from 1 January 2009, together with the consequential tax effects.

Details of net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
— cash paid	256,609
Fair value of net identifiable assets acquired	(262,197)
Negative goodwill	(5,588)

38. BUSINESS COMBINATIONS *(CONTINUED)*

The fair value of net identifiable assets acquired exceeded the cost of business combination by RMB5,588,000, which was recognised in 'Other gains' in the income statement.

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount *RMB'000*	**Fair value** *RMB'000*
Cash and cash equivalents	84,523	84,523
Property, plant and equipment *(Note 6)*	198,870	220,227
Customer relationships (included in Intangible assets) *(Note 9)*	—	17,538
Brand (included in intangibles) *(Note 9)*	—	16,300
Technical know-how (included in Intangible assets) *(Note 9)*	340	7,106
Inventories	209,299	209,299
Receivables	324,489	324,489
Other non-current assets	11,137	11,137
Payables	(261,289)	(260,777)
Employee benefit liabilities, including pensions	(24)	(24)
Borrowings	(107,000)	(107,000)
Net deferred tax assets/(liabilities)	4,873	(2,053)
Net identifiable assets acquired	465,218	520,765

38. BUSINESS COMBINATIONS *(CONTINUED)*

	Acquiree's carrying amount *RMB'000*	Fair value *RMB'000*
Fair value of the investment in associates upon acquisition		
— original cost		(227,956)
— increase in fair value		(30,612)
Net assets acquired		262,197
Outflow of cash to acquire business, net of cash acquired:		
— cash consideration		256,609
— cash and cash equivalents in subsidiary acquired		(84,523)
Cash outflow on acquisition		172,086

39. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC Government which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as the "state-owned enterprises").

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

In accordance with HKAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC Government are regarded as related parties of the Group ("other state-owned enterprises"). For purpose of related party transactions disclosure, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatization programs. Nevertheless, management believes that meaningful information relating to related party transactions has been adequately disclosed.

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the years ended 31 December 2009 and 2008 and balances arising from related party transactions as at 31 December 2009 and 2008.

(a) Significant related party transactions

For the years ended 31 December 2008 and 2009, the Group had the following significant transactions with related parties.

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Transactions with the Parent Company, fellow subsidiaries and associates		
Revenue		
— Revenue from sales of goods	**113,546**	60,943
Expenses		
— Purchase of materials	**140,865**	56,671
— Services	**100**	330
— Management fees	**—**	465
— Leasing of equipment	**—**	282
— Other expenses	**12,721**	8,773

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions *(Continued)*

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Transactions with jointly controlled entities *(i)*		
Revenue		
— Revenue from sales of goods	**72,656**	76,865
Transactions with associates		
Revenue		
— Revenue from sales of goods	**26,988**	63,350
— Revenue from provision of services	**—**	29,146
Expenses		
— Purchase of materials	**19,495**	41,697
— Services	**85**	7,051
Transactions with shareholders of jointly controlled entities		
Revenue		
— Revenue from sales of goods	**133,940**	207,920
Expenses		
— Management fees and technical fees	**3,698**	3,602

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions *(Continued)*

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Transactions with minority interests		
Revenue		
— Purchase of materials	**2,577**	—
Expenses		
— Purchase of materials	**3,540**	4,147
Transactions with other state-owned enterprises		
Revenue		
— Revenue from sales of goods	**1,868,590**	1,290,841
Expenses		
— Purchase of materials	**1,734,341**	1,427,355

(i) The transactions with jointly controlled entities shown above are after elimination of the Group's proportionate interests in them.

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties

	Group		Company	
	As at 31 December		As at 31 December	
	2009	2008	**2009**	2008
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Trade and other receivables				
Trade receivables due from				
— Fellow subsidiaries and associates	**49,735**	7,158	**—**	—
— Jointly controlled entities	**2,159**	5,651	**—**	—
— Associates	**2,496**	13,442	**—**	—
— Shareholders of jointly controlled entities	**2,561**	7,328	**—**	—
— Other state-owned enterprises	**592,051**	388,343	**—**	—
Other receivables due from				
— Fellow subsidiaries	**385**	20,453	**379,211**	251,924
— Jointly controlled entities	**2,146**	—	**2,146**	—
— Associates	**1,937**	7,363	**1,937**	—
— Other state-owned enterprises	**17,110**	82,501	**—**	—
Prepayments due from				
— Fellow subsidiaries	**29,563**	—	**—**	—
	700,143	532,239	**383,294**	251,924
Less: long-term other receivables	**—**	—	**(178,957)**	(193,957)
Current portion	**700,143**	532,239	**204,337**	57,967

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties *(Continued)*

	Group		Company	
	As at 31 December		As at 31 December	
	2009	2008	**2009**	2008
	RMB'000	***RMB'000***	***RMB'000***	***RMB'000***
Trade and other payables				
Trade payables due to				
— Fellow subsidiaries and associates	**38,614**	33,319	**—**	—
— Associates	**814**	26	**—**	—
— Other state-owned enterprises	**462,114**	302,379	**—**	—
Other payables due to				
— CQMEHG	**11,453**	31,497	**—**	—
— Fellow subsidiaries	**34,421**	8,972	**39,309**	117,405
— Shareholders of jointly controlled entities	**1,418**	664	**—**	—
— Other state-owned enterprises	**59,855**	9,303	**—**	—
	608,689	386,160	**39,309**	117,405
Borrowings				
— Associates	**5,000**	—	**—**	—
Other balances with other state-owned enterprises				
— Restricted cash	**419,758**	314,190	**—**	—
— Cash and cash equivalents	**2,185,313**	2,307,050	**983,817**	1,053,287
— Borrowings	**1,153,494**	960,724	**194,000**	200,000

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties *(Continued)*

As disclosed in Note 21(b), as at 31 December 2009, the Group's bank borrowings of approximately RMB45,000,000 (2008: RMB5,000,000) were guaranteed by related parties.

(c) Key management compensation

	Year ended 31 December	
	2009	2008
	RMB'000	*RMB'000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,525**	1,543
Contributions to pension plans	**152**	168
Discretionary bonuses	**1,901**	1,332
	3,578	3,043

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

(a) Subsidiaries

The Company has direct and indirect interests in the following principal subsidiaries:

Name	Country/ Place and date of incorporation	Type of legal entity	Issued / paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
CAFF (重慶卡福汽車制動轉向系統有限公司)	PRC /27 June 2003	Limited liability company	58,800	100%	—	Manufacturing of vehicle parts and components
Qijiang Gear (綦江齒輪傳動有限公司)	PRC /28 December 2002	Limited liability company	200,000	100%	—	Manufacturing of transmission systems for vehicles
Chongqing Qi-Chi Automotive Part Co., Ltd. (重慶市綦齒汽車零部件有限責任公司) *(i)*	PRC /26 June 2000	Limited liability company	64,565	100%	—	Manufacturing of vehicle parts and components
Chongqing Boshui Imports & Exports Trade Co., Ltd. (重慶市搏水進出口貿易有限公司)	PRC /14 March 2007	Limited liability company	3,092	—	100%	Import and export of products relating to vehicles
Chongqing Qi-Chi Xinxin Welfare Co., Ltd. (綦齒鑫欣福利有限責任公司)	PRC /8 February 2007	Limited liability company	18,367	—	100%	Manufacturing of vehicle parts and components

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(Continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued / paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Qijiang Forging (綦江綦齒鍛造有限公司)	PRC /7 November 2003	Limited liability company	21,000	—	100%	Manufacturing of forge products
Chongqing General Industry (Group) Co., Ltd. (重慶通用工業(集團)有限責任公司) *(ii)*	PRC / 6 April 1997	Limited liability company	717,986	98.26%	—	Manufacturing of general machinery
Chongqing Pump Industry Co., Ltd. (重慶水泵廠有限責任公司) *(ii)*	PRC /12 September 2002	Limited liability company	196,411	—	98.26%	Manufacturing of pumps
Chongqing Jiangbei Machinery Co., Ltd. (重慶江北機械有限責任公司)	PRC /10 September 2002	Limited liability company	76,270	—	98.26%	Manufacturing of separation machinery
Chongqing Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司) *(ii)*	PRC /12 September 2002	Limited liability company	120,214	—	98.26%	Manufacturing of gas compression machine
Chongqing Shunchang General Electrical Equipment Co., Ltd. (重慶順昌通用電器有限責任公司)	PRC /20 January 2007	Limited liability company	1,000	—	98.26%	Manufacturing of general electric apparatus for general machine

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(Continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued / paid in capital *(RMB'000)*	Attributable equity interest Directly held	Indirectly held	Principal activities
Chongqing General Group Bingyang Air conditioner Equipment installation Co., Ltd. (重慶通用集團冰洋製冷空調設備安裝有限公司)	PRC /11 May 1994	Limited liability company	8,223	—	98.26%	Provision of air-conditioner installation services
Chongqing Machinery & Electric Yihuan Envirnment Equipment Co., Ltd. (重慶機電一環環保設備有限公司)	PRC /25 October 2001	Limited liability company	500	—	63.87%	Manufacturing of environmental protection equipment
Chongqing Machine Tools (Group) Co., Ltd. (重慶機床(集團)有限責任公司) *(iii)*	PRC /31 December 2005	Limited liability company	329,541	100%	—	Manufacturing of gear-cutting machines
Chongqing No. 2 Machine Tools Factory Co., Ltd. (重慶第二機床廠有限責任公司)	PRC /12 June 2007	Limited liability company	80,000	—	100%	Manufacturing of machinery tools
Chongqing Shenjian Automotive Drive Part Co., Ltd. (重慶神箭汽車傳動件有限責任公司) *(iv)*	PRC /19 July 1999	Limited liability company	23,011	—	100%	Manufacturing of transmission systems for vehicles

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(Continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued / paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Chongqing Tool Factory Co., Ltd. (重慶工具廠有限責任公司) *(iii)*	PRC /13 February 2007	Limited liability company	60,000	—	100%	Manufacturing of cutting tools for gear-cutting machines
Chongqing Yinhe Forging & Founding Co., Ltd. (重慶銀河鑄鍛有限責任公司)	PRC /6 October 1997	Limited liability company	18,704	—	100%	Manufacturing of foundry goods
Chongqing Machine Tools (Group) Shengpu Machinery Set Co., Ltd. (重慶機床集團盛普機械成套設備有限公司)	PRC /1 February 2007	Limited liability company	1,405	—	100%	Sales of machinery tools
Chongqing Shengong Machinery Manufacture Co., Ltd. (重慶神工機械製造有限責任公司)	PRC /28 April 2000	Limited liability company	1,103	—	100%	Manufacturing of machinery tools
Chongqing Yuzhu Tai-Xin Plating Co., Ltd. (重慶渝築鈦星鍍膜有限公司)	PRC /25 September 2003	Limited liability company	1,892	—	70%	Provision of processing services

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(Continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued / paid in capital *(RMB'000)*	Attributable equity interest Directly held	Indirectly held	Principal activities
Chongqing Huijiang Machine Tools Founding Co., Ltd. (重慶惠江機床鑄造有限公司)	PRC /14 March 2007	Limited liability company	3,670	—	55%	Manufacturing of machinery tools
Chongqing Water Turbine Works Co., Ltd. (重慶水輪機廠有限責任公司)	PRC /26 March 1998	Limited liability company	135,097	100%	—	Manufacturing of power generators
Chongqing Huahao Smelting Co., Ltd. (重慶華浩冶煉有限公司)	PRC /16 April 2002	Limited liability company	30,835	98.57%	—	Metallurgical production
Chongqing Pigeon Electric Wire & Cable Co., Ltd. (重慶鴿牌電線電纜有限公司)	PRC /20 January 2001	Limited liability company	52,000	54.69%	—	Manufacture electric wires and cables
Chongqing Pigeon Electric Materials Co., Ltd. (重慶鴿牌電工材料有限公司) *(v)*	PRC /19 October 2006	Limited liability company	6,800	—	27.34%	Manufacture electrical material
Chongqing Pigeon Electrical Porcelain Co., Ltd. (重慶鴿牌電瓷有限公司)	PRC /19 October 2006	Limited liability company	53,000	—	54.69%	Manufacture electrical porcelain

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(Continued)*

(i) In December 2009, the paid in capital of Chongqing Qi-Chi Automobile Part Co., Ltd. was increased from RMB1,250,000 to RMB64,565,000, as a result of an additional capital injection of 100% equity interests of Chongqing Boshui Imports & Exports Trade Co., Ltd., Chongqing Qi-Chi Xinxin Welfare Co., Ltd. and Qijiang Forging and 40.83% equity interests of Qijiang Qi-Chi High-New Founding Co., Ltd. and RMB2,259,000 from the Company.

(ii) In April 2009, the paid in capital of Chongqing General Industry (Group) Co., Ltd. was increased from RMB602,876,000 to RMB717,986,000 as a result of an additional capital injection of RMB115,110,000 from the Company. After the injection, the Group's interest in Chongqing General Industry (Group) Co., Ltd. was increased from 97.92% to 98.26%.

In April 2009, the paid in capital of Chongqing Gas Compressor Factory Co., Ltd. and Chongqing Pump Industry Co., Ltd. were increased from RMB70,774,000 to RMB120,214,000 and from RMB145,251,000 to RMB196,411,000, respectively, as results of the additional capital injections of RMB49,440,000 and RMB51,160,000 from Chongqing General Industry (Group) Co., Ltd..

(iii) In July 2009, the paid in capital of Chongqing Machine Tools (Group) Co., Ltd. was increased from RMB307,161,000 to RMB329,541,000 as a result of the additional capital injection of RMB22,380,000 from the Company.

In August 2009, the paid in capital of Chongqing Tool Factory Co., Ltd. was increased from RMB37,620,000 to RMB60,000,000, as a result of the additional capital injections of RMB22,380,000 from Chongqing Machine Tools (Group) Co., Ltd..

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(Continued)*

(iv) In January 2009, the paid in capital of Chongqing Shenjian Automobile Drive Part Co., Ltd. was increased from RMB18,624,000 to RMB23,011,000, as a result of an additional capital injection with 100% equity interests of Chongqing Haoyue Machinery Manufacture Co., Ltd. from Chongqing Machine Tools (Group) Co., Ltd. After the injection, Chongqing Haoyue Machinery Manufacture Co., Ltd. has been de-registered.

(v) The Group has 54.69% interests in Chongqing Pigeon Electric Wire & Cable Co., Ltd. which owns 50% interests in Chongqing Pigeon Electric Materials Co., Ltd.. Chongqing Pigeon Electric Materials Co., Ltd. is considered as the Group's subsidiary because the Group has majority voting rights on the Board of Directors and its strategic, operating, investing and financing activities are controlled by the Group.

(b) Jointly controlled entities

The Company has the following principal jointly controlled entities (all are unlisted):

Name	Country/ Place and date of incorporation	Type of legal entity	Issued / paid in capital *(RMB'000)*	Attributable equity interest Directly held	Indirectly held	Principal activities
Chongqing Cummins Engine Co., Ltd.(重慶康明斯發動機有限公司)	PRC /15 June 1995	Limited liability company	417,600	50%	—	Manufacturing of engines
Shenzhen Chongfa Cummins Engine Co., Ltd. (深圳崇發康明斯發動機有限公司) *(i)*	PRC /14 August 1997	Limited liability company	20,000	—	29.20%	Manufacturing of engines

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(b) Jointly controlled entities *(Continued)*

(i) The Group has 50% interest in Chongqing Cummins Engine Co., Ltd. which owns 58.4% interest in Shenzhen Chongfa Cummins Engine Co., Ltd.. Shenzhen Chongfa Cummins Engine Co., Ltd. is considered as the Group's jointly controlled entity because its strategic, operating, investing and financing activities are jointly controlled by the Group and other joint venture parties.

(c) Associates

The Company has direct and indirect interest in the following principal associates (all are unlisted):

Name	Country/ Place and date of incorporation	Type of legal entity	Issued / paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Qijiang Qi-Chi High-New Founding Co., Ltd. (重慶市綦齒高新鑄造有限責任公司)	PRC /13 July 2000	Limited liability company	1,200	—	40.83%	Manufacturing of foundry products
Chongqing Hongyan Changli Automotive Spring Co., Ltd. (重慶紅岩長力汽車彈簧有限公司)	PRC /27 June 2003	Limited liability company	94,281	44.00%	—	Manufacturing of automobile springs for vehicles
Exedy (Chongqing) Driving System Co., Ltd. (愛思帝(重慶)驅動系統有限公司)	PRC /3 December 2003	Limited liability company	101,040	27.00%	—	Manufacturing of clutches

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(c) Associates *(Continued)*

Name	Country/ Place and date of incorporation	Type of legal entity	Issued / paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Chongqing Midea General Refrigeration Equipment Co., Ltd. (重慶美的通用製冷設備有限公司)	PRC /4 August 2004	Limited liability company	103,750	—	44.22%	Manufacturing of refrigeration equipment
Chongqing Gas Engineering Co., Ltd. (重慶燃氣工程股份有限公司)	PRC/6 December 2006	Limited liability company	20,000	—	19.65%	Provision of gas engineering services
Chongqing Power Transformer Co., Ltd. (重慶變壓器有限責任公司) *(i)*	PRC /5 March 1996	Limited liability company	161,410	65.69%	—	Investor of Chongqing ABB Power Transformer Co. Ltd.
Chongqing Ji'en Smelting Co., Ltd. (重慶吉恩冶煉有限公司)	PRC /16 June 2004	Limited liability company	23,590	—	24.64%	Manufacturing of metallic products

(i) Although the Company owns 65.69% of the equity interest of Chongqing Power Transformer Co., Ltd., the Company only has minority voting rights on the Board of Directors and has no control over the making of financial and operating decisions. As the Company only has significant influence on Chongqing Power Transformer Co., Ltd., this entity is considered as an associate.

41. ULTIMATE HOLDING COMPANY

The Directors regard CQMEHG as being the ultimate holding company of the Company.

42. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

For the year ended 31 December 2009, the profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB574,022,000 (2008: RMB62,827,000).

43. EVENTS AFTER THE BALANCE SHEET DATE

The Company has entered into an acquisition agreement on 10 March 2010 whereby Precision Technologies Group Ltd agreed to sell to the Company the entire share capital of Holroyd Precision Limited, Precision Components Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited and PTG Deutschland GmbH, at a total cash consideration of UK pound 20,000,000. Such companies are incorporated outside of the PRC and are mainly engaged in screw processing and the design, production and sales of screw machine tools, large-scale machine tools and grinding machines in England. As at the date of approval of these financial statements, this acquisition is to be approved by the PRC government.

CQME