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

2010 Annual Report

* For identification purposes only

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Xie Hua Jun *(Chairman)*
Mr. Yu Gang
(Appointed on 30 December 2010)
Mr. Liao Shaohua
Mr. Chen Xianzheng

Non-executive Directors

Mr. Huang Yong
Mr. Wang Jiyu
(Appointed on 30 December 2010)
Mr. Liu Liangcai
(Appointed on 15 June 2010)
Mr. Yang Jingpu

Independent Non-executive Directors

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

COMMITTEES UNDER THE BOARD OF DIRECTORS

Members of the Audit Committee

Mr. Lo Wah Wai *(Chairman)*
Mr. Kong Weiliang
Mr. Liu Liangcai

Members of the Remuneration Committee

Mr. Ren Xiaochang *(Chairman)*
Mr. Lo Wah Wai
Mr. Wang Jiyu
(Appointed on 18 January 2011)

Members of the Nomination Committee

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

SUPERVISORS

Mr. Duan Rongsheng
Ms. Liao Rong
Ms. Wang Rongxue
Mr. Liu Xing
(Appointed on 15 June 2010)
Mr. Wang Xuqi
Mr. Chen Qing
(Appointed on 15 June 2010)

LEGAL REPRESENTATIVE

Mr. Xie Hua Jun

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 2008, 20th 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

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

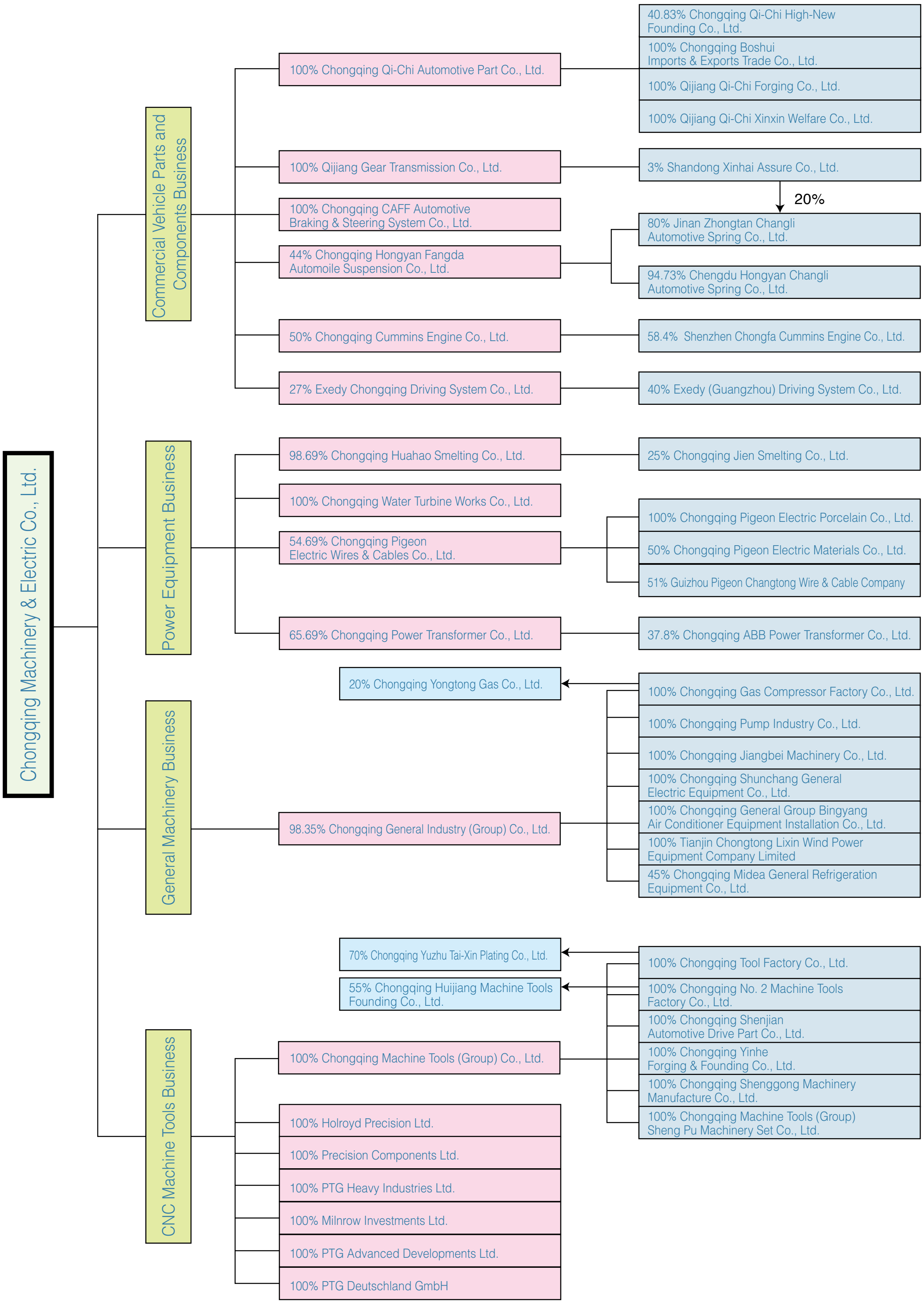
31 December

FINANCIAL HIGHLIGHTS

(RMB'000)	2006	2007	2008	2009	**2010**
Revenue and profit					
Revenue	4,284,255	5,485,500	5,949,655	6,893,290	**8,883,202**
Profit before taxation	389,362	519,729	602,557	684,470	**765,058**
Taxation	(48,094)	(45,906)	(78,676)	(59,914)	**(66,298)**
Profit for the year	341,268	473,823	523,881	624,556	**698,760**
Attributable to					
Equity holders of the Company	302,027	450,015	503,531	594,277	**687,732**
Non-controlling interests	39,241	23,808	20,350	30,279	**11,028**
Dividends — Proposed final dividends	—	—	—	221,078	**294,771**
Earnings per share attributable to equity holders of the Company — Basic *(RMB)*	0.15	0.20	0.16	0.16	**0.19**
Assets and liabilities					
Non-current assets	1,716,133	2,006,776	2,254,156	2,554,216	**2,907,784**
Current assets	2,630,077	3,618,614	5,271,690	6,194,348	**7,264,453**
Current liabilities	2,548,269	3,199,885	3,543,477	3,951,129	**4,442,554**
Net current assets	81,808	418,729	1,728,213	2,243,219	**2,821,899**
Total assets less current liabilities	1,797,941	2,425,505	3,982,369	4,797,435	**5,729,683**
Non-current liabilities	348,625	513,230	511,530	678,163	**1,155,475**
Net assets	1,449,316	1,912,275	3,470,839	4,119,272	**4,574,208**
Equity attributable to equity holders of the Company	1,246,565	1,865,733	3,418,345	4,045,392	**4,509,996**
Non-controlling interests	202,751	46,542	52,494	73,880	**64,212**

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 2010 amounted to approximately RMB8,883.2 million, representing an increase of approximately 28.9% as compared with approximately RMB6,893.3 million for last year.

Profit attributable to the equity holders of the Company for the year ended 31 December 2010 was approximately RMB687.7 million, representing an increase of approximately 15.7% as compared with approximately RMB594.3 million for last year.

Basic earnings per share for the year ended 31 December 2010 was approximately RMB0.19 (2009: RMB0.16).

The board of directors (the "Board") proposed to declare a final dividend of RMB0.08 per share for the year ended 31 December 2010 (2009: RMB0.06).

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 2010 (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 to shareholders of the Company.

RESULTS REVIEW

Looking back to 2010, the world economy, though still under the shadow of European debt crisis, slowly recovers as a whole after the United States of America, the largest economy in the world, adopted the easy monetary policy and issued additional US$600 billion of long-term Treasury bonds. Leveraging on the positive fiscal policies and moderately easy monetary policy adopted by the central government, China's economy stabilized and rebounded amid the complicated environment, with GDP growth at 10.3%. No doubt, this would bring along inflation and asset price bubbles etc. Focusing on our established goals and in line with the actual situation, the Group overcame the adverse factors such as higher material prices and intensified market competition, timely initiated and vigorously implemented various measures, thus achieving impressive results and steady growth. Our gross profit for the Period amounted to RMB1,691.6 million, representing an increase of RMB444.6 million or 35.7% over last year.

We continued to insist innovation in restructuring, technology and development mode, proactively expanded market share, and accelerated the business growth in a continuous manner. In 2010, benefiting from the State's efforts to boost domestic demand, adopting positive easy monetary policy and investment of RMB4 trillion, our four major business segments including commercial vehicle parts and components, power equipment, general machinery and CNC machine tools segments saw year-on-year growth in sales. In particular, as driven by the fast growth of domestic automobile market in the PRC, the sales of commercial vehicle parts and components and CNC machine tools achieved rapid growth as compared with the same period last year. Our total sales for the year amounted to approximately RMB 8,883.2 million, representing an increase of approximately 28.9% over last year.

Year 2011 heralds the start of China's "Twelfth Five-Year Plan". The State formulated the economic development plan for the coming years, which focused on the transformation of economic growth mode. According to the plan, China will continue to adopt a proactive fiscal policy and a prudent monetary policy. The seven strategic new sectors, including energy saving and environmental protection, new-generation information technology, biotechnology, high-end equipment manufacturing, new energy, new materials and new energy automobile, will further inject vitality into the electromechanical industry. China's economy in the new year will show a new trend featuring transformational development. Construction of infrastructure, power, transportation, water conservancy and environmental protection projects are expected to see rapid growth, which, we believe, would help the Group continue to achieve sustainable innovation and development.

Total revenue of the Group for the year ended 31 December 2010 was approximately RMB8,883.2 million (2009: RMB6,893.3 million), representing an increase of approximately RMB1,989.9 million or approximately 28.9% over last year. Profit attributable to the shareholders of the Company amounted to approximately RMB687.7 million (2009: RMB594.3 million), representing an increase of approximately RMB93.4 million or approximately 15.7% over last year.

During the Period, the Group's administrative expenses accounted for 8.4% of the revenue while distribution and selling expenses accounted for 3.4%, slightly lower than last year. The Group kept a healthy financial position during the Period. As at 31 December 2010, total cash and bank deposits of the Group amounted to approximately RMB2,591.8 million, slightly lower than last year by 0.6%.

For the year ended 31 December 2010, earnings per share was approximately RMB0.19 (2009: RMB0.16). Total assets amounted to approximately RMB10,172.2 million (2009: RMB8,748.6 million), while total liabilities amounted to approximately RMB5,598 million (2009: RMB4,629.3 million). Total equity attributable to the shareholders was approximately RMB4,510 million (2009: RMB4,045.4 million). Net asset value per share was approximately RMB1.24 (2009: RMB1.12).

BUSINESS REVIEW AND OUTLOOK

Commercial vehicle parts and components (engines, gear boxes, braking and steering systems and other products)

As the PRC government launched preferential policies to promote the development of the automobile industry as well as the policies to boost domestic demand, the domestic automobile industry continued to see robust growth in 2010 and the production and sales volumes of automobiles both exceeded 18 million units, representing a year-on-year increase of 32.44% and 32.37% respectively. In particular, the output and sales volume of commercial vehicles were 4,367,600 units and 4,304,100 units, representing a year-on-year increase of 28.19% and 29.9% respectively.

During the Period, diesel engines business continued to grow at a fast pace as driven by commercial vehicles, construction machinery, shipbuilding, infrastructure and building construction sectors. Our newly-developed gear boxes allow us to seize the opportunities in the market ahead of the peers and win a high recognition from our customers. Work shifts for diesel engine, gear boxes and braking and steering systems were increased to raise production capacity and satisfy market demand. Meanwhile, we put more efforts in improving product quality, which promoted rapid growth in sales of commercial vehicle parts and components segment. The revenue for the year amounted to approximately RMB2,959.4 million, representing an increase of 40.8%.

During the Period, the Group launched a number of new products, including Cummins KTA50 engine and NT series engine which were well received by customers, Model S3-120 and Model QJ1112 energy-saving and environmental friendly gear boxes which were highly recognized at the Shanghai World Expo, Model S6-100 and S6-160 gear boxes which were exhibited to the public at the 2010 Busworld Asia Exhibition held at Shanghai and were highly reviewed for their highlighted features in respect of fuel efficiency and environmental friendliness, light weight, human-friendly manipulation and reliable quality, and Model 5S-111GP and QJ1206 gear boxes which were very popular with customers of overseas markets.

On 19 January 2011, Chongqing CAFF Automotive Braking & Steering Systems Co. Ltd. ("CAFF"), a wholly owned subsidiary of the Company, entered into a joint venture agreement with Knorr-Bremse Asia Pacific (Holding) Ltd ("Knorr-Bremse") a company affiliated to the Germany-based Knorr-Bremse Group Company（克諾爾控股集團公司）, pursuant to which a joint venture company, Knorr-Bremse CAFF Systems for Commercial Vehicles Chongqing Ltd., was incorporated on 23 February 2011 with a registered capital of EUR 14,609,000. The joint venture company, which is owned as to 34% and 66% by CAFF and Knorr-Bremse respectively, is engaged principally in the assembly, parts manufacturing, sale, application engineering and after-sale service of valve products (brakes, chassis, transmission and air treatment valves), air dryers and clutch servo system for the Commercial Vehicles (for details, please refer to the announcement of the Company dated 18 January 2011). Such move would help the Group upgrade its technology and products in commercial vehicle parts and components business and achieve sustainable development.

In 2011, the domestic automobile market will see a rational fall as impacted by the macro-control and policies. It is expected that the increase in the production and sales volumes of automobiles in China will decrease to 15% in 2011 from more than 30% in 2010. However, as the product mix of this segment has been timely adjusted and new products were well-received in the market, the Group will give priority to the research and development of K50 high-powered engine, 12-speed transmission for tow tractors with large torques and AMT transmission for new energy automobile. The Group will construct a production line for heavy truck transmissions, and upgrade the technical standards, production capacity and quality of transmissions for heavy trucks and commercial vehicles while consolidating and expanding the market share of its bus transmissions. In addition, the Group will make efforts to develop F3000 rear suspension track bars and control arms, improve the production line for passenger vehicle parts and increase product capacity, thus achieving market expansion thereof. In our opinion, this segment will maintain steady growth in 2011.

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

In 2010, hydropower, nuclear power, wind power and power transmission and distribution projects grew rapidly, rural power grids upgrade and smart grid construction were in full swing, and development of clean energy was highly promoted. The Group attached great importance to independent innovation of high-end products and technologies and completed technology improvement successfully. The newly developed impact-type hydroelectric turbine generators with high hydraule heads（整體水輪機衝擊式轉輪）has been exported to the European Union. Copper wires for 600MW unit and cables for rail vehicles, which were independently developed by the Group, were recognized by specialists organised by Economy and Information Commission of Chongqing Municipality（重慶市經濟和信息化委員會組織）, and met the preliminary conditions for commercialization. 750KV AC ultra high voltage transformer was successfully launched into the market. The Copper and Copper Based Powder (Phase I) project for technical innovation has been completed and commenced production. The high-voltage electrical ceramics project has also been completed and put into production, with massive production capacity for 220KV and various voltage electrical ceramic products. Accordingly, our power equipment business saw faster growth as compared with last year, and recorded revenue of approximately RMB2,935.6 million for the year, representing an increase of 27.9%.

The "Twelfth Five-Year" Plan, which was promulgated in 2011, sets out the following development guideline for electricity power industry: giving priority to the development of hydropower, optimizing development of coal-fired power and actively promoting new energy power generation. As driven by the rapid growth of power transmission and distribution, hydropower, nuclear power and wind power, the upgrade of rural power grids and the construction of smart power grids in China, the Group has been equipped with testing and production capacity for 1000KV AC and 800KV DC ultra-high voltage transformers. The phase II project for technical innovation of non-ferrous metal powder has been completed and put into operation in the year, aiming to become the largest metal powder production base in Asia. Copper bars and special copper materials for 1 million kilowatts ultra-critical generating units, wind power generating units and nuclear power generating units, and cables for 2MW wind power generating units will be ready for recognition and launched in the market. Further, the production capacity for copper wires for 600MW units and cables for rail vehicle will be expanded. While consolidating our leading position in the industry, we will further expand our market potentials. In our opinion, this segment will maintain steady growth in 2011.

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

In 2010, benefiting from a series of policies and measures introduced by the government to accelerate the transformation of economic development mode, this business segment overcame the negative effects of the macro-economic regulation over excess capacity in industries such as metallurgy, iron & steel and cement and the sluggish recovery from the financial crisis, we accelerated the shift of product mix toward nuclear power and wind power, stepped up new market expansion, and gained preliminary capacities. GKH800-NB air-tight explosion-proof centrifuges independently developed by the Group satisfied the basic conditions for commercialization; as to the newly developed secondary pump for million-kilowatts pressurized water reactor nuclear power station, we have received orders for water pressure test pump and centrifugal upward injection pumps, and will make delivery in 2012; "W" type high-voltage oil-free air compressor has been listed in municipal level of a key new products; DEG centrifugal refrigeration units for nuclear power station won a bid and secured orders, which will be delivered from 2011 in tandem; the sample unit of new-type centrifugal refrigeration units used in the third-generation AP1000 nuclear power station has been developed; the trial run platform for cold water units, which was newly built by the Group, obtained certification from National Quality Supervision and Inspection Center for Compressor and Refrigeration Equipments. Meanwhile, the Group initiated a separation machinery commercialization program in a bid to enhance its core competitiveness. As a consequence of these efforts, the general machinery business maintained growth momentum over last year and recorded revenue of approximately RMB1,229.3 million for the year, representing an increase of 4.7%.

Looking forward to 2011, the Group will further consolidate its leading technical advantages in the industry and put more efforts in independent R&D on high-end product technology. At the same time, we will optimize product mix, promote new product development, continually improve product quality, and actively develop large-size high-temperature centrifugal fans, secondary pumps (containment spray pumps and low pressure safety injection pumps) for nuclear power station, filter (presses) and separators, aiming for the commercialization of water pressure test pumps and centrifugal upward injection pumps. Furthermore, we will start the mass production of 2MW wind power rotor blades and explore new market by fully utilising our product and technical advantages in niche markets, so as to achieve rapid transformation. In our opinion, this segment will experience recovery in 2011.

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

In 2010, benefiting from the government adopting preferential policies to encourage the automobile industry development and policies to stimulate consumption, and market demand for wind power construction machinery, port machinery, mining machinery and agricultural machinery soared, the Group timely developed and launched a number of new products including Y4232CNC9 series CNC gear shaving machine and YX3132CNC4 4-axle CNC gear hobbing machine, large module gear hobbing cutter, large module hard alloy mobile facer and large module gear shaping cutter, thus leading to a strong growth in CNC machine tools segment in 2010. The revenue of CNC machine tools segment for the year amounted to approximately RMB1,758.9 million, representing an increase of 33.1%.

In 2010, the Company acquired the entire equity interests of six companies, which were subsidiaries of UK-based Precision Technologies Group Limited ("PTG Company") who owned three world famous brands and five world advanced technologies. This move has enhanced the integration of our CNC machine tools segment with PTG Company in terms of technology, products, marketing, business and human resources. For details of the acquisition, please refer to the Company's announcements dated 10 March 2010 and 22 June 2010 respectively.

On 18 January 2011, the Board approved the construction of a large precise CNC machine tool production base and the environmental-friendly relocation in Chongqing Nanan District. The estimated investment for Phase I is approximately RMB942 million, including an investment of approximately RMB750 million in the construction of the project (including a sum of RMB150 million in the proceeds from the global offering of the Company). The Company expects Phase 1 of the project to be completed by the end of 2011 and put into full production in 2012. Upon completion of the project, the manufacturing technique of the production base will be boosted to a leading position in China and advanced level in the world, thus creating favourable conditions for Machine Tools Group to achieve its strategic target, namely taking a place in the top manufacturers of international gear equipment manufacturing industry. For details, please refer to the Company's announcement dated 18 January 2011.

In 2011, the Group will continue to accelerate the restructuring and innovation of its high-end technology, promote the green manufacturing and re-manufacturing technology strategy for machine tools, push forward the construction of the large precise CNC machine tool production base and the environmental-friendly relocation project and speed up the R&D on large gear hobbing machines over 3.2 meters and precision CNC grinding machines and screw grinding machines. In addition, the Group will speed up the construction and the operation of the production base of large precision CNC machines. We believe this segment will maintain a relatively rapid growth in 2011.

DEVELOPMENT STRATEGY

The Group's development strategy and work priorities in 2011 are set out as follows:

I. Development Strategy

By virtue of the business philosophy of "dedication, innovation, openness and acceleration" and guided by the scientific outlook on development, we will take the change of development mode as direction, restructuring as the main line, opening-up and innovation as the driving force, diligence and dedication as guarantee, and the acceleration of growth as general requirement, so as to ensure a favourable performance in the first year of the "Twelfth Five-Year Plan" and boost the business scale and results of the Group as a whole.

II. Work Priorities

(I) Enhance profitability and explore new market to achieve new breakthrough in the economies of scale

In 2011, though China is still amid various complicated domestic and international economic situations, the Group will actively keep abreast of the economic dynamics and industry development trends at home and abroad, enhance analysis and control on economic operation, seize market opportunities in advance, strive for more orders, enhance cooperation with customers, develop new markets, expand the export, adjust and improve the performance incentive mechanism for R&D, production, sales and management personnel, so as to ensure the fulfilment of the business objectives for the year and achieve new breakthrough in economies of scale.

(II) Focus on technology and enhance core competitiveness to achieve new breakthrough in the standards of product technology

Technical innovation is the proxy of corporate core competitiveness and is the key to the adjustment of product mix. With a view to catch up with the international advanced level and cater for the development needs from the State's seven strategic emerging sectors, namely energy saving and environmental protection, new-generation information technology, biotechnology, high-end equipment manufacturing, new energy, new materials and new energy automobile, the Group will strive for technical upgrade, capacity expansion and more application fields for its products, and speed up the extension of products towards mid to large-size specifications and the product upgrade through various measures such as the introduction of technology, cooperation among industries, universities and research institutes and independent innovation.

(III) Seize mergers and acquisitions opportunities and seek project supports to achieve new breakthrough in development mode

To become bigger and stronger, the Company shall resort the way to mergers and acquisitions, reorganization joint venture and cooperation. Aiming at the global leading companies, broadening perspective and vision, and holding forward-looking thoughts, the Group will speed up mergers and acquisitions and reorganization to realize expansion, expedite joint venture and cooperation, and fully improve the technical standards and operation quality to elevate its economies of scale.

(IV) Put more efforts in financing and broaden financing channels to achieve new breakthrough in financing, management and operation

As large sums of capital will be needed for promoting adjustment of product mix and industrial structure, expediting development and strengthening the Company, the Group will explore new financing modes, improve capital operation quality, strengthen the centralized capital management and centralized credit, improve the asset-liability structure of its subsidiaries and adopt new modes in financing, management and operation.

(V) Strengthen management and enhance risk control to achieve new breakthrough in scientific and standard management

In order to establish and improve internal control system, the Group set up a risk control department so as to ensure effective supervision on the overall work effectiveness of the Group and strictly control internal risks. The Group will enhance financial budget and analysis management, optimize commercial credit management and make full use of capital concentration effect to lower financing costs and decrease bad and doubtful debts. In addition, centralized procurement of bulk materials will be strengthened and practical efforts will be made to promote lean production and fully improve product quality.

(VI) Reinforce team building and provide strong support for talents to achieve breakthrough from human resources to human capital

Talents are essence of corporate resources and the most valuable assets of an enterprise. The Group will set up four mechanisms in respect of "selection, cultivation, utilization and retaining" of talents, and establish an internal talents market. Meanwhile, core team building plans will be formulated for management, professional skills and hi-tech skills, thus turning human resources advantage to human capital advantage.

AWARDS

During the Period, the Group received the following awards:

- Chongqing ABB Power Transformer Co. Ltd., Chongqing Pigeon Electric Wires & Cables Co., Ltd., Chongqing Cummins Engine Co., Ltd., Chongqing Machine Tool (Group) Co., Ltd. and Qijiang Gear Transmission Co.,Ltd., all being subsidiaries of the Group, were ranked among the 2010 Chongqing Top 100 Enterprises by Chongqing Enterprises Confederation（重慶市企業聯合會）, Chongqing Entrepreneur Association（重慶市企業家協會）and Chongqing Federation of Industrial Economics（市工業經濟聯合）.

- Chongqing Pigeon Electric Wires & Cables Co., Ltd. and Chongqing Jiangbei Machinery Co., Ltd., both subsidiaries of the Group, were granted the honour of the First Batch of Chongqing Industrial Enterprises with Best Development Strength（首屆重慶最具發展實力工業企業）by the Industry Marketing Association of Chongqing Municipality（重慶市工業營銷協會）.

- Chongqing Machine Tool (Group) Co., Ltd., a subsidiary of the Group, was recognized as of the Top 10 Hi-tech Enterprises by the Hi-tech Enterprises Development Conference of Chongqing（重慶市高新技術企業發展大會）.

- The Technology Center of Chongqing General Industry (Group) Co., Ltd., a subsidiary of the Group, was recognized as the 2010 Excellent Enterprise Technology Center of Chongqing（2010年度重慶市市級優秀企業技術中心）.

- The Company was awarded as Pioneer Demonstration Unit of China Industry Economy（中國工業經濟先鋒示範單位）in the six session of China Industry Forum sponsored by China Industry News.

- "Qijiang" Brand, a transmission brand of Qijiang Gear Transmission Co.,Ltd, a subsidiary of the Group, was awarded the title of "Recommended Brand" by Material Work Committee of China City Transportation Association.

- Four new products developed and produced by Chongqing General Industry (Group) Company Limited, a subsidiary of the Group, was awarded the title of "Energy Saving Machinery and Electric Products" at the 2010 energy saving and resource utilization conference for China mechanical industry and was listed as "Recommended Energy Saving Products" by Ministry of Industry and Information Technology of the People's Republic of China.

- Chongqing Jiangbei Machinery Co.,Ltd, a subsidiary of the Group, ranked No 3 among "Top 100 Chemical Enterprises with Most Growth Potentials in China in 2010" and was awarded the medal of "Top 500 Chinese Chemical Enterprises".

SUMMARY

Looking into 2011, global economy is expected to remain in its recovery period, and world economic structure will see further restructuring due to the development imbalances among countries. Meanwhile, China will be confronted with inflation pressure and the risk of overheated economy. In line with the situation, the management of the Group will insist on innovation in respect of reorganization, technology, products and development mode, and cope with the opportunities and challenges with loyal and pragmatic attitude and efficient execution capabilities. In view of actual conditions of the Group, the development plans for our four major segments will be formulated pursuant to the "Twelfth Five-Year Plan". The Group's businesses are expected to maintain continued steady growth in 2011.

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.

Finally, I would like to extend my heartfelt gratitude to our shareholders and investors for their long-term support and encouragement. My appreciation also goes to all our staff for their relentless efforts. We will continue to promote our business philosophy of "dedication, innovation, openness and acceleration" and create brilliant achievements through concerted efforts. On behalf of the Board, I would like to express our sincere gratitude to all of our clients, suppliers and people from all circles for their long-term support and trust.

Executive Director and Chairman
Xie Hua Jun

Chongqing, the PRC
31 March 2011

OUTLOOK AND PROSPECT

Principal business to keep stable growth in 2011

In 2010, world economy recovered slowly as a whole, while China's economy expanded rapidly, with full-year GDP growth reaching 10.3%. In 2011, the government adopts a proactive fiscal policy and prudent monetary policy, this change in macro-policy will exert some negative impact on enterprise development. However, as 2010 is the first year of the "Twelfth Five-Year Plan", the confidence in and impetus for enterprise development will be boosted; the implementation of the seven-major-new-emerging sectors strategy and regional development planning is bound to create new industrial growth points and regional growth poles; the great efforts made to improve economic environment and an environment nurturing enterprise growth go a long way toward stimulating economic vitality, and also brings opportunities for accelerating development of the four major business segments of the Group. We believe that the economic environment in 2011 will remain favourable and China's economy will maintain its steady and rapid growth momentum. The management of the Group will keep close track of domestic and international developments, carry out more analysis, make timely management control, cope with the situation cool-headedly and spare no efforts to ensure the sustained and steady development of the Company.

Principal Business Orders

Orders of the Group's businesses such as gear-producing machines and hydroelectric turbine generators have exceeded the expected full-year goal while the orders of the Group's principal business have reached 55% of the production target for 2011 by March 2011, which laid a solid foundation for achievement of the annual sales target for 2011.

Strengthening centralized procurement and making good use of financial instruments

The Group will further promote the centralized procurement for bulk commodity to strengthen synergy, reduce cost and improve efficiency. In 2011, we will focus on the centralized procurement of bulk commodity such as oil and steel while consolidating such practice for the purchase of bearings and tools. Meanwhile, the management is studying the use of leveraged financial instruments to conduct hedging transactions in respect of copper-based raw material in a bid to reduce the impact of the copper price fluctuation on the Group and increase operating profit margin. The earthquake and tsunami that struck Japan on 11 March 2011 has brought no impact on the operation of the Group's supply chain. We expect the prices of raw materials to be steady raised in 2011.

Promoting Management Innovation and Implementing Scientific Management

The Group has been in strict compliance with the Rules Governing the Listing of Securities on The Stock Exchange (the "Listing Rules"), operated in a prudent and standard manner and standardized its operation, e.g. carrying forward the implementation of computerized management system; optimizing performance assessment mechanism; centralizing the fund and credit management to improve capital efficiency; strengthening the financial budget management, reducing accounts receivables, tightening risk control; enhancing the quality assurance system, advancing lean production pragmatically, creating a lean corporate culture, bringing into full play the supervisory role of audit.

Expanding operating scales and optimizing industrial structure

The management considers it imperative to increase production and operation investment in order to meet the increasing market demand. The copper and copper-based powders project was completed and put into operation on schedule during the year, which enables the Group to create Asia's largest nonferrous metal powder production base. Meanwhile, the products of PTG Company acquired by the Company are well poised to enter the vast domestic market, and the establishment of precision screw manufacture base will help the CNC Machine Tools Business maintain its leading position in the domestic market.

The Group set up a new planning and development department responsible for studying overall development strategies. We will work together with four business segments of enterprises with potentials and advanced technology or new industries which could complement the Group's core industry chain, to discuss investment opportunities in common areas and enhance their ability in long-term technology R&D and product and technology innovation.

Enhancing technology cooperation, merger and acquisition, and integration

The Group attaches great importance to cooperation with enterprise technology centers at different level on technology R&D and always strives for technology upgrading and product innovation. As of December 2010, the Group implemented a total of 108 key new product projects with a completion rate at 98.1%, among which 27 were recognized as key new products of Chongqing City in 2010.

As for mergers and acquisitions, the Group particularly sought to merge and 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 of the Group, and seized opportunity for development and integration. During the Period, the Group has achieved following goals:

1) On 19 March 2010, the Chongqing General Industry (Group) Co., Ltd. ("General Group") completed the liquidation and cancellation of its subsidiary Ji Dian Yi Huan Environmental Equipment Co., Ltd. (重慶機電一環環保設備有限公司), with its environmental equipment business transferred to the General Group. On 30 March 2010, the Company completed the merger between General Group and Chongqing General Yunxiu Co., Ltd. (重慶通用運修有限責任公司). The latter had cancelled its business registration.

2) During the Period, the Company held a Board meeting on 10 March 2010, at which the agreement on acquisition of the entire equity interests in six wholly-owned subsidiaries of PTG Company at a consideration of approximately GBP20 million was considered and approved.

The six subsidiaries acquired by the Company and their main businesses are:

(1) Holroyd Precision Limited is specialized in the manufacture of screw grinding machine and screw milling machine as well as technical services. Its major products include screw and thread grinding machine, screw milling machine, super-hard grinding machine and gear grinding machine;

(2) Precision Components Limited focuses on the screw market of screw-type compressor and is engaged in the production of a series of compressor and turbocharger screws, including prototyping and mass production;

(3) PTG Heavy Industries Limited offers a variety of large-scale horizontal lathe, roller grinding machine, deep hole boring machine, friction welding machines and other services, including design and manufacture of new machine tools, provision of re-design, re-manufacture and refurbishment services. It owns long-standing brands such as Binns & Berry and Crawford Swift;

(4) Milnrow Investments Limited owns real estates used for the production by Holroyd Precision Ltd. and Precision Components Limited and other companies in Rochdale, Manchester, and rent premises and land;

(5) PTG Advanced Developments Limited is engaged in the development of corporate strategy and intends to develop new projects such as large-scale machine tools;

(6) PTG Deutschland Gmb H, a sales company established in Germany, is specialized in sales of PTG's products. The completion of the acquisition will help to improve the technical know-how of the Company, reinforce the capability of technical development of relevant enterprises of the Company, expand its business scale and enhance its profile.

On 15 June 2010, the transaction was successfully completed, and the Company made the initial payment of GBP17 million in cash, and the remaining balance will be paid according to relevant contract terms.

3) On 1 June 2010, 重慶紅岩長力汽車彈簧有限公司 (Chongqing Hongyan Changli Automotive Spring Co., Ltd.), an associated company of the Company, was renamed as 重慶紅岩方大汽車懸架有限公司 (Chongqing Hongyan Fangda Automotive Suspension Co., Ltd.) after being approved at its general meeting.

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

5) On 19 January 2011, CAFF entered into a JV Agreement with Knorr-Bremse, a subsidiary of Knorr-Bremse Group Company, and completed the registration of Knorr-CAFF Commercial Vehicle System (Chongqing) Co., Ltd. (克諾爾卡福商用車系統(重慶)有限公司) on 23 February 2011. The JV Company is owned as to 34% by CAFF and 66% by Knorr-Bremse and has a registered capital of EUR14.609 million. It is engaged principally in the assembly, parts manufacturing, sale, application engineering and after-sale service of parts and components, air dryers and clutch actuation products for commercial vehicles.

6) According to the development trend of the electric wires and cables markets around Chongqing, Chongqing Pigeon Electric Wires & Cables Co., Ltd.(重慶鴿牌電線電纜有限公司)("Chongqing Pigeon"), a wholly owned subsidiary of the Company, selected Guizhou as a pilot location to establish a JV company, Guizhou Pigeon Changtong Electric Wires & Cables Co., Ltd.(貴州鴿牌長通電線電纜有限公司), and implement the Special Project for Guiyang Special Wire and Cables Production Base. The JV company has a registered capital of RMB10 million and is controlled by Chongqing Pigeon which made a contribution of RMB5.10 million. Two special wires and cables production lines will be set up for the project, which will achieve an annual output of 0.14 million km of environmentally friendly special wires and cables. Currently, the JV company has been established and infrastructure construction, equipment purchase and installation are well underway for the special project.

RESULTS OVERVIEW

Operation Analysis

Commercial vehicle parts and components

During the reporting period, to meet the market demand stimulated by the preferential policy encouraging China's automobile industry and the policy to boost consumption, the Group developed and manufactured Cummins KTA50 engine and NT series of engine, which were well received by our customers; Model S3-120 and Model QJ1112 energy-saving and environmental friendly gear boxes were highly recognized at Shanghai World Expo; at the 2010 Busworld Asia Exhibition held at Shanghai, Model S6-100 and S6-160 bus gear boxes were exhibited to the public and highly appreciated from the market for their highlighted features in respect of fuel efficiency and environment friendliness, light weight, human-friendly manipulation and reliable quality; Model 5S-111GP and QJ1206 gear boxes were very popular with customers of overseas markets. Meanwhile, as the economy recovered and demands for diesel engines from such sectors as building construction, construction machinery, shipbuilding and commercial vehicles kept on growing steadily, we increased work shifts for diesel engines, braking and steering systems and gear boxes business to raise production capacity while focused on improving product quality. As a result, the commercial vehicle parts and components sector achieved rapid growth in sales and its turnover for the year amounted to approximately RMB2,959.4 million, an increase of approximately RMB857.8 million or approximately 40.8% as compared with approximately RMB2,101.6 million for 2009.

Power equipment

In 2010 benefiting from the rapid growth in hydropower, nuclear power, wind power and power transmission and distribution projects, rural power grids upgrade and smart grid construction were in full swing, and development of clean energy was highly promoted. The Group attached great importance to independent development of high-end products and technologies and completed technology upgrading successfully. The newly developed impact-type hydroelectric turbine generators with high hydraule heads(整體水輪機衝擊式轉輪)has been exported to the European Union; copper wires for 600MW unit and cables for rail vehicles independently developed by the Group were recognized by specialists organized by Economy and Information Commission of Chongqing Municipality (重慶市經濟和資訊化委員會組織), and met the preliminary conditions for commercialization; 750KV AC ultra high voltage transformer was successfully launched into the market; Copper and Copper Based Powder (Phase I) project for technical innovations has been completed and commenced production; the high-voltage electrical ceramics project has also been completed and put into production, with massive production capacity for 220KV and various electrical ceramics products and driving our power equipment business to grow faster than the same period of last year.

During the reporting period, sales of power equipment business experienced rapid growth, driven mainly by the significant rise in income of the wires and cables business as well as non-ferrous metal power business. The revenue for the year amounted to approximately RMB2,935.6 million, an increase of approximately RMB639.7 million or approximately 27.9% as compared with approximately RMB2,295.9 million for 2009.

General machinery

In 2010, a series of policies and measures rolled out by the government to accelerate the transformation of economic development mode, this business segment overcame the negative effects of the macro-economic regulation over excess capacity in industries such as metallurgy, iron & steel and cement and the sluggish recovery from the financial crisis, we accelerated the shift of product mix toward nuclear power and wind power, stepped up new market expansion, and gained preliminary capacities. GKH800-NB air-tight explosion-proof centrifuges independently developed by the Group satisfied the basic conditions for commercialization; as to the newly developed secondary pump for million-kilowatts pressurized water reactor nuclear power station, we have received orders for water pressure test pump and centrifugal upward injection pumps, and will deliver in 2012; "W" type high-voltage oil-free air compressor has been listed in municipal level key new products; DEG centrifugal refrigeration units for nuclear power station won a bid and secured orders, which will be delivered from 2011 in tandom; the sample unit of new-type centrifugal refrigeration units used in the third-generation AP1000 nuclear power station has been developed; the trial run platform for cold water units, which was newly built by the Group, obtained certification from National Quality Supervision and Inspection Center for Compressor and Refrigeration Equipments. Meanwhile, the Group initiated a separation machinery commercialization program in a bid to enhance its core competitiveness. As a consequence of these efforts, the general machinery business maintained growth momentum over last year, and its revenue for the year amounted to approximately RMB1,229.3 million, an increase of approximately RMB55 million or approximately 4.7% as compared with approximately RMB1,174.3 million for 2009.

CNC machine tools

In 2010, benefiting from the adoption by the state preferential policies to encourage the automobile industry development and policies to stimulate consumption, and market demand for wind power construction machinery, port machinery, mining machinery and agricultural machinery soared, the Group timely developed and launched new products such as Y4232CNC9 series CNC gear shaving machine and YX3132CNC4 4-axle CNC gear hobbing machine, large module gear hobbing cutter, large module hard alloy mobile facer and large module gear shaping cutter. The CNC machine tools business recorded strong growth in 2010, and its revenue for the year amounted to approximately RMB1,758.9 million, an increase of approximately RMB437.4 million or approximately 33.1% as compared with approximately RMB1,321.5 million for 2009.

In 2010, the Company acquired the entire equity interests of six subsidiaries of PTG Company, which owned three world famous brands (Holroyd, Binns & Berry, and Crawford Swift) and five world advanced technologies (screw machine tools, processing of various screws, deep hole boring machine, friction welding machines, 5-axis linkage), and strengthened the integration of our CNC machine tools business with PTG Company in terms of technologies, products, marketing and talents.

On 18 January 2011, the Board approved construction of a large precise CNC machine tool production base and the environmental-friendly relocation in Chongqing Nanan District. The estimated investment for Phase I was RMB942 million, including an investment of approximately RMB750 million in the construction of the project (including a sum of RMB150 million in the proceeds from the global offering of the Company). The Company expects Phase 1 of the project to be completed by the end of 2011 and put into full production in 2012. Upon completion of the project, the manufacturing technique of the production base will be boosted to a leading position in China and advanced level in the world, thus creating conditions for Machine Tool Group to achieve its strategic target, namely taking a place in the top manufacturers of international gear equipment manufacturing industry.

SALES

For the year ended 31 December 2010, the Group's total revenue amounted to approximately RMB8,883.2 million, an increase of approximately RMB1,989.9 million or approximately 28.9% as compared with approximately RMB6,893.3 million for 2009.

Overall, as compared with last year, the revenue of commercial vehicle parts and components was approximately RMB2,959.4 million (accounting for approximately 33.3% of total revenue), an increase of approximately 40.8%; revenue of power equipments was approximately RMB2,935.6 million (accounting for approximately 33.1% of total revenue), an increase of approximately 27.9%; and revenue of general machinery was approximately RMB1,229.3 million (accounting for approximately 13.8% of total revenue), an increase of approximately 4.7%; revenue of CNC machine tools was approximately RMB1,758.9 million (accounting for approximately 19.8% of total revenue), an increase of approximately 33.1%.

GROSS PROFIT

The gross profit for 2010 was approximately RMB1,691.6 million, increased by approximately RMB444.6 million or approximately 35.7%, as compared with approximately RMB1,247 million for last year, accounting for approximately 19% of sales.

As compared with last year, gross profit and the portion for Commercial vehicle parts and components and CNC machine tools increased, with their gross profit margins increased from 25.9% and 14.2% last year to 28.6% and 18% in 2010 respectively. As such, our total gross profit increased. On the other hand, the gross profit margin for power equipment and general machinery slightly dropped from 8.6% and 27.1% last year to 7% and 26.2% in 2010, though sales registered growth.

OTHER INCOME AND GAINS

The other income and gains for 2010 were approximately RMB101.7 million, a decrease of approximately RMB12.3 million or approximately 10.8%, as compared with approximately RMB114 million for last year, mainly due to a decrease of approximately RMB14 million in other income as a result of a decrease of approximately RMB7.8 million in tax refund and an decrease of approximately RMB1.8 million in government subsidies for the environmentally friendly relocation of the plants of the Group.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for 2010 were approximately RMB1,044.5 million, an increase of approximately RMB257.1 million or approximately 32.7%, as compared with approximately RMB787.4 million for last year. The selling and administrative expenses accounted for approximately 11.8% of sales, a slight increase of approximately 0.4 percentage points as compared with 11.4% for last year.

During the year, our selling costs recorded increased by approximately RMB47.9 million over last year, mainly due to the increase in selling and distribution costs including transportation expenses and costs for the sales staff. Administrative expenses increased by approximately RMB209.2 million over last year, primarily due to a significant increase of approximately RMB46.3 million in R&D expenses as compared with last year, an increase of approximately RMB11.9 million in domestic staff costs and an increase of approximately RMB34.4 million in overseas staff costs as a result acquisition of six subsidiaries of PTG Company. Another contributor to the increase in administrative expenses is a fee of RMB10.1 million for intermediary services in respect of the merger and acquisition. During the Period, impairment loss resulting from assets (including inventory and provision for accounts receivable) valuation increased approximately RMB45 million compared with last year.

OPERATING PROFIT

The operating profit for 2010 was approximately RMB748.8 million, an increase of approximately RMB175.2 million or approximately 30.5%, as compared with approximately RMB573.6 million for last year. Eliminating the effect of one-off gains included in other income and gains, operating profit increased by approximately RMB187.5 million, or approximately 40.8%, over last year.

FINANCE COSTS

Interest expense for 2010 were approximately RMB79.1 million, an increase of approximately RMB12.5 million or approximately 18.8%, as compared with approximately RMB66.6 million for last year, mainly due to the increase in the amount of loans for the period.

SHARE OF PROFITS OF ASSOCIATED COMPANIES

The Group's share of profits of associated companies for the year ended 31 December 2010 was approximately RMB65.8 million, a decrease of approximately RMB76.5 million or approximately 53.8%, as compared with approximately RMB142.3 million for last year. The decrease was due to the significant drop in profit of our associated company Chongqing ABB Power Transformer Co. Ltd.

INCOME TAX EXPENSES

The corporate income tax expenses for the year ended 31 December 2010 were approximately RMB66.3 million, an increase of approximately RMB6.4 million, or approximately 10.7%, as compared with approximately RMB59.9 million for last year, mainly due to the increase in assessable profits tax and the change in deferred income tax.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year ended 31 December 2010 was approximately RMB687.7 million, an increase of approximately RMB93.4 million or approximately 15.7% as compared with approximately RMB594.3 million for last year. Earnings per share increased from RMB0.16 per share last year to RMB0.19 per share. 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	
	2010	2009	**2010**	2009	**2010**	2009
	(RMB in millions, except for percentage)					
Commercial vehicle parts and components						
Engines	**1,417.9**	986.2	**485.1**	321.2	**370.2**	253.4
Gear boxes	**920.6**	650.5	**241.9**	148.4	**126.8**	37.3
Other products	**620.9**	464.9	**120.3**	74.2	**31.1**	(2.0)
Total	**2,959.4**	2,101.6	**847.3**	543.8	**528.1**	288.7
% of total	**33.3%**	30.5%	**50.1%**	43.6%	**70.5%**	50.3%
Power equipment						
Hydroelectric generation equipment	**313.4**	299.5	**86.5**	101.1	**46.9**	48.0
Electrical wires and cables	**2,120.4**	1,706.7	**100.9**	84.7	**41.2**	72.7
Other products	**501.8**	289.7	**18.8**	11.6	**5.5**	5.4
Total	**2,935.6**	2,295.9	**206.2**	197.4	**93.6**	126.1
% of total	**33.1%**	33.3%	**12.2%**	15.8%	**12.5%**	22.0%
General machinery						
Total	**1,229.3**	1,174.3	**322.0**	318.1	**75.1**	102.9
% of total	**13.8%**	17.0%	**19.0%**	25.5%	**10.0%**	17.9%
CNC machine tools						
Total	**1,758.9**	1,321.5	**316.1**	187.7	**91.3**	74.9
% of total	**19.8%**	19.2%	**18.7%**	15.1%	**12.2%**	13.1%
Headquarters						
Total	**—**	—	**—**	—	**(39.3)**	(19.0)
% of total	**—%**	—%	**—%**	—%	**(5.2%)**	(3.3%)
Total	**8,883.2**	6,893.3	**1,691.6**	1,247.0	**748.8**	573.6

Commercial vehicle parts and components

Revenue from the commercial vehicle parts and components segment for the year ended 31 December 2010 was approximately RMB2,959.4 million, an increase of approximately RMB857.8 million or approximately 40.8%, as compared with approximately RMB2,101.6 million for the same period of 2009. Revenue from the engines and gear boxes business increased significantly by approximately RMB431.7 million or approximately 43.8% and approximately RMB270.1 million or approximately 41.5% respectively as compared with same period last year while revenue from other products also increased by approximately RMB156 million or approximately 33.6%.

During the Period, gross profit for the commercial vehicle parts and components segment was approximately RMB847.3 million, an increase of approximately RMB303.5 million or approximately 55.8%, as compared with approximately RMB543.8 million for the year ended 31 December 2009. Gross profit margin increased to 28.6% for 2010 from 25.9% for 2009, primarily due to the change in product mix, with the portion of products with higher gross profit margin expanding, which led the gross profit margin of the business to grow by 2.7% over the same period last year.

Overall, the result for the commercial vehicle parts and components segment for the year ended 31 December 2010 was approximately RMB528.1 million, an increase of approximately RMB239.4 million or approximately 82.9%, as compared with approximately RMB288.7 million for the same period last year.

Power equipment

Revenue from the power equipment segment for the year ended 31 December 2010 was approximately RMB2,935.6 million, an increase of approximately RMB639.7 million or approximately 27.9%, as compared with approximately RMB2,295.9 million for 2009, primarily due to an increase in revenue of approximately RMB413.7 million, or approximately 24.2%, from electrical wires and cables. Revenue from other products also increased by approximately RMB212.1 million, or approximately 73.2%.

During the Period, gross profit for the power equipment segment was approximately RMB206.2 million, an increase of approximately RMB8.8 million or approximately 4.5%, as compared with approximately RMB197.4 million for the year ended 31 December 2009. Gross profit margin decreased to 7% for 2010 from 8.6% for 2009, primarily due to the decrease in gross profit margin for hydro turbine generators from 33.8% for 2009 to 27.6% for 2010. Such decrease is mainly attributable to the significant rebound of raw material prices and the increase of labour cost, which led to the rise of unit cost, resulting in the decrease in the gross profit margin of power equipment business as a whole.

Overall, the result for the power equipment segment for the year ended 31 December 2010 was approximately RMB93.6 million, a decrease of approximately RMB32.5 million or approximately 25.8%, as compared with approximately RMB126.1 million for the same period last year.

General machinery

Revenue from the general machinery segment for the year ended 31 December 2010 was approximately RMB1,229.3 million, an increase of approximately RMB55 million or approximately 4.7% as compared with approximately RMB1,174.3 million for 2009, primarily due to growth of demand for industrial fans and wind power rotor blades.

During the Period, gross profit for the general machinery segment was approximately RMB322 million, an increase of approximately RMB3.9 million or approximately 1.2% as compared with approximately 318.1 million for the year ended 31 December 2009. Gross profit margin decreased slightly to 26.2% for 2010 from 27.1% for 2009. The decrease in the gross profit margin of the segment was mainly due to the increase in unit cost as a result of the rebound of raw material prices.

Overall, the result for the general machinery segment for the year ended 31 December 2010 was approximately RMB75.1 million, a decrease of approximately RMB27.8 million or approximately 27%, as compared with approximately RMB102.9 million for 2009.

CNC machine tools

Revenue from the CNC machine tools segment for the year ended 31 December 2010 was approximately RMB1,758.9 million, an increase of approximately RMB437.4 million or approximately 33.1%, as compared with approximately RMB1,321.5 million for 2009, primarily due to increases in revenue from gear-producing machines and complex precision metal cutting tools as driven by rapid growth in automobile market and the incorporation of the income from PTG Company.

During the Period, gross profit for the CNC machine tools segment was approximately RMB316.1 million, an increase of approximately RMB128.4 million or approximately 68.4%, as compared with approximately RMB187.7 million for the year ended 31 December 2009. Gross profit margin increased to 18% for 2010 from 14.2% for 2009, primarily due to the drop of unit cost as a result of product mix adjustment and output increase as well as the incorporation of the high-gross-profit products derived from PTG Company.

Overall, the result for the CNC machine tools segment for the year ended 31 December 2010 was approximately RMB91.3 million, an increase of approximately RMB16.4 million or approximately 21.9%, as compared with RMB74.9 million for 2009.

CASH FLOW

The Group's cash and bank deposits (including restricted cash) amounted to approximately RMB2,591.8 million as at 31 December 2010 (31 December 2009: RMB2,607.1 million), representing a decrease of approximately RMB15.3 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 RMB55.8 million (31 December 2009: RMB198.9 million), a net cash outflow from investing activities of approximately RMB186.4 million (31 December 2009: RMB382.3 million), and a net cash inflow from financing activities of approximately RMB65.4 million (31 December 2009: RMB63.6 million). Directors believe that the Group is financially sound and has sufficient resources to meet its operating capital needs and fund any predictable capital expenditure.

ASSETS AND LIABILITIES

As at 31 December 2010, the Group had total assets of approximately RMB10,172.2 million, representing an increase of approximately RMB1,423.6 million as compared with approximately RMB8,748.6 million as at 31 December 2009. Total current assets amounted to approximately RMB7,264.5 million, increased by approximately RMB1,070.2 million as compared with approximately RMB6,194.3 million as at 31 December 2009, accounting for approximately 71.4% of total assets. However, total non-current assets was approximately RMB2,907.8 million, representing an increase of approximately RMB353.6 million as compared with approximately RMB2,554.2 million as at 31 December 2009, and accounting for approximately 28.6% of total assets.

As at 31 December 2010, total liabilities of the Group amounted to approximately RMB5,598 million, representing an increase of approximately RMB968.7 million as compared with approximately RMB4,629.3 million as at 31 December 2009. Total current liabilities were approximately RMB4,442.6 million, an increase of approximately RMB491.5 million as compared with approximately RMB3,951.1 million as at 31 December 2009, accounting for approximately 79.4% of total liabilities. However, total non-current liabilities were approximately RMB1,155.5 million, representing an increase of approximately RMB477.3 million as compared with approximately RMB678.2 million as at 31 December 2009, and accounting for approximately 20.6% of total liabilities.

As at 31 December 2010, net current assets of the Group were approximately RMB2,821.9 million, representing an increase of approximately RMB578.7 million as compared with approximately RMB2,243.2 million as at 31 December 2009.

CURRENT RATIO

As at 31 December 2010, current ratio (the ratio of current assets over current liabilities) of the Group, increased from 1.57:1 for 2009 to 1.64 :1 for 2010.

GEARING RATIO

As at 31 December 2010, by comparing the borrowing and the total capital, the Group's gearing ratio was 25.2% (31 December 2009: 22.6%).

INDEBTEDNESS

As at 31 December 2010, the Group had an aggregate bank and other borrowings of approximately RMB1,543 million, representing an increase of approximately RMB343.2 million as compared with approximately RMB1,199.8 million as at 31 December 2009.

Borrowings repayable by the Group within one year were approximately RMB1,061.6 million, representing an increase of approximately RMB217.8 million as compared with approximately RMB843.8 million as at 31 December 2009. Borrowings repayable after one year were approximately RMB481.4 million.

PLEDGES OF ASSETS

As at 31 December 2010, approximately RMB473 million of the Group was deposited with the banks with security or restricted for use (31 December 2009: RMB419.8 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 RMB353.2 million as at 31 December 2010 (31 December 2009: RMB389.3 million).

CONTINGENT LIABILITIES

As at 31 December 2010, the Group had no significant contingent liabilities.

SIGNIFICANT EVENTS

1) During the year, the Company acquired the entire share capital of six wholly-owned subsidiaries of PTG Company at a consideration of GBP14.555 million and paid GBP5.359 million to settle its bank loans and transaction payable due to PTG Company. On 15 June 2010, the transaction was completed by the Company and PTG Company, and the initial payment of GBP17 million was made in cash.

2) On 19 March 2010, the General Group completed the liquidation and cancellation of its subsidiary Ji Dian Yi Huan Environmental Equipment Co., Ltd.（重慶機電一環環保設備有限公司）, with its environmental equipment business transferred to the General Group. On 30 March 2010, the Company completed the merger between General Group（通用集團）and Chongqing General Yunxiu Co., Ltd.（重慶通用運修有限責任公司）. The latter had cancelled its business registration.

3) On 1 June 2010, 重慶紅岩長力汽車彈簧有限公司 (Chongqing Hongyan Changli Automotive Spring Co., Ltd.), an associated company of the Company, was renamed as 重慶紅岩方大汽車懸架有限公司 (Chongqing Hongyan Fangda Automotive Suspension Co., Ltd.) after being approved at its general meeting.

The 2009 annual general meeting of the Company was held on 15 June 2010, at which the following matters were considered and approved:

1) 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 RMB140,000,000 to RMB220,000,000;

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 years ended 31 December 2011, 2012 and 2013 were RMB140,000,000, RMB160,000,000 and RMB190,000,000, respectively;

3) 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 years ended 31 December 2011, 2012 and 2013 were RMB300,000,000, RMB360,000,000 and RMB450,000,000, respectively;

4) 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 three financial years ended 31 December 2011, 2012 and 2013 was RMB22,000,000;

5) To give a mandate to the Board to allot, issue and deal with additional Domestic Shares and/or the H Shares (both subject to cap) and to make offers, agreements and/or options in respect thereof;

6) Pursuant to the requirements of Articles of Association and relevant laws and regulations, the general meeting of the Company re-elected the members of the Board. The second session of the Board member elected at the general meeting comprises: Mr. Xie Hua Jun, Mr. He yong, Mr. Liao Shaohua and Mr. Chen Xianzheng as executive Director, Mr. Huang Yong, Mr. Yu Gang, Mr. Liu Liangcai and Mr. Yang Jingpu as non-executive Director, Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weilong as independent non-executive Director. Mr. Wu Jian retired from his position as Non-executive Director of the last session of the Board of the Company because his term of office had expired. The term of aforesaid Directors commences from the date of the meeting until expiry of the term of the second session of the Board. The Board was authorized to fix the remuneration of each Director pursuant to the remuneration standard for Directors passed at the 2009 annual general meeting and to enter into a service agreement with each of them 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;

7) Pursuant to the requirements of Articles of Association and relevant laws and regulations, the general meeting of the Company re-elected the members of the Supervisory Committee. Mr. Duan Rongsheng, Ms. Liao Rong, Ms. Wang Rongxue, Mr. Liu Xing, Mr. Wang Xuqi, and Mr. Chen Qing were elected as Supervisors of the second session of the Supervisory Committee of the Company at the general meeting. Ms. He Xiaoping and Mr. Wu Chongjiang retired from their positions as Supervisors of the last session of the Supervisory Committee of the Company because their terms of office had expired. The term of aforesaid Supervisors commences from the date of the meeting until expiry of the term of the second session of the Supervisory Committee. The Board was authorized to fix the remuneration of each Supervisor pursuant to the remuneration standard for Supervisors passed at the 2009 annual general meeting and to enter into a service agreement with each of them 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.

In addition, the first extraordinary general meeting of the Company in 2010 was held on 30 December 2010, at which the following matters were considered and approved:

1) approved the resignation of Mr. He Yong as the executive Director and General Manager, and appointed Mr. Yu Gang as the executive Director and General Manager of the Company. Mr. Yu Gang's term of office commenced from the date of the extraordinary general meeting until the expiry of the term of the Board; authorized the Board to determine Mr. Yu Gang's remuneration according to the remuneration standards approved at the 2009 annual general meeting, and in accordance with such terms and conditions as the Board deems appropriate, to enter into a service agreement subject to such terms and conditions, and to do all actions and things necessary for the implementation of such matters. Meanwhile, Mr. Yu ceased to be a non-executive director.

2) approved the appointment of Mr. Wang Jiyu as the non-executive director of the Company. His term of office commenced from the date of the EGM until the expiry of the term of the Board; authorized the Board to determine Mr. Wang Jiyu's remuneration according to the remuneration standards approved at the 2009 annual general meeting, and in accordance with such terms and conditions as the Board deems appropriate, to enter into a service agreement subject to such terms and conditions, and to do all actions and things necessary for the implementation of such matters.

3) amended "Chongqing Jiangong Group Co., Ltd.(重慶建工集團有限責任公司)" as "Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司)" in the Articles of Association of the Company.

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

CAPITAL EXPENDITURE

As at 31 December 2010, the total capital expenditure of the Group was approximately RMB506.4 million, which was principally used for acquisition of the entire equity interests in six wholly-owned subsidiaries of PTG Company and plant expansion, production technology improvement, equipment upgrade and the expansion of production capacity (31 December 2009: 695.8 million).

CAPITAL COMMITMENT

As at 31 December 2010, the Group had capital commitments of approximately RMB179.7 million (31 December 2009: RMB177.7 million) in respect of fixed assets and intangible assets.

RISK OF FOREIGN EXCHANGE

The Group uses Renminbi as the reporting currency. During the Period, Chinese government undertook a reform of Renminbi exchange rate regime to increase exchange rate flexibility, which is expected to give a competitive edge to our export products and will help to reduce the production cost of the imported raw materials.

As at 31 December 2010, the Group's bank deposits comprised approximately HKD97.4 million, approximately USD0.8 million, approximately GBP1.3 million and approximately EUR0.57 million (31 December 2009: HKD311.2 million, approximately USD0.48 million and approximately EUR2.63 million). Save as the above, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

EMPLOYEES

As at 31 December 2010, the Group had a total of 17,910 employees (31 December 2009: 17,372 employees). The increase in employees was mainly due to the acquisition of equity interest in subsidiaries of PTG Company by the Group in June 2010. The Group will continue the upgrade of its technical talent base, foster and attract technical and management personnel possessed with extensive professional experiences, maintain well-established incentive schemes that link with the performance reviews of our management and employees, improve training on safety so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

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. From 2008 to the year ended 31 December 2010, approximately RMB901.78 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$31.40 million (equivalent to approximately RMB27.63 million) was used for technological upgrades 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$28.54 million (equivalent to approximately RMB25 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$69.22 million (equivalent to approximately RMB60.40 million) was used for the acquisition of equity interest in six wholly-owned subsidiaries of PTG Company.

- approximately HK$44.35 million (equivalent to approximately RMB39 million) was used for technological improvements and capacity expansion for the centrifugal machine business.

- approximately HK$45.21 million (equivalent to approximately RMB39.79 million) was used for additional working capital and general corporate purposes.

The following table sets out information regarding our Directors:

Name	Age	Position
Xie Hua Jun	57	Executive Director, Chairman
Yu Gang	46	Executive Director (Appointed on 30 December 2010)
Liao Shaohua	47	Executive Director
Chen Xianzheng	56	Executive Director
Huang Yong	48	Non-executive Director
Wang Jiyu	53	Non-executive Director (Appointed on 30 December 2010)
Liu Liangcai	57	Non-executive Director (Appointed on 15 June 2010)
Yang Jingpu	55	Non-executive Director
Lo Wah Wai	47	Independent Non-executive Director
Ren Xiaochang	54	Independent Non-executive Director
Kong Weiliang	64	Independent Non-executive Director

EXECUTIVE DIRECTORS

Mr. Xie Hua Jun, aged 57, 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. He obtained Executive Master of Business Administration (EMBA) degree from Chongqing University on 22 December 2010. 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. Yu Gang, aged 46, joined the Parent Group in September 2003, joined the Group in July 2007 and served as a non-executive Director of our Company. Since October 2010, he has been the general manager of the Company, responsible for the overall management of our Company. He commenced service as executive Director of the Company on 30 December 2010 and at the same time resigned as non-executive Director of the Company. Mr. Yu has been a director of the Parent Group since September 2003. Mr. Yu acted as vice president of the Parent Group from September 2003 to September 2010. Since May 2009, he has also been serving as a director and vice chairman at Chongqing Wanli Holding (Group) Co., Ltd., (a company listed on the Shanghai Stock Exchange in March 1994 and primarily engaged in manufacture and sale of lead acid storage batteries and components.) In addition, Mr. Yu has concurrently been a director and executive director of Chongqing Puhui Electromechanical Industrial Development Company Limited（重慶普惠機電實業發展有限責任公司）since April 2004 and a director of Kunlun Financial Leasing Company Limited since August 2010, respectively. 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 political department 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 political department of 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. Liao Shaohua, aged 47, joined the Parent Group and the Group in May 1988. Since July 2007, he has been an executive Director and a vice general manager 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 56, 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 48, 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. Wang Jiyu, aged 54, joined the Parent Group in December 1980. He has been the vice president of the Parent Group and a member of the Party Committee since October 2001 in charge of economic operation, safety and environmental protection, personnel and labour as well as comprehensive statistics. He has been non-executive Director of the Company since December 2010. He has been serving as a director and vice chairman of Chongqing Lifan Automobile Co., Ltd. since May 2004 and a director and vice chairman of Chongqing Electric Machine Federation Ltd. since November 2007 and June 2010 respectively. Mr. Wang has over 20 years of experience in business management. He was an assistant to president and head of the economic operation department at the Parent Group from 2000 to October 2001, in charge of economic operation, safety and hygiene, labour and salaries as well as comprehensive statistics. From November 1984 to August 2000, he served at Chongqing Municipal Machinery Industry Bureau as secretary of the organization and personnel division, deputy secretary of the communist youth league, deputy director of the enterprise management division and deputy director of the general production division (in charge of operation) in tandem. Mr. Wang was a teacher at the Technical School of Chongqing Mining Machine Factory (重慶礦山機器廠技校) from December 1980 to October 1982 and the deputy secretary of the Work Committee of Communist Youth League of Chongqing Engineering & Mining Machinery Industry Company (重慶工程礦山機械工業公司) from October 1982 to November 1984. Mr. Wang is a senior economist who graduated from the Correspondence Institute of the Party School of C.C. of C.P.C. with a diploma in economic management in June 1988. He is currently attending an EMBA course in Xiamen University.

Mr. Liu Liangcai, aged 58, has been a non-executive director of the Company since June 2010 and is currently the party committee secretary and chairman of the Supervisory Committee of Chongqing Yufu Assets Management Co., Ltd in charge of corporate internal risk control and performance assessment for Directors and senior management of the Company. Mr. Liu worked in large state-owned enterprises in Chongqing City for 15 years and served as party and government cadet, scientific technology cadet and performed corporate leadership management of the Chongqing municipal government organization department for 15 years. He was the vice secretary of the Enterprises Union Department of the Committee of Chongqing City since May 2005 and the vice secretary of the Communist Party Committee of SASAC of Chongqing City since September 2003 in charge of the establishment of management for state-owned enterprises, establishment of governance structure for corporate legal persons, management of supervisory committees of state-owned enterprises and human resources management of municipal branches of SASAC etc. Mr. Liu is a senior political scientist who graduated from Sichuan Broadcasting and Television University with a bachelor's degree in Language in 1985 and the Party College of Sichuan Province Committee with a bachelor's degree in economic management in June 1992. He had completed the post-graduation study in "Regional economic development and technology innovation" from the Southwest Teacher's School in June 2000.

Mr. Yang Jingpu, aged 55, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Lo Wah Wai, aged 47, 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 54, 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 nearly 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 64, 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	59	Supervisor and Chairman of Supervisory Committee
Liao Rong	53	Supervisor
Wang Rongxue	65	Independent Supervisor
Liu Xing	53	Independent Supervisor (Appointed on 15 June 2010)
Wang Xuqi	58	Supervisor
Chen Qing	55	Supervisor (Appointed on 15 June 2010)

Mr. Duan Rongsheng, aged 59, 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 53, 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 65, 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.

Mr. Liu Xing, aged 54, has been a supervisor of the Company since June 2010 and is the head, accounting professor and tutor of doctoral graduates of the Economy, Industry and Business Management Institute of Chongqing University. He obtained a bachelor's degree in engineering studies from Chongqing University in 1983, joined the China - Canada Joint Postgraduate Training Project(中國—加拿大聯合培養研究生項目)and obtained a master's degree in management from Xi'an Jiaotong University in 1987 and obtained a doctor's degree in management from Chongqing University in 1997. In 1991-1992, 1996 and 2000, he engaged in international cooperation and research projects of City University of Hong Kong and The Chinese University of Hong Kong or served as visiting scholar and professor, and participated in academic interviews or academic exchanges in countries such as the U.S. and Canada respectively.

Mr. Liu Xing is currently a council member of Accounting Society of China(中國會計學會), the standing council member of the education division of Accounting Society of China, the vice president of the Accounting Society of Chongqing(重慶市會計學副會長), the president of College Accounting Society of Chongqing(重慶市高校會計學會), a non-practiced certified public accountant in the PRC, the deputy secretary-general of Chongqing Association Of Chief Financial Officer(重慶市總會計師協會)and the standing council member of Chongqing Institute of Certified Public Accountants(重慶市註冊會計師協會). He is also currently an independent director of Chongqing Iron & Steel Company Limited (stock code: 1053), Chongqing Three Gorges Water Conservancy and Electric Power Co. Ltd. (stock code: 600116), Chongqing Gangjiu Co., Ltd. (stock code: 600729) and Chongqing Huapont Pharm Co., Ltd. (stock code: 002004).

Mr. Wang Xuqi, aged 58, 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. Chen Qing, aged 55, has been a supervisor of the Company since June 2010. He joined the Parent Group and the Group in June 1985 and is currently the chairman of Chongqing General Industry (Group) Co., Ltd. in charge of relevant Board matters, and the general manager of Pump Company in charge of operational management, administrative matters, finance and marketing. Mr. Chen has over 20 years of experience in the pump research and development and manufacturing industry. From September 2002 to September 2007, Mr. Chen was the general manager of Chongqing Pump Industry Co., Ltd.. From June 1985 to September 2002, he was the deputy department chief, deputy plant manager and plant manager of Chongqing Pump Plant. From August 1982 to June 1985, he worked in the Guizhou Mountain Land Agricultural Machinery Research Institute(貴州山地農機研究所). From June 1978 to September 1978, he worked in the Chongqing Architectural Design Institute. From January 1976 to May 1978, he served in the Chinese People's Liberation Army. Mr. Chen has been a senior engineer since August 1995 who graduated from Huazhong Gong Xue Yuan with a bachelor's degree in engineering, majoring in hydro power in August 1982. He completed the Senior Management Programme of the School of Economics and Management of Tsinghua University from February 1995 to July 1995.

SENIOR MANAGEMENT

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

Name	Age	Position
Yu Gang	46	General Manager (Appointed on 25 October 2010)
Liao Shaohua	47	Vice General Manager
Zhang Ke	58	Vice General Manager (Resigned on 11 November 2010 due to re-election)
Wang Nongcheng	58	Vice General Manager (Resigned on 11 November 2010 due to re-election)
Ren Yong	53	Vice General Manager (Appointed on 11 November 2010)
Gong Wei	49	Vice General Manager (Appointed on 11 November 2010)
Duan Caijun	46	Vice General Manager (Appointed on 11 November 2010)
Miao Xiaoping	55	Financial Controller (Retired on 11 November 2010)
Kam Chun Ying, Francis	44	Qualified Accountant

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

Mr. Liao Shaohua, aged 47, is an executive Director and the vice general manager of our Company. For details regarding Mr. Liao's experience, please refer to the subsection entitled "Executive Directors" above.

Mr. Ren Yong, aged 53, joined the Parent Group in February 1982 and the Group in March 2005. He has been Chairman and party committee secretary of Chongqing Heavy Vehicle Group Co., Ltd. since July 2005 in charge of the board of Directors, and Chairman of Chongqing CAFF Automotive Braking & Steering System Co., Ltd. since March 2005. Mr. Ren has over 20 years of management experience in automobile industry. From March 2003 to July 2005, he was general manager, deputy secretary of Party committee, director of Chongqing Heavy Vehicle Group Co., Ltd.. From January 2003 to July 2005, He was Party committee secretary and director of Chongqing Hongyan Motor Co. Ltd.. He was the Chairman of Chongqing Heavy Vehicle Group Special Purpose Vehicle Co., Ltd. in June 2004. From December 2000 to March 2003, he served as deputy general manager and deputy secretary of Party committee of Chongqing Heavy Vehicle Group Co., Ltd.. From February 1982 to November 1998, he was the deputy manager, head of the assembly division, Director of manager office of a branch company of Sichuan Truck Plant. From November 1998 to December 2000, He was the deputy manager of such plant in charge of human resources, salary, education and security. Mr. Ren is a senior engineer who graduated from Taiyuan Heavy Machinery Institute with a bachelor's degree in equipment and process in February 1982. From September 2002 to July 2008, He graduated from Chongqing University with a master's degree in Business and Management.

Mr. Gong Wei, aged 48, joined the Parent Group and the Group in August 1982. He has been the general manager of Chongqing CAFF Automotive Braking & Steering System Co., Ltd. since June 2003 in charge of production of automotive braking & steering system, daily management, legal and audit. Mr. Gong has over 20 years of management experience in auto parts industry. He has been Chairman and general manager of Chongqing Heavy Vehicle Group CAFF Automotive Spare Parts Co. Ltd. since April 1999. From January 1998 to April 1999, he was deputy Chairman and deputy general manager of Chongqing CAFF Automotive Spare Parts Co. Ltd. From August 1982 to January 1998, he was the technical staff, the head of equipment and power section, the chief of equipment and power department of Chongqing Automotive Spare Parts Manufacturing Co. Ltd and Chongqing CAFF Automotive Spare Parts Co. Ltd. Mr. Gong is a senior engineer who graduated from Lanzhou University of Technology with a bachelor's degree in enterprise electric automation in July 1982. He studied part-time at College of Electrical Engineering of Chongqing University from March 1998 to October 2001 and obtained a master's degree.

Mr. Duan Caijun, aged 45, joined the Parent Group and the Group in July 1987. He has been the Chairman and general manager of Chongqing Pigeon Electric Wire & Cable Co., Ltd. (重慶鴿牌電線電纜有限公司) since March 2001 in charge of the Board, production of wire and cable, daily management, legal and audit. Mr. Duan has over 20 years of experience in enterprise management. From July 1997 to March 2001, he was deputy general manager and general manager of Chongqing Electric Wire & Cable Co., Ltd.(重慶電線電纜有限責任公司). From 1995 to 1997, He was deputy general manager of Chongqing Electricity Wire Plant(重慶電線總廠). From 1992 to 1995, he was the general manager of Chongqing Jiatai Enamelled Wire Company Limited(重慶嘉泰漆包線有限責任公司). From October 1989 to August 1995, Mr. Duan worked in Chongqing Electricity Wire Plant and Chongqing Jiatai Enamelled Wire Company Limited. Mr. Duan is a senior engineer. He graduated from Department of Electronic Engineering of Wuhan Institute of Technology with a bachelor's degree in July 1987. He graduated from MBA Institute of Chongqing University with a MBA degree in 2003. He graduated from Senior MBA program Class No. 61 of College of Economics and Management of Tsinghua University in 2008, and obtained Senior Professional Manager Certificate in 2009. He studied for EU-China Business Development Certificate Program, which was jointly provided by Frankfurt School of Finance and Management and China Europe International Business School in 2010. Mr. Duan is a model worker of Chongqing City, a Top Ten Outstanding Young Entrepreneurs of Chongqing City, and winner of Chongqing "May 1st" labor medal and the eight session of Chongqing Youth "May 4th" medal.

Mr. Kam Chun Ying, Francis, aged 44, 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 2010.

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 2010 are set out in the consolidated statement of comprehensive income in this annual report on pages 97 to 98.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.08 per share (tax inclusive) (31 December 2009: RMB0.06 per share) for the year ended 31 December 2010, which is calculated based on the total share capital of 3,684,640,154 shares for the year ended 31 December 2010, totalling RMB294,771,212.32. Subject to approval by shareholders at the annual general meeting to be convened on Tuesday, 31 May 2011, the proposed final dividend will be paid on or about 30 June 2011 to shareholders whose names appear on the Register of Members of the Company on 31 May 2011 ("Record Date").

WITHHOLDING OF ENTERPRISE INCOME TAX FOR NONRESIDENT 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 29 April 2011. 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 29 April 2011. 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 Saturday, 30 April 2011 to Tuesday, 31 May 2011 (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 29 April 2011.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31 December 2010, equity attributable to the shareholders of the Group amounted to approximately RMB4,510 million (31 December 2009: approximately RMB4,045.4 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 2010, 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 25.2% (31 December 2009: 22.6%). The Group's current ratio (being the current assets as a percentage of current liabilities) improved to 1.64:1 in 2010 from 1.57:1 in 2009.

As at 31 December 2010, cash, bank balances and time deposits (including restricted cash) were approximately RMB2,591.8 million, indicating a healthy financial position. (31 December 2009: approximately RMB2,607.1 million)

FINANCIAL HIGHLIGHTS

Summary of the Group's results, assets, liabilities and non-controlling 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 RMB261.2 million in acquisition of property, plant and equipment for business expansion (31 December 2009: approximately RMB419.1 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 2010. 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 RMB2.2 million (31 December 2009: approximately RMB1.4 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 Port Logistics Economic and Trade Co., Ltd.	9.18%
Chongqing Second Light Industry Supply and Marketing Corporation	4.92%
Chongqing Bolili Trading Co., Ltd.	2.73%
Shenzhen Chongfa Cummins Engine Co.,Ltd.	2.55%
Zhengzhou Yutong Bus Co., Ltd.	2.44%
Total amount of the top five customers	21.82%

None of the top five customers are connected persons of the Group except Shenzhen Chongfa Cummins Engine Co.,Ltd., which is a jointly controlled entity of the Group.

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.	7.90%
Yunnan Copper Industry Co., Ltd. (雲南銅業股份有限公司)	7.80%
Chongqing Haoren Industrial Co., Ltd.(重慶昊然實業有限公司)	3.50%
Chongqing General Commerce Import and Export Co.,Ltd.	2.90%
Chongqing Jindui Industrial Co., Ltd. (重慶金兑實業有限公司)	2.40%
Total amount of the top five suppliers	24.50%

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 2010, 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**
Xie Hua Jun *(Chairman)*	31 August 2009
He Yong	27 July 2007 (resigned on 30 December 2010)
Yu Gang	30 December 2010
Liao Shaohua	27 July 2007
Chen Xianzheng	27 July 2007

Non-executive Directors

Huang Yong	27 July 2007
Wang Jiyu	30 December 2010
Liu Liangcai	15 June 2010
Yang Jingpu	9 August 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
Liao Rong	31 August 2009
Wang Rongxue	27 July 2007
He Xiaoping	27 July 2007 (resigned on 15 June 2010 due to re-election)
Liu Xing	15 June 2010
Wang Xuqi	27 July 2007
Wu Chongjiang	27 July 2007 (resigned on 15 June 2010 due to re-election)
Chen Qing	15 June 2010

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

Pursuant to such service contracts and the Articles of Association, Chairman of the Board and other executive directors of the Company 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 contracts 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 45 to 57 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 2010, 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 2010, 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 38 of this Annual report.

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

As at 31 December 2010, 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 Construction Engineering Group Co., Ltd.(formerly known as Chongqing Jiangong Group Co., Ltd.)	232,132,514	Beneficial owner	(2)	8.98 (L)	6.30
China Huarong Asset Management Co., Ltd.	195,962,467	Beneficial owner	(3)	7.58 (L)	5.32
State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government	2,388,490,217	Interest in controlled corporation	(1)	92.42 (L)	64.82
Ministry of Finance of the People's Republic of China	195,962,467	Interest in controlled corporation	(3)	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	98,488,000	Beneficial owner		8.95 (L)	2.67 (L)
National Council for Social Security Fund	95,287,470	Beneficial owner		8.66 (L)	2.59 (L)
The Hamon Investment Group Pte Limited	88,760,000	Investment manager	(4)	8.07 (L)	2.41 (L)
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000	Interest in custodian's company	(5)	7.93 (L)	2.37 (L)
The Bank of New York Mellon Corporation	87,276,000	Interest in controlled corporations	(5)	7.93 (L)	2.37 (L)
UBS AG	74,331,265	Beneficial owner, Interest in controlled corporations, person having a security interest in shares	(6)	6.76 (L)	2.02 (L)
The Dreyfus Corporation	67,180,000	Investment manager		6.11 (L)	1.82 (L)
Hang Seng Bank Trustee International Limited	64,394,000	Trustee (Other than a bare trustee)	(7)	5.85 (L)	1.75 (L)
To Hau Yin	64,394,000	Interest of child under 18 and or spouse	(7)	5.85 (L)	1.75 (L)
Cheah Cheng Hye	64,394,000	Founder of discretionary trust	(7)	5.85 (L)	1.75 (L)
Value Partners Group Limited	64,394,000	Interest in controlled corporations	(7)	5.85 (L)	1.75 (L)
Value Partners Limited	64,394,000	Investment manager	(7)	5.85 (L)	1.75 (L)
Cheah Company Limited	64,394,000	Interest in controlled corporations	(7)	5.85 (L)	1.75 (L)
Cheah Capital Management Limited	64,394,000	Interest in controlled corporations	(7)	5.85 (L)	1.75 (L)
FIL Limited	55,364,000	Investment manager		5.03 (L)	1.50 (L)

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

Notes:

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

2. Chongqing Construction Engineering Group Co., Ltd. is held as to 96.18% by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government through its three wholly-owned subsidiaries and as to 3.82% by the Ministry of Finance of the People's Republic of China through China Huarong Asset Management Company, a wholly-owned subsidiary of the Ministry. Therefore, State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government and the Ministry of Finance of the People's Republic of China are deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Engineering Group Co.,Ltd..

3. 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.

4. The Hamon Investment Group Pte Limited was interested in 88,760,000 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	4,946,000
Hamon U.S. Investment Advisors Limited	100	66,998,000
Hamon Investment Management Limited	100	16,816,000

5. 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.

6. UBS AG was interested in 74,331,265 H shares of the Company, among which 63,896,365 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 Fund Services (Luxembourg) SA	100	348,000
UBS Global Asset Management (Americas) Inc	100	51,798,409
UBS Global Asset Management (Australia) Ltd	100	1,167,956
UBS Global Asset Management (Japan) Ltd	100	7,240,000
UBS Global Asset Management Trust Company	100	2,796,000
UBS Global Asset Management (UK) Ltd	100	546,000

7. Value Partners Limited holds 64,394,000 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 31.23% 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 64,394,000 H shares mentioned above relates to the same block of shares in the Company.

Save as disclosed above, the directors are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were require to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2010.

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 was 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, as approved at the Company's extraordinary general meeting held on 25 June 2009, the annual caps of sales amounts for the year ended 2010 were set at RMB160 million. Pursuant to the caps adjusted at the Company's extraordinary general meeting held on 25 June 2010 ("EGM"), the approved annual caps of sales amounts for 2011, 2012 and 2013 were set at RMB140 million, RMB160 million and RMB190 million respectively. On 16 June 2010, the Company renewed Master Sales Agreement with Chongqing Machinery and Electronic Holding (Group) Co., Ltd. for a term of three years.

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 2010, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB92.4 million.

Master Supplies Agreement

On 16 May 2008, a master supplies agreement was 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. Pursuant to this agreement, as approved at the Company's extraordinary general meeting held on 25 June 2009, the annual caps of supplies amounts for the year ended 2010 were set at RMB220 million. Pursuant to the caps adjusted at the Company's EGM, the annual caps of supplies amounts for 2011, 2012 and 2013 were set at RMB300 million, RMB360 million and RMB450 million respectively. On 16 June 2010, the Company renewed Master Supplies Agreement with Chongqing Machinery and Electronic Holding (Group) Co., Ltd. for a term of three years.

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 2010, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB216.6 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. Pursuant to this agreement, as approved at the Company's extraordinary general meeting held on 25 June 2009, the annual caps of leasing amounts for the year ended 2010 were set at RMB22 million. According to the caps adjusted at the EGM, the annual caps of leasing amounts for 2011, 2012 and 2013 were set at RMB22 million. On 16 June 2010, the Company renewed Master Leasing Agreement with Chongqing Machinery and Electronic Holding (Group) Co., Ltd. for a term of three years.

For the year ended 31 December 2010, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB16 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 2010, the services fee paid by the Company to the Parent Company and its associates under the Master Integrated Service Agreement was approximately RMB0.2 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 2010, 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 procedures for the above continuing connected transactions ("Transactions") in accordance with Hong Kong Standard on Assurance Engagement 3000 "Assurance Engagement Other Than Audits or Reviews of Historical Financial Information and with reference to practice Note 740 "Auditor's letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, and reported that:

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

(2) the Transactions were, in all material respects, in accordance with the pricing policies of the Company;

(3) the Transactions were entered into , in all material respects, in accordance with the relevant agreements governing such Transactions;

(4) with respect to the aggregate amount of each of the Transactions, the Transactions have not exceeded the maximum aggregate annual value disclosed.

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, Nomination Committee and Remuneration Committee. Biographical details of committees under the Board are set out in the section of Corporate Governance on pages 83 to 91 of this annual report.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2010, the Group had a total of approximately 17,910 employees (31 December 2009: 17,372 employees). The increase in the number of employees was mainly due to the acquisition of equity interests in subsidiaries of PTG Company in June 2010 and recruitment of new employees. Their salaries are determined based on the market trends and their performance, and welfare includes insurance and pension schemes.

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

The Company's policies relating to remunerations of Non-executive 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 2010, 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 2010. 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 forthcoming 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 31 March 2011 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, 31 March 2011

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the reporting period, the Supervisory Committee of Chongqing Machinery & Electric Co., Ltd. held four 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 four meetings, attending two general meetings, sitting in fifteen Board meetings and conducting on-site inspections for relevant matters.

With respect to annual progress of the Company in 2010, 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 over 60 internal control systems (including Interim Management Measures for Internal Audit Work of the Company, Management Regulations on Commissioned Audit, Management Measures for Internal Audit File of the Company, Interim Management Measures for Efficiency Supervision Work of the Company, Management Measures for Investment Projects, Contract Management Policy of the Company and Management Measures for Legal Fairs of the Company) launched by the Company, which 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 2010, 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 2010, 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 2010 annual general meeting of the Company.

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

Chongqing, the PRC, 31 March 2011

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 2010 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 2010.

THE BOARD

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

According to Provision A2.1 of Code on Corporate Governance Practices, the Chairman and General Manager should be assumed by different members of the Board with distinct roles and responsibility. The Chairman is responsible for the Group's overall strategic planning, investment, audit and provides such leadership to the Board that the Board can operate effectively and timely discuss and approve all significant matters including project investment, annual budget and business planning. The Board appointed Mr. Yu Gang as the General Manager on 25 October 2010 in charge of the Group's daily operation and business policies. Mr. Yu filled the vacancy arising from Mr. He Yong's resignation as General Manager due to work relocation. Mr. Yu's term of office became effective on 25 October 2010. Mr. Yu Gang commenced services as executive Director on 30 December 2010 and immediately resigned from his position as a non-executive Director. Mr. He Yong resigned from his position as executive Director of the Company due to work relocation and his resignation became effective on 30 December 2010. 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 2010 to 31 December 2010, the Board held 15 meetings.

Attendance of Directors to the Board meetings is as follows:

Name of Director	Position	Meetings attended/ total meetings held
Xie Hua Jun	Executive Director, Chairman	15/15
He Yong (Resigned on 30 December 2010)	Executive Director	14/15
Yu Gang (Resigned on 30 December 2010 to replace He Yong)	Executive Director	15/15
Liao Shaohua	Executive Director	15/15
Chen Xianzheng	Executive Director	15/15
Huang Yong	Non-executive Director	15/15
Wang Jiyu (Resigned on 30 December 2010)	Non-executive Director	1/15
Wu Jian (Resigned on 15 June 2010 due to re-election)	Non-executive Director	7/15
Liu Liangcai (Appointed on 15 June 2010 to replace Wu Jian)	Non-executive Director	8/15
Yang Jingpu	Non-executive Director	15/15
Lo Wah Wai	Independent Non-executive Director	15/15
Ren Xiaochang	Independent Non-executive Director	15/15
Kong Weiliang	Independent Non-executive Director	15/15

Biographical details of Directors are set out on pages 45 to 51 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 2 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	2/2
Lo Wah Wai	Independent Non-executive Director	2/2
Yu Gang (Resigned on 30 December 2010)	Non-executive Director	2/2
Wang Jiyu (Appointed on 30 December 2010 to replace Yu Gang)	Non-executive Director	0/2

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 3 meetings during the year, attendance of which is as follows:

Name of Director	**Position**	**Meetings attended/ total meetings held**
Kong Weiliang *(Chairman)*	Independent Non-executive Director	3/3
Ren Xiaochang	Independent Non-executive Director	3/3
Huang Yong	Non-executive Director	3/3

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 5 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	5/5
Kong Weiliang	Independent Non-executive Director	5/5
Wu Jian (Resigned on 15 June 2010 due to re-election)	Non-executive Director	2/5
Liu Liangcai (appointed on 15 June 2010)	Non-executive Director	3/5

During the year, the Audit Committee approved at the meeting, the 2009 Consolidated Annual Financial Statements as audited by PricewaterhouseCoopers and the 2010 Condensed Consolidated Interim Financial Information 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 2010, the Supervisory Committee has examined the financial position and the legal compliance of the operations of the Company and conducted the due diligence review of the senior management through convening Supervisory Committee's meetings and attending the Board meetings, and general meetings of the Company, as well as undertaking its duties in a proactive and diligent manner under the principles of due care.

INTERNAL CONTROL

It is the Board's responsibility for developing and maintaining an internal control system of the Company to protect shareholders' interest and to effectively safeguard the Group' property and assets by reviewing major control procedures for financial, compliance and enterprise risk management. Reliable and complete financial information has been presented to the management and the internal control system has been improved in a continuous manner to ensure the identification and control of investment and business risks of the Group. However, it is 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.

INTERNAL AUDIT

The Company enhances the independence of internal audit department since 2010 for the purpose of reviewing, in a more effective manner, the Company's systems of internal control. The department was monitored and held responsible to the Board and as well as to the audit committee. The internal audit department carries out inspection and monitoring of the Company's financial information disclosures, operations and internal control procedures on a regular or in ad hoc basis, with a view to ensuring transparency in information disclosures, operational efficiencies and effectiveness of the corporate control regime.

During the Period, the Group carried out assets inspection and valuation for cash pooling management, which effectively improved operation efficiency and effect of the Group's capital.

ENHANCEMENT OF INTERNAL CONTROL

During the Period, the Company took various measures to enhance internal control, such as establishing planning development department and risk control department with defined responsibility. They were authorized to organize, assess, coordinate, supervise each department and to improve internal control system and enhance implementation, operation and coordination of each internal control measures in respect of the weakness found during the inspection.

RISK MANAGEMENT

During the Period, the Company established risk control department to enhance risk management and internal control of the Company and to enhance internal control of the Company in strict compliance with requirements of the Listing Rules of Hong Kong Stock Exchange and five ministries including Ministry of Finance of the PRC.

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 2010 amounted to approximately RMB6 million (2009: approximately RMB8.4 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 communicated with 102 institutional investors or investors in 93 meetings such as roadshows, investor presentations and telephone interviews. The full communication with investors enhanced the Group's relationship with investors and allowed them to better understand operations and developments of the Group.

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 248, which comprise the consolidated and company balance sheets as at 31 December 2010, 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 CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2010, 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, 31 March 2011

BALANCE SHEETS

(All amounts in RMB unless otherwise stated)

		Group		Company	
		As at 31 December		As at 31 December	
		2010	2009	**2010**	2009
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment	6	**1,812,713**	1,659,174	**4,435**	2,848
Investment properties	7	**21,718**	24,108	**—**	—
Lease prepayments	8	**270,516**	274,741	**—**	—
Intangible assets	9	**274,467**	84,910	**—**	—
Investments in associates	10	**397,943**	427,661	**209,206**	198,294
Investments in subsidiaries	11	**—**	—	**2,001,964**	1,811,988
Investments in jointly controlled entities	12	**—**	—	**200,929**	200,929
Trade and other receivables	14	**—**	—	**153,957**	178,957
Deferred income tax assets	23	**115,898**	66,891	**—**	—
Available-for-sale financial assets		**4,317**	6,545	**—**	—
Other non-current assets		**10,212**	10,186	**—**	—
		2,907,784	2,554,216	**2,570,491**	2,393,016
Current assets					
Inventories	13	**1,612,628**	1,290,816	**—**	—
Trade and other receivables	14	**2,901,478**	2,130,646	**144,120**	209,261
Amount due from customers for contract work	15	**158,521**	157,766	**—**	—
Available-for-sale financial assets		**—**	8,000	**—**	—
Restricted cash	16	**473,016**	419,758	**5,010**	—
Cash and cash equivalents	17	**2,118,810**	2,187,362	**858,962**	983,827
		7,264,453	6,194,348	**1,008,092**	1,193,088
Total assets		**10,172,237**	8,748,564	**3,578,583**	3,586,104

		Group		Company	
		As at 31 December		As at 31 December	
		2010	2009	**2010**	2009
	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	**(847,198)**	(882,299)	**(858,692)**	(895,843)
Retained earnings					
— Proposed final dividend	20	**294,771**	221,078	**294,771**	221,078
— Others	19	**1,377,783**	1,021,973	**100,253**	332,162
		4,509,996	4,045,392	**3,220,972**	3,342,037
Non-controlling interests		**64,212**	73,880	**—**	—
Total equity		**4,574,208**	4,119,272	**3,220,972**	3,342,037
LIABILITIES					
Non-current liabilities					
Borrowings	21	**481,359**	355,968	**263,086**	179,000
Deferred income	22	**513,017**	166,381	**—**	—
Deferred income tax liabilities	23	**29,311**	11,251	**—**	—
Long-term employee benefit obligations	24	**131,788**	144,563	**—**	—
		1,155,475	678,163	**263,086**	179,000

(All amounts in RMB unless otherwise stated)

		Group		Company	
		As at 31 December		As at 31 December	
		2010	2009	**2010**	2009
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
Current liabilities					
Trade and other payables	25	**3,226,915**	3,013,883	**42,239**	50,067
Amount due to customers for contract work	15	**24,785**	14,414	**—**	—
Current income tax liabilities		**55,385**	46,167	**—**	—
Borrowings	21	**1,061,592**	843,857	**52,286**	15,000
Current portion of long-term employee benefit obligations	24	**14,078**	13,346	**—**	—
Provisions for warranty	26	**59,799**	19,462	**—**	—
		4,442,554	3,951,129	**94,525**	65,067
Total liabilities		**5,598,029**	4,629,292	**357,611**	244,067
Total equity and liabilities		**10,172,237**	8,748,564	**3,578,583**	3,586,104
Net current assets		**2,821,899**	2,243,219	**913,567**	1,128,021
Total assets less current liabilities		**5,729,683**	4,797,435	**3,484,058**	3,521,037

The notes on pages 104 to 248 are an integral part of these financial statements.

The financial statements on pages 94 to 248 were approved by the Board of Directors on 31 March 2011 and were signed on its behalf

Director *Director*

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Revenue	5	**8,883,202**	6,893,290
Cost of sales	27	**(7,191,584)**	(5,646,278)
Gross profit		**1,691,618**	1,247,012
Distribution costs	27	**(300,931)**	(253,056)
Administrative expenses	27	**(743,581)**	(534,386)
Other gains, net	29	**49,026**	47,375
Other income	30	**52,632**	66,606
Operating profit		**748,764**	573,551
Finance income		**29,617**	35,208
Finance costs		**(79,124)**	(66,620)
Finance costs, net	31	**(49,507)**	(31,412)
Share of profit of associates	10	**65,801**	142,331
Profit before income tax		**765,058**	684,470
Income tax expense	32	**(66,298)**	(59,914)
Profit for the year		**698,760**	624,556

		Year ended 31 December	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Other comprehensive income:			
Recognition of fair value change relating to acquisition of subsidiary		**—**	30,612
Changes in fair value of available-for-sale financial assets		**(2,623)**	3,227
Income tax relating to changes in fair value of available-for-sale financial assets		**579**	(1,069)
Currency translation differences		**(6)**	—
Other comprehensive income for the year, net of tax		**(2,050)**	32,770
Total comprehensive income for the year		**696,710**	657,326
Profit attributable to:			
Equity holders of the Company		**687,732**	594,277
Non-controlling interests		**11,028**	30,279
		698,760	624,556

		Year ended 31 December	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Total comprehensive income attributable to:			
Equity holders of the Company		**685,682**	627,047
Non-controlling interests		**11,028**	30,279
		696,710	657,326
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
– Basic and diluted	34	**0.19**	0.16
Dividends proposed after the balance sheet date to all shareholders	20	**294,771**	221,078

The notes on pages 104 to 248 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	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		Note 19	*Note 19*			
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	—	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 to non-controlling interests	—	—	—	—	(9,049)	(9,049)
Capital contribution of cash from non-controlling interests	—	—	—	—	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

(All amounts in RMB unless otherwise stated)

	Attributable to equity holders of the Company					
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
		Note 19	*Note 19*			
Balance at 1 January 2010	3,684,640	(882,299)	1,243,051	4,045,392	73,880	4,119,272
Comprehensive income						
Profit for the year	—	—	687,732	687,732	11,028	698,760
Other comprehensive income						
Changes in fair value of available-for-sale financial assets, net of tax	—	(2,044)	—	(2,044)	—	(2,044)
Currency translation differences	—	(6)	—	(6)	—	(6)
Total other comprehensive income	—	(2,050)	—	(2,050)	—	(2,050)
Total comprehensive income	—	(2,050)	687,732	685,682	11,028	696,710
Transactions with owners						
Dividends relating to 2009	—	—	(221,078)	(221,078)	—	(221,078)
Dividends to non-controlling interests	—	—	—	—	(25,596)	(25,596)
Capital contribution of cash from non-controlling interests	—	—	—	—	4,900	4,900
Transfer to reserves	—	37,151	(37,151)	—	—	—
Total transactions with owners	—	37,151	(258,229)	(221,078)	(20,696)	(241,774)
Balance at 31 December 2010	3,684,640	(847,198)	1,672,554	4,509,996	64,212	4,574,208

The notes on pages 104 to 248 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Cash generated from operations	35	**243,260**	343,384
Interest paid		**(75,275)**	(66,413)
Income tax paid		**(105,208)**	(78,084)
Transaction costs in relation to acquisition of subsidiaries		**(6,976)**	—
Net cash generated from operating activities		**55,801**	198,887
Cash flows from investing activities			
Proceeds from return of investments		**8,000**	36,506
Purchase of available-for-sale financial assets		**(395)**	(8,000)
Additional investment to associates		**(10,912)**	—
Purchases of property, plant and equipment and investment properties		**(212,495)**	(420,554)
Increase in lease prepayments		**(2,224)**	(2,744)
Purchase of intangible assets		**(5,204)**	(4,648)
Acquisition of subsidiaries, net of cash acquired	38	**(141,863)**	(172,086)
Proceeds from disposal of property, plant and equipment	35	**42,640**	22,956
Interest received		**29,617**	35,208
Dividends received		**106,431**	131,042
Net cash used in investing activities		**(186,405)**	(382,320)

(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Cash flows from financing activities			
Proceeds from borrowings		**1,231,658**	919,161
Repayments of borrowings		**(924,977)**	(796,382)
Share issuance costs paid		**—**	(14,252)
Finance lease paid		**(5,470)**	(5,550)
Contribution from non-controlling interests		**4,900**	156
Dividends paid to company's shareholders		**(215,092)**	—
Dividends paid to jointly controlled entities shareholders		**—**	(36,623)
Dividends paid to non-controlling interests		**(25,596)**	(2,866)
Net cash generated from financing activities		**65,423**	63,644
Net decrease in cash and cash equivalents		**(65,181)**	(119,789)
Cash and cash equivalents at beginning of the year		**2,187,362**	2,308,454
Exchange losses on cash and cash equivalents		**(3,371)**	(1,303)
Cash and cash equivalents at end of the year	17	**2,118,810**	2,187,362

The notes on pages 104 to 248 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.

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 31 March 2011.

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 valuation of financial assets at fair value through profit or loss and 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.

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), "Business combinations", and consequential amendments to HKAS 27, "Consolidated and separate financial statements", HKAS 28, "Investments in associates", and HKAS 31, "Interests in joint ventures", are effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

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

The standard was applied to the acquisition of Holroyd Precision Limited, Precision Components Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited and PTG Deutschland GmbH (collectively referred to as "PTG six entities") in June 2010. Acquisition-related costs of RMB10,131,000 have been recognised within 'administrative expenses' in profit or loss. These would previously have been included in the consideration for the business combinations. There was no material impact on earnings per share. See Note 38 for further details of the business combinations that occurred in 2010.

- HKAS 27 (revised) 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 the profit or loss. HKAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

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

- HKAS 36 (amendment), 'Impairment of assets', effective 1 January 2010. The amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment, as defined by paragraph 5 of HKFRS 8, 'Operating segments'.

- HKAS 17 (amendment), 'Leases', deletes specific guidance regarding classification of leases of land, so as to eliminate inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating lease using the general principles of HKAS 17, i.e. whether the lease transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee. Prior to the amendment, land interest which title is not expected to pass to the Group by the end of the lease term was classified as operating lease under "Lease prepayments", and amortised over the lease term. HKAS 17 (amendment) has had no impact on the Group.

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

2.1 Basis of preparation *(Continued)*

Changes in accounting policy and disclosures *(Continued)*

(b) *New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and the Group has not been early adopted*

The Group's and the Company's assessment of the impact of these new standards and interpretations is set out below.

- HKFRS 9, 'Financial instruments', issued in November 2009. This standard is the first step in the process to replace HKAS 39, 'Financial instruments: recognition and measurement'. HKFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess the full impact of HKFRS 9.

- Revised HKAS 24 (revised), 'Related party disclosures', issued in November 2009. It supersedes HKAS 24, 'Related party disclosures', issued in 2003. HKAS 24 (revised) is mandatory for periods beginning on or after 1 January 2011. Earlier application, in whole or in part, is permitted.

  The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the revised standard from 1 January 2011. When the revised standard is applied, the Group and the Company will need to disclose any transactions between its subsidiaries and its associates. The Group is currently putting systems in place to capture the necessary information. It is, therefore, not possible at this stage to disclose the impact, if any, of the revised standard on the related party disclosures.

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

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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

In the Company's balance sheet, investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries 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)*

(a) Subsidiaries *(Continued)*

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss (Note 2.8).

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.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, 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 non-controlling interests are also recorded in equity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Consolidation *(Continued)*

(b) Transactions with non-controlling interests *(Continued)*

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, jointly controlled entity or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

(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.

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 profit or loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. 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 arising in investments in associates are recognised in profit or loss.

In the Company's balance sheet, the investments in associates are stated at cost less provision for impairment losses (Note 2.12). The results of associates 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 2.12). The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 Company's functional and the Group's presentation currency.

(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 profit or loss.

Foreign exchange gains and losses are presented in profit or loss within 'finance income or cost'.

Changes in 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 amortised cost are recognised in profit or loss, and other changes in carrying amount are recognised in other comprehensive income.

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 other comprehensive income.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Foreign currency translation *(Continued)*

(c) Group companies

The results and financial position of group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each statement of comprehensive income are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in profit or loss as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

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

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 profit or loss during the financial period in which they are incurred.

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	3–28 years
— Motor vehicles	6–12 years

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

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

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'other gains - net' in profit or loss.

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

2.5 Property, plant and equipment *(Continued)*

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.

2.6 Investment properties

Investment properties, comprising office buildings, are held for long-term rental yields and are not occupied by the Group. 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 profit or loss.

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 profit or loss on a straight-line basis over the period of the land use rights or when there is impairment, the impairment is expensed in profit or loss.

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

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.

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.

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

2.8 Intangible assets *(Continued)*

(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 their estimated useful life of 10-12 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.

2.9 Impairment of non-financial assets

Assets that have an indefinite useful life - for example, goodwill and brand - 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.

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

2.10 Financial assets

2.10.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available-for-sale. 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 if expected to be settled within 12 months; otherwise, they are classified as non-current.

(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 sheets (Notes 2.15 and 2.16).

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

2.10 Financial assets *(Continued)*

2.10.1 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.

2.10.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the trade-date - the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in profit or loss. 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 are subsequently 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 profit or loss within 'other gains/ (losses) - net' in the period in which they arise.

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

2.10 Financial assets *(Continued)*

2.10.2 Recognition and measurement *(Continued)*

Changes in the fair value of monetary and non-monetary securities classified as available-for-sale are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in profit or loss as 'other gains/(losses) — net'.

Dividends on available-for-sale equity instruments are recognised in profit or loss as part of other income when the Group's right to receive payments is established.

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

2.12 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.

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

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

2.12 Impairment of financial assets *(Continued)*

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

- 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.

The Group first assesses whether objective evidence of impairment exists.

For loans and receivables category, 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 carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss.

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 profit or loss.

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

2.12 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. 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 profit or loss. Impairment losses recognised in the separate consolidated profit or loss on equity instruments are not reversed through the separate consolidated profit or loss.

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.

2.13 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 profit or loss.

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

2.14 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 distribution costs.

2.15 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.

2.16 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents includes 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)*

2.17 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.

2.18 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.

2.19 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 profit or loss 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)*

2.20 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, 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 where the Company and its subsidiaries, associates and jointly controlled entities operate and generate taxable income. 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 recognised, 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 substantively 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.

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

2.20 Current and deferred income tax *(Continued)*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except for deferred income tax liability 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.

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.

2.21 Employee benefits

(a) Pension obligations

The Group's subsidiaries in the PRC contribute on a monthly basis to various defined contribution retirement schemes managed by the PRC Government. The contributions to the schemes are charged to profit or loss as and when incurred. The Group's obligations are determined at a certain percentage of the salaries of the employees.

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

2.21 Employee benefits *(Continued)*

(a) Pension obligations *(Continued)*

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

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

Past-service costs are recognised immediately in profit or loss, 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.

The Group's subsidiaries in the United Kingdom operate a defined contribution pension scheme for employees. The assets of the scheme are held separately from those of the companies. The annual contributions payable are charged to profit or loss.

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

2.21 Employee benefits *(Continued)*

(b) Other post-employment obligations

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

(c) Early retirement benefits

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

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

2.21 Employee benefits *(Continued)*

(d) Housing fund and other benefits

All full-time employees of the Group's subsidiaries in the PRC 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.

(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 a termination when the entity has a detailed formal plan to terminate the employment of current employees without possibility of withdrawal. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

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

2.22 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.

2.23 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 profit or loss 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 profit or loss on a straight-line basis over the expected lives of the related assets.

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

2.24 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.

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 reporting 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.

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

2.24 Construction contracts *(Continued)*

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

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

2.25 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.

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 when 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.

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

2.25 Revenue recognition *(Continued)*

(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)*

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

2.26 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 profit or loss on a straight-line basis over the period of the lease.

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

Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in other long-term payables. The interest element of the finance cost is charged to profit or loss 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.

2.27 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;

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

2.27 Research and development *(Continued)*

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

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

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

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

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

2.28 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 currency risk, fair value interest rate risk and cash flow interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group has not used derivative financial instruments to hedge the risk exposures.

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

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the HK dollar ("HKD") and US dollar ("USD"). Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in a currency that is not the entity'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 2010, if RMB had weakened/strengthened by 1% (2009: 1%) against HKD with all other variables held constant, the Group's net profit for the year then ended would have been approximately RMB705,000 (2009: RMB2,330,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD-denominated bank deposits.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk (Continued)

As at 31 December 2010, if RMB had weakened/strengthened by 1% (2009: 1%) against USD with all other variables held constant, the Group's net profit for the year then ended would have been approximately RMB557,000 (2009: nil) lower/higher, mainly as a result of foreign exchange gains/losses on translation of USD-denominated bank deposits and trade receivables and foreign exchange losses/gains on translation of USD-denominated bank borrowings and trade and other payables.

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from interest bearing bank deposits and borrowings. Bank deposits and borrowings at variable a expose the Group to cash flow value interest rate risk. Bank deposits and borrowings at fixed rates expose the Group to fair value interest rate risk. The Group determines the related proportions of its fixed and variable rate contracts depending on the prevailing market conditions. During 2010 and 2009, the Group's bank deposits and borrowings at variable rates were denominated in RMB. The Group currently does not hedge its exposure to interest rate risk.

As at 31 December 2010, if the interest rate of the Group's bank deposits had been increased/decreased by 10% (2009: 10%) and all other variables were held constant, the Group's net profit for the year then ended would increase/decrease by approximately RMB2,517,000 (2009: RMB2,993,000).

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 2010, if the interest rate of the Group's bank borrowings at variable rates had been increased/decreased by 10% (2009: 10%) and all other variables were held constant, the Group's net profit for the year then ended would decrease/increase by approximately RMB3,915,000 (2009: 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 shown on balance sheets.

As at 31 December 2010 and 2009, 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 2010 and 2009 were as follows:

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Big four commercial banks *(i)*	**571,754**	647,935
Other listing banks	**1,962,875**	1,910,286
Other non-listing banks	**55,448**	46,850
	2,590,077	2,605,071

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.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

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

The table below analyses the Group's and 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 2010				
Bank borrowings	1,079,589	237,583	283,435	869
Other borrowings	30,801	—	—	—
Trade and other payables	2,287,655	—	—	—
At 31 December 2009				
Bank borrowings	847,307	148,553	224,461	26,059
Other borrowings	37,016	—	—	—
Trade and other payables	1,880,814	—	—	—

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 2010				
Bank borrowings	67,839	80,917	211,796	—
Trade and other payables	42,112	—	—	—
Financial guarantee contracts	279,510	—	—	—
At 31 December 2009				
Bank borrowings	28,572	37,796	152,062	24,278
Trade and other payables	49,401	—	—	—
Financial guarantee contracts	137,540	—	—	—

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 sheet 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 2010 and 2009 were as follows:

	31 December 2010 *RMB'000*	31 December 2009 *RMB'000*
Total borrowings	**1,542,951**	1,199,825
Total equity	**4,574,208**	4,119,272
Total capital	**6,117,159**	5,319,097
Gearing ratio	**25%**	23%

3.3 Fair value estimation

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

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

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 2010.

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Assets				
Available-for-sale financial assets				
— Equity securities	4,317	—	—	4,317
Total assets	4,317	—	—	4,317

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

	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
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

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(Continued)*

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.

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted cash and trade and other receivables; 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) Taxation

The Group is subject to various taxes in the PRC, United Kingdom and Germany. 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.

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.

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

(a) Taxation *(Continued)*

As at 31 December 2010, the Group has deferred tax assets in the amount of approximately RMB115,898,000. 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 expenses. Should the Group be required to increase the tax rate, every 1% increment in tax rate would render a further write up of deferred tax asset in the amount of approximately RMB4,636,000.

(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.

(d) Provisions for warranty

The Group provides warranties on their products and undertakes to repair or replace items that fail to perform satisfactorily based on certain pre-determined conditions. Management estimates the related warranty claims based on historical warranty claim information including level of repairs and returns as well as recent trends that might suggest that past cost information may differ from future claims.

Factors that could impact the estimated claim information include the success of the Group's productivity and quality controls, as well as parts and labour costs. Any increase or decrease in the provision would affect profit or loss in future years.

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 products 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.

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 statement of comprehensive income.

5. SEGMENT INFORMATION *(CONTINUED)*

The segment information provided to the operating management committee for the reportable segments for the year ended 31 December 2010 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	1,417,886	920,653	313,391	2,123,018	1,229,297	1,762,103	—	1,122,673	8,889,021
Inter-segment revenue	—	—	—	(2,584)	(30)	(3,205)	—	—	(5,819)
Revenue from external customers	1,417,886	920,653	313,391	2,120,434	1,229,267	1,758,898	—	1,122,673	8,883,202
Operating profit	370,193	126,845	46,846	41,219	75,070	91,290	—	(2,699)	748,764
Finance income	4,468	540	3,068	3,787	4,088	1,667	—	11,999	29,617
Finance costs	751	(5,803)	(4,160)	(21,949)	(11,242)	(15,538)	—	(21,183)	(79,124)
Share of profit from associates	—	—	—	—	8,291	—	38,549	18,961	65,801
Profit before income tax									765,058
Income tax expense/(credit)	(52,958)	(17,934)	(7,524)	(2,853)	9,053	4	—	5,914	(66,298)
Profit for the year									698,760
Depreciation on property, plant and equipment and investment properties	10,418	25,269	3,385	15,163	27,579	31,990	—	21,305	135,109
Amortisation of lease prepayments and intangible assets	3,063	3,207	894	1,341	4,411	4,449	—	444	17,809
Write down/(write-back) of inventories	3,111	389	—	1,201	(455)	4,334	—	1,478	10,058
(Reversal of)/provision for impairment on trade and other receivables	(722)	2,188	1,561	1,236	10,873	10,528	—	710	26,374
Impairment loss of property, plant and equipment	512	—	—	—	116	—	—	—	628
Total assets	967,157	1,067,857	724,642	1,076,233	2,319,720	1,921,871	185,650	1,909,107	10,172,237
Total assets include:									
Investments in associates	—	—	—	—	79,769	—	185,650	132,524	397,943
Additions to non-current assets (other than financial instruments and deferred tax assets)	15,873	8,911	20,346	35,318	97,227	301,955	—	26,732	506,362

5. SEGMENT INFORMATION *(CONTINUED)*

The segment information 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
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)
Impairment loss of property, plant and equipment	—	—	—	—	—	—	—	—	—
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)*

Except for PTG six entities, the other entities of the Group are domiciled in the PRC. The result of its revenue from external customers in the PRC for the 12 months ended 31 December 2010 is approximately RMB8,659,295,000 (for the year ended 31 December 2009: RMB6,844,389,000), and the total of its revenue from external customers from other countries is approximately RMB223,907,000 (for the year ended 31 December 2009: RMB48,901,000).

The total of non-current assets other than financial instruments and deferred income tax assets located in the PRC is RMB2,554,096,000 (2009: RMB2,480,780,000), and the total of these non-current assets located in other countries is RMB233,473,000 (2009: nil).

6. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and plants	Equipment and machinery	Motor vehicles	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009					
Cost	579,996	1,060,382	64,101	239,524	1,944,003
Accumulated depreciation and impairment	(176,543)	(551,774)	(30,283)	(2,558)	(761,158)
Net book amount	403,453	508,608	33,818	236,966	1,182,845
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
Transfers	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

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

	Buildings and plants	Equipment and machinery	Motor vehicles	Assets under construction	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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
Year ended 31 December 2010					
Opening net book amount	411,754	842,575	48,843	356,002	1,659,174
Acquisition of subsidiary *(Note 38)*	26,076	15,715	207	—	41,998
Transfers	222,330	228,134	6,268	(456,732)	—
Additions	27,558	9,338	3,315	221,012	261,223
Disposals *(c)*	(979)	(2,297)	(1,851)	—	(5,127)
Other deduction	(53)	(1,366)	—	(9,789)	(11,208)
Depreciation charge	(22,514)	(101,738)	(8,467)	—	(132,719)
Impairment charge	—	(628)	—	—	(628)
Closing net book amount	664,172	989,733	48,315	110,493	1,812,713
At 31 December 2010					
Cost	858,828	1,825,412	92,032	113,051	2,889,323
Accumulated depreciation and impairment	(194,657)	(835,678)	(43,717)	(2,558)	(1,076,610)
Net book amount	664,171	989,734	48,315	110,493	1,812,713

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

Company

	Equipment and machinery *RMB'000*	Motor vehicles *RMB'000*	Assets under construction *RMB'000*	Total *RMB'000*
At 1 January 2009				
Cost	794	1,921	—	2,715
Accumulated depreciation	(238)	(269)	—	(507)
Net book amount	556	1,652	—	2,208
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

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

	Equipment and machinery RMB'000	Motor vehicles RMB'000	Assets under construction RMB'000	Total RMB'000
Year ended 31 December 2010				
Opening net book amount	512	1,963	373	2,848
Additions	236	—	1,835	2,071
Depreciation charge	(246)	(238)	—	(484)
Closing net book amount	502	1,725	2,208	4,435
At 31 December 2010				
Cost	1,150	2,470	2,208	5,828
Accumulated depreciation	(648)	(745)	—	(1,393)
Net book amount	502	1,725	2,208	4,435

(a) Depreciation of the property, plant and equipment has been charged to profit or loss as follows:

	Group Year ended 31 December		Company Year ended 31 December	
	2010 **RMB'000**	2009 RMB'000	**2010** **RMB'000**	2009 RMB'000
Cost of sales	**110,905**	84,689	**—**	—
Administrative expenses	**21,814**	25,026	**484**	402
	132,719	109,715	**484**	402

All the impairment provisions have been charged to cost of sales in profit or loss.

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 RMB150,065,000 as at 31 December 2010 (2009: RMB201,471,000) (Note 21).

(c) Within the disposal amounts, property, plant and equipment with net book value of approximately RMB155,000 (2009: RMB21,029,000) were disposed and such amounts were deducted from the advances from government as relocation compensation resulted in no profit or loss (Note 25 (b)).

(d) Lease rental expenses amounting to approximately RMB19,204,000 (2009:RMB16,799,000) relating to the lease of property are included in profit or loss (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	
	2010	2009
	RMB'000	*RMB'000*
Cost — capitalised finance leases	**16,350**	15,721
Accumulated depreciation	**(2,839)**	(1,543)
Net book amount	**13,511**	14,178

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 2010, interest expense of approximately RMB2,445,000 (2009: RMB1,803,000) 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 5.67% (2009: 7.44%) per annum.

7. INVESTMENT PROPERTIES

Group

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
At beginning of year		
Cost	**38,252**	38,252
Accumulated depreciation	**(14,144)**	(11,754)
Net book amount	**24,108**	26,498
For the year		
Opening net book amount	**24,108**	26,498
Depreciation charge	**(2,390)**	(2,390)
Closing net book amount	**21,718**	24,108
At end of year		
Cost	**38,252**	38,252
Accumulated depreciation	**(16,534)**	(14,144)
Net book amount	**21,718**	24,108
Fair value at end of the year	**165,799**	162,499

As at 31 December 2010 and 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.

7. INVESTMENT PROPERTIES *(CONTINUED)*

Bank borrowings were secured by the investment properties with an aggregate carrying value of approximately RMB21,718,000 as at 31 December 2010 (2009: RMB24,108,000) (Note 21).

The following amounts have been recognised in profit or loss:

Group

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Rental income	**9,581**	8,116
Direct operating expenses arising from investment properties that generate rental income	**(2,390)**	(2,390)

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

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

Group

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
In the PRC, held on land use rights with lease term of 45 years	**21,718**	24,108

7. INVESTMENT PROPERTIES *(CONTINUED)*

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

Group

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Not later than 1 year	**8,907**	7,509
Later than 1 year and not later than 5 years	**17,860**	15,036
	26,767	22,545

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	
	2010	2009
	RMB'000	*RMB'000*
At beginning of the year		
Cost	**315,525**	312,781
Accumulated amortisation	**(40,784)**	(33,558)
Net book amount	**274,741**	279,223
For the year		
Opening net book amount	**274,741**	279,223
Additions	**2,224**	2,744
Amortisation charge	**(6,449)**	(7,226)
Closing net book amount	**270,516**	274,741
At end of the year		
Cost	**317,749**	315,525
Accumulated amortisation	**(47,233)**	(40,784)
Net book amount	**270,516**	274,741

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

(b) As at 31 December 2010, bank borrowings were secured by certain of the Group's land use rights with an aggregate carrying value of approximately RMB111,378,000 (2009: RMB133,760,000) (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 2009							
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)*

	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*
Year ended 31 December 2010							
Opening net book amount	15,368	28,828	6,806	16,300	16,013	1,595	84,910
Acquisition of subsidiary *(Note 38)*	127,650	—	—	12,256	55,807	—	195,713
Additions	—	—	1,507	—	—	3,697	5,204
Amortisation charge	—	(3,938)	(1,799)	—	(4,155)	(1,468)	(11,360)
Closing net book amount	143,018	24,890	6,514	28,556	67,665	3,824	274,467
At 31 December 2010							
Cost	143,018	75,773	15,003	28,556	73,345	12,400	348,095
Accumulated amortisation	—	(50,883)	(8,489)	—	(5,680)	(8,576)	(73,628)
Net book amount	143,018	24,890	6,514	28,556	67,665	3,824	274,467

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

(b) No development cost were capitalized by the Group during the years ended 31 December 2010 and 2009.

9. INTANGIBLE ASSETS *(CONTINUED)*

(c) Impairment for goodwill

Goodwill is allocated to the Group's cash-generating unit (CGU), Chongqing CAFF Automotive Braking & Steering System Co. Ltd. ("CAFF"), and PTG six entities 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 and machinery tools in which the CGU operates.

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

	CAFF	PTG six entities
Gross margin as budgeted	14%	38%
Growth rate	10%	10%
Pre-tax discount rate	18.6%	22.2%

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	
	As at 31 December		As at 31 December	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
At beginning of the year	**427,661**	641,597	**198,294**	383,149
Additions	**10,912**	—	**10,912**	—
Acquisition of subsidiary	**—**	(227,956)	**—**	(184,855)
Share of profit	**65,801**	142,331	**—**	—
Dividend declared	**(106,431)**	(128,311)	**—**	—
At end of the year	**397,943**	427,661	**209,206**	198,294

(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	
	2010	2009
	RMB'000	*RMB'000*
Total assets	**818,245**	682,694
Total liabilities	**(420,302)**	(255,033)
Net assets	**397,943**	427,661

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	
	2010	2009
	RMB'000	*RMB'000*
Revenue	**710,668**	452,132
Share of profit for the year	**65,801**	142,331

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

11. INVESTMENTS IN SUBSIDIARIES — COMPANY

All the subsidiaries are unlisted.

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

12. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

Group

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Assets		
Non-current assets	**142,381**	131,869
Current assets	**824,777**	534,187
	967,158	666,056
Liabilities		
Non-current liabilities	**(424)**	—
Current liabilities	**(397,490)**	(419,293)
	(397,914)	(419,293)
Net assets	**569,244**	246,763

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Income	**1,423,998**	987,264
Expenses	**(1,048,586)**	(726,778)
Profit before income tax	**375,412**	260,486
Income tax expense	**(52,958)**	(12,993)
Profit for the year	**322,454**	247,493

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

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

13. INVENTORIES

Group

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Raw materials	**394,954**	339,684
Work in progress	**637,938**	560,526
Finished goods	**542,903**	360,182
Consumables	**36,833**	30,424
	1,612,628	1,290,816

For the year ended 31 December 2010, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB6,406,326,000 (2009: RMB5,108,436,000).

For the year ended 31 December 2010, write-down of inventories recognised in cost of sales in profit or loss amounted to approximately RMB10,058,000 (2009: RMB3,708,000).

As at 31 December 2010, the Group's inventories with carrying value of approximately RMB70,000,000 (2009:RMB30,000,000) were secured for the Group's borrowings (Note 21).

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	As at 31 December		As at 31 December	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and bills receivables *(a)*	**2,701,706**	2,005,622	**—**	950
Less: provision for impairment of trade receivables	**(249,038)**	(226,639)	**—**	—
Trade and bills receivables - net	**2,452,668**	1,778,983	**—**	950
Deposits paid	**59,821**	45,764	**3**	3
Less: provision for impairment of deposits paid	**(10,341)**	(10,031)	**—**	—
Deposits paid - net	**49,480**	35,733	**3**	3
Prepayments	**296,194**	216,235	**—**	—
Staff advances	**36,118**	29,560	**90**	88
Others	**85,516**	88,128	**297,984**	387,177
Less: provision for impairment of receivables other than trade receivables and deposits paid	**(18,498)**	(17,993)	**—**	—
	2,901,478	2,130,646	**298,077**	388,218
Less: long-term other receivables	**—**	—	**(153,957)**	(178,957)
Current portion	**2,901,478**	2,130,646	**144,120**	209,261

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	
	2010	2009
	RMB'000	*RMB'000*
Less than 30 days	**674,344**	542,618
31 days to 90 days	**820,827**	618,005
91 days to 1 year	**770,569**	474,759
1 year to 2 years	**187,392**	179,945
2 years to 3 years	**91,457**	40,673
Over 3 years	**157,117**	149,622
	2,701,706	2,005,622

As at 31 December 2010 and 2009, full provision has been made by the Group for trade receivables aged over 3 years.

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 2010, trade receivables of approximately RMB953,661,000 (2009: RMB541,097,000) were past due but not impaired. These relate to a number of 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	
	2010	2009
	RMB'000	*RMB'000*
91 days to 1 year	**747,868**	412,706
1 year to 2 years	**163,719**	125,034
2 years to 3 years	**42,074**	3,357
	953,661	541,097

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 2010, trade receivables of RMB252,874,000 (2009: RMB303,902,000) were individually impaired and provided for. The amount of the provision was RMB249,038,000 as at 31 December 2010 (2009: RMB226,639,000). 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	
	2010	2009
	RMB'000	*RMB'000*
91 days to 1 year	**22,701**	62,053
1 year to 2 years	**23,673**	54,911
2 years to 3 years	**49,383**	37,316
Over 3 years	**157,117**	149,622
	252,874	303,902

(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 internationally 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) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
RMB	**2,612,049**	2,101,247
UK pound *("UKP")*	**127,306**	—
USD	**94,250**	29,223
Other currencies	**67,873**	176
	2,901,478	2,130,646

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

Group

	Year ended 31 December	
Trade receivables	**2010**	2009
	RMB'000	*RMB'000*
At beginning of the year	**226,639**	235,974
Provision for/(reversal of) impairment of receivables	**25,559**	(7,406)
Receivables written off during the year as uncollectible	**(3,160)**	(1,929)
At end of the year	**249,038**	226,639

14. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

Deposits paid	**Year ended 31 December 2010** ***RMB'000***	2009 *RMB'000*
At beginning of the year	**10,031**	9,707
Provision for impairment of receivables	**310**	324
At end of the year	**10,341**	10,031

Other items	**Year ended 31 December 2010** ***RMB'000***	2009 *RMB'000*
At beginning of the year	**17,993**	22,068
Provision for/(reversal of) impairment of receivables	**505**	(3,947)
Receivables written off during the year as uncollectible	**—**	(128)
At end of the year	**18,498**	17,993

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in profit or loss (Note 27).

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

(g) 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	
	2010	2009
	RMB'000	*RMB'000*
Contract cost incurred plus recognised profit less recognised losses	**959,649**	869,555
Less: progress billings	**(825,913)**	(726,203)
Contract work-in-progress	**133,736**	143,352
Representing:		
Amount due from customers for contract work	**158,521**	157,766
Amount due to customers for contract work	**(24,785)**	(14,414)
	133,736	143,352

15. CONTRACT WORK-IN-PROGRESS *(CONTINUED)*

Group

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Contract revenue recognised as revenue in the year	**244,733**	247,420

16. RESTRICTED CASH

	Group		Company	
	As at 31 December		As at 31 December	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Restricted cash denominated in RMB	**473,016**	419,758	**5,010**	—

The restricted cash 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	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash on hand	**1,749**	2,049	**6**	10
Cash at bank	**638,877**	411,239	**153,545**	110,874
Short-term bank deposits *(a)*	**1,478,184**	1,774,074	**705,411**	872,943
Cash and cash equivalents	**2,118,810**	2,187,362	**858,962**	983,827
Cash and cash equivalents denominated in:				
— RMB	**2,012,298**	1,884,374	**776,075**	709,797
— HKD	**82,887**	274,030	**82,887**	274,030
— USD	**6,283**	3,247	**—**	—
— UKP	**12,327**	—	**—**	—
— European dollar ("EUR")	**5,015**	25,711	**—**	—
	2,118,810	2,187,362	**858,962**	983,827

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

18. SHARE CAPITAL

	Number of Shares	Domestic shares	H shares	Total shares
	In thousand	*In thousand*	*In thousand*	*In thousand*
Registered, issued and fully paid				
At 1 January 2009 (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
At 31 December 2010 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640

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

19. RESERVES

Group

	Other Reserves					
	Capital reserve	Investment revaluation reserve	Statutory reserve fund	Total	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	(1,002,663)	2,225	47,723	(952,715)	686,420	(266,295)
Profit for the year	—	—	—	—	594,277	594,277
Recognition of fair value change relating to acquisition of subsidiary	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
Transfer to reserves	—	—	37,646	37,646	(37,646)	—
At 31 December 2009	(972,051)	4,383	85,369	(882,299)	1,243,051	360,752
At 1 January 2010	(972,051)	4,383	85,369	(882,299)	1,243,051	360,752
Profit for the year	—	—	—	—	687,732	687,732
Dividend	—	—	—	—	(221,078)	(221,078)
Changes in fair value of available-for-sales financial assets, net of tax	—	(2,044)	—	(2,044)	—	(2,044)
Currency translation differences	—	(6)	—	(6)	—	(6)
Transfer to reserves	—	—	37,151	37,151	(37,151)	—
At 31 December 2010	(972,051)	2,333	122,520	(847,198)	1,672,554	825,356

19. RESERVES *(CONTINUED)*

Statement of changes in equity of the Company for the year ended 31 December 2010.

Company

	Other Reserves				
	Capital reserve	**Statutory reserve fund**	**Total**	**Retained earnings**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	(981,212)	47,723	(933,489)	16,864	(916,625)
Profit for the year *(Note 42)*	—	—	—	574,022	574,022
Transfer to reserves	—	37,646	37,646	(37,646)	—
At 31 December 2009	(981,212)	85,369	(895,843)	553,240	(342,603)
At 1 January 2010	(981,212)	85,369	(895,843)	553,240	(342,603)
Profit for the year *(Note 42)*	—	—	—	100,013	100,013
Dividends *(Note 20)*	—	—	—	(221,078)	(221,078)
Transfer to reserves	—	37,151	37,151	(37,151)	—
At 31 December 2010	(981,212)	122,520	(858,692)	395,024	(463,668)

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 for Business Enterprises, to the statutory surplus reserve fund before distributing the net profit. When the balance of the statutory surplus reserve fund reaches 50% of the Company's share capital, any further appropriation is at the discretion of shareholders. The statutory surplus reserve fund can be used to offset prior years' losses, if any, and may be converted into share capital by issuing new shares to shareholders in proportion to their existing shareholders or by increasing the par value of the shares currently held by them. The fund is non-distributable except for liquidation situation.

Pursuant to the Articles of Association of the Company, approximately RMB37,151,000 was appropriated to the statutory surplus reserve fund from the net profit for the year ended 31 December 2010 (2009: RMB37,646,000).

20. DIVIDENDS

A final dividend for 2009 of RMB221,078,000 (RMB0.06 per share) was paid in 2010.

The Board of Directors, in a meeting held on 31 March 2011, proposed to distribute a final dividend for 2010 to equity holders of the Company of RMB294,771,000 (RMB0.08 per share), based on total number of shares which are in issue as at 31 December 2010. Such dividend distribution is still subject to the approval of share holder's meeting, and is not reflected in these consolidated financial statements.

	2010 *RMB'000*
Dividends proposed after the balance sheet date:	
— final dividend for 2010	294,771

21. BORROWINGS

	Group		Company	
	As at 31 December		As at 31 December	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current				
Borrowings *(1)*	**480,934**	351,713	**263,086**	179,000
Finance lease liabilities *(2)*	**425**	4,255	**—**	—
	481,359	355,968	**263,086**	179,000
Current				
Borrowings *(1)*	**1,057,104**	838,790	**52,286**	15,000
Finance lease liabilities *(2)*	**4,488**	5,067	**—**	—
	1,061,592	843,857	**52,286**	15,000
Total borrowings	**1,542,951**	1,199,825	**315,372**	194,000

21. BORROWINGS *(CONTINUED)*

(1) Borrowings

	Group		Company	
	As at 31 December		As at 31 December	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current				
Long-term bank borrowings				
— unsecured *(b)*	**480,934**	351,713	**263,086**	179,000
Total non-current borrowings	**480,934**	351,713	**263,086**	179,000
Current				
Short-term bank borrowings				
— secured *(a)*	**349,143**	356,241	**—**	—
— unsecured *(b)*	**677,160**	445,540	**52,286**	15,000
	1,026,303	801,781	**52,286**	15,000
Other unsecured borrowings				
— due to independent third parties *(c)*	**30,801**	32,009	**—**	—
— due to related parties *(d)*	**—**	5,000	**—**	—
	30,801	37,009	**—**	—
Total current borrowings	**1,057,104**	838,790	**52,286**	15,000
	1,538,038	1,190,503	**315,372**	194,000

21. BORROWINGS *(CONTINUED)*

(1) Borrowings *(Continued)*

(a) As at 31 December 2010, all these bank borrowings were secured by certain of the Group's property, plant and equipment, investment properties, land use rights and inventories within net book value of RMB150,065,000, RMB21,718,000, RMB111,378,000, and RMB70,000,000 respectively (Notes 6, 7, 8 and 13).

(b) As at 31 December 2010 and 2009, a portion of the bank borrowings of approximately RMB315,372,000 and RMB239,000,000 were guaranteed by the following parties respectively:

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Chongqing Sanxia Credit Guarantee Co., Ltd.	**179,000**	194,000	**179,000**	194,000
CQMEHG *(Note 39)*	**136,372**	—	**136,372**	—
Chongqing CAFF Automotive Spare Parts Co. Ltd.	**—**	40,000	**—**	—
The Chairman of a subsidiary	**—**	5,000	**—**	—
	315,372	239,000	**315,372**	194,000

(c) As at 31 December 2010 and 2009, borrowings due to independent third parties mainly represents amounts advanced from a potential customer to support the Group's construction of certain production facilities for the manufacturing of products to this customer.

21. BORROWINGS *(CONTINUED)*

(1) Borrowings *(Continued)*

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

(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	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Total borrowings				
— Within 1 year	1,057,104	838,790	52,286	15,000
— Between 1 and 2 years	214,286	129,000	67,286	25,000
— Between 2 and 5 years	265,800	197,000	195,800	130,000
— Over 5 years	848	25,713	—	24,000
	1,538,038	1,190,503	315,372	194,000

21. BORROWINGS *(CONTINUED)*

(1) Borrowings *(Continued)*

(f) The carrying amounts of the Group's borrowings are denominated in the following currencies:

	Group As at 31 December		Company As at 31 December	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**1,368,532**	1,190,503	**179,000**	194,000
UKP	**33,134**	—	**—**	—
USD	**136,372**	—	**136,372**	—
	1,538,038	1,190,503	**315,372**	194,000

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

	Group As at 31 December		Company As at 31 December	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings	**5.65%**	5.93%	**5.51%**	5.94%
Other borrowings	**—**	0.72%	**—**	—

21. BORROWINGS *(CONTINUED)*

(1) 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		**Company**	
	As at 31 December		**As at 31 December**	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amount	**480,934**	351,713	**263,086**	179,000
Fair value	**481,265**	354,392	**263,670**	179,406

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 2.76% to 7.44% (2009: 5.4% to 7.44%).

21. BORROWINGS *(CONTINUED)*

(1) Borrowings *(Continued)*

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

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Fixed rate		
— Expiring within 1 year	**95,591**	14,000
— Expiring beyond 1 year	**169,130**	116,720
	264,721	130,720

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	
	2010	2009
	RMB'000	*RMB'000*
Gross finance lease liabilities		
— minimum lease payments		
No later than 1 year	**4,688**	5,571
Later than 1 year and no later than 5 years	**464**	4,403
	5,152	9,974
Unrecognised future finance charge on finance leases	**(239)**	(652)
Present value of finance lease liabilities	**4,913**	9,322

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

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
— No later than 1 year	**4,488**	5,067
— Later than 1 year and no later than 5 years	**425**	4,255
	4,913	9,322

22. DEFERRED INCOME

Group

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
At beginning of the year	**166,381**	105,312
Additions		
— government grants related to assets	**392,207**	79,970
Amortisation *(Note 27)*	**(45,571)**	(18,901)
At end of the year	**513,017**	166,381

During the year ended 31 December 2010, the Group had obtained grants from local government of approximately RMB39,059,000 (2009: RMB40,283,000), 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 15 years. In addition, for the year ended 31 December 2010, approximately RMB353,148,000 have been transferred from advances from government to deferred income as a result of completion of two subsidiaries' relocation (Note 25(b)). These government grants have been used for the construction and acquisition of property, plant and equipment in the subsidiaries' new locations and were amortised over the estimated useful life of the related property, plant and equipment which ranged from 4 to 40 years. During the year ended 31 December 2010, approximately RMB45,571,000 (2009: RMB18,901,000) 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	
	2010	2009
	RMB'000	*RMB'000*
Deferred tax assets		
— Deferred tax assets to be recovered after more than 12 months	**17,442**	23,069
— Deferred tax assets to be recovered within 12 months	**98,456**	43,822
	115,898	66,891
Deferred tax liabilities		
— Deferred tax liabilities to be recovered more than 12 months	**(27,117)**	(10,461)
— Deferred tax liabilities to be recovered within 12 months	**(2,194)**	(790)
	(29,311)	(11,251)
Deferred tax assets (net)	**86,587**	55,640

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:

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
At beginning of the year	**55,640**	72,558
Recognised in profit or loss *(Note 32)*	**53,420**	(13,796)
Acquisition of subsidiary *(Note 38)*	**(23,052)**	(2,053)
Recognised in other comprehensive income	**579**	(1,069)
At end of the year	**86,587**	55,640

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	Deferred income	Retirement and termination benefit obligations	Warranty and other accrued expenses	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2009	38,873	10,286	6,863	16,929	72,951
Acquisition of subsidiary	3,906	127	—	840	4,873
Recognised in the income statement	(4,764)	(6,586)	8,184	(7,767)	(10,933)
At 31 December 2009	38,015	3,827	15,047	10,002	66,891
Acquisition of subsidiary	—	—	—	522	522
Recognised in the income statement	32,778	5,616	(487)	10,578	48,485
At 31 December 2010	70,793	9,443	14,560	21,102	115,898

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	Changes in fair value of available-for-sales financial assets	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 Janurary 2009	—	(393)	(393)
Recognised in equity	—	(1,069)	(1,069)
Acquisition of subsidiary	(6,926)	—	(6,926)
Recognised in the income statement	(2,863)	—	(2,863)
At 31 December 2009	(9,789)	(1,462)	(11,251)
Recognised in equity	—	579	579
Acquisition of subsidiary	(23,574)	—	(23,574)
Recognised in the income statement	4,935	—	4,935
At 31 December 2010	(28,428)	(883)	(29,311)

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 2010, the Group did not recognise deferred tax assets of approximately RMB32,437,000 (2009: RMB28,375,000) of tax losses amounting to approximately RMB129,749,000 (2009: RMB118,902,000), as management believes it is more than likely that such tax losses would not be utilised before they expire. As at 31 December 2010 and 2009, the tax losses carried forward are as follows:

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Year of expiry of tax losses		
— 2010	**—**	13,500
— 2011	**28,696**	25,424
— 2012	**30,468**	27,195
— 2013	**30,204**	26,930
— 2014	**29,125**	25,853
— 2015	**11,256**	—
	129,749	118,902

24. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

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

Group

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Non-current		
Retirement benefit obligations	**94,087**	98,751
Termination benefit obligations	**37,701**	45,812
	131,788	144,563
Current		
Retirement benefit obligations	**4,253**	4,195
Termination benefit obligations	**9,825**	9,151
	14,078	13,346
	145,866	157,909

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

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

Group

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Present value of defined benefits obligations	**153,061**	164,773
Unrecognised actuarial loss	**(7,195)**	(6,864)
Liability on the balance sheet	**145,866**	157,909
Less: current portion	**(14,078)**	(13,346)
	131,788	144,563

24. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)

The movements of retirement and termination benefit obligations for the years ended 31 December 2010 and 2009 are as follows:

Group

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
At beginning of the year	**157,909**	139,990
For the year		
— Interest cost	**5,480**	4,776
— Actuarial gains	**(3,170)**	(16,606)
— Additions on termination benefit obligations	**—**	37,580
— Payment	**(14,353)**	(7,831)
At end of the year	**145,866**	157,909

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	
	2010	2009
Discount rates	**3.50%**	4.00%

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

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

The movements of retirement and termination benefit obligations for the years ended 31 December 2010 and 2009 are as follows: *(continued)*

(b) Trend rate: 5%-11% (2009: 5%-12%);

(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 5.2%/5.8%

25. TRADE AND OTHER PAYABLES

	Group		**Company**	
	As at 31 December		**As at 31 December**	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and bills payables *(a)*	**1,959,662**	1,635,227	**—**	—
Other taxes payables	**115,520**	139,682	**23**	360
Other payables	**327,993**	245,587	**42,112**	49,401
Accrued payroll and welfare	**192,191**	165,818	**104**	306
Advances from customers	**628,514**	569,682	**—**	—
Advances from government *(b)*	**3,035**	257,887	**—**	—
	3,226,915	3,013,883	**42,239**	50,067

25. TRADE AND OTHER PAYABLES *(CONTINUED)*

(a) As at 31 December 2010 and 2009, the ageing analysis of the trade and bills payables was as follows:

Group

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Less than 30 days	**697,355**	610,364
31 days than 90 days	**585,372**	446,478
91 days to 1 year	**541,700**	481,287
1 year to 2 years	**56,596**	42,385
2 years to 3 years	**26,963**	16,210
Over 3 years	**51,676**	38,503
	1,959,662	1,635,227

25. TRADE AND OTHER PAYABLES *(CONTINUED)*

(b) Prior to 31 December 2009, certain subsidiaries of the Group had received grants of approximately RMB584,561,000 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 2009, after netting off the relocation expenses of approximately RMB329,204,000, the remaining balance of grants received of approximately RMB255,357,000 was recorded as advances from government as at 31 December 2009.

For the year ended 31 December 2010, the subsidiaries received additional government grants of approximately RMB102,743,000. As all subsidiaries have completed their relocations, after netting off the relocation expenses of approximately RMB4,952,000 (including property, plant and equipment with net book value of approximately RMB155,000 (Note 6(c))), the remaining balance of grants received of approximately RMB353,148,000 was transferred to deferred income.

In addition, prior to 31 December 2009, the Group had received grants of approximately RMB29,530,000 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 2009, the remaining balance of the grants received of approximately RMB2,530,000 was recorded as advances from government as at 31 December 2009. For the year ended 31 December 2010, the Group had received such grants of approximately RMB505,000. As such activities have only partly completed by 31 December 2010, the remaining balance of the grants received of approximately RMB3,035,000 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 profit or loss.

	Provision for warranty *RMB'000*
At 1 January 2009	23,618
Charged to cost of sales	12,527
Utilised during the year	(16,683)
At 31 December 2009	19,462
Acquisition of subsidiary *(Note 38)*	7,455
Charged to cost of sales	52,948
Utilised during the year	(20,066)
At 31 December 2010	59,799

27. EXPENSES BY NATURE

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Depreciation on property, plant and equipment *(Note 6)*	**132,719**	109,715
Depreciation on investment properties *(Note 7)*	**2,390**	2,390
Amortisation of lease prepayments *(Note 8)*	**6,449**	7,226
Amortisation of intangible assets *(Note 9)*	**11,360**	8,237
Amortisation of deferred income *(Note 22)*	**(45,571)**	(18,901)
Employee benefit expense *(Note 28)*	**889,205**	700,671
Changes in inventories of finished goods and work in progress	**(270,191)**	8,451
Raw materials and consumables used	**6,676,517**	5,099,985
Transportation	**88,273**	70,416
Research and development costs	**99,793**	53,504
Technology usage fee	**15,031**	10,065
Utilities	**171,880**	116,283
Repairs and maintenance expenditure on property, plant and equipment	**50,437**	40,137
Operating lease rentals *(Note 6)*	**19,204**	16,799
Write-down of inventories *(Note 13)*	**10,058**	3,708
Provision for/(reversal of) impairment of receivables *(Note 14)*	**26,374**	(12,290)
Provision for impairment of property, plant and equipment *(Note 6)*	**628**	108
Provision for warranty *(Note 26)*	**52,948**	12,527
Auditors' remuneration	**6,000**	8,400
Other expenses	**292,592**	196,289
Total cost of sales, distribution costs and administrative expenses	**8,236,096**	6,433,720

28. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Salaries, wages and bonuses	**678,328**	492,856
Contributions to pension plans *(a)*	**107,516**	93,656
Supplemental pension benefits to qualified employees *(b)*		
— interest cost	**5,480**	4,776
— actuarial gain	**(3,170)**	(16,606)
Housing benefits *(c)*	**30,340**	15,612
Termination benefits	**—**	37,580
Welfare, medical and other expenses	**70,711**	72,797
	889,205	700,671

(a) The employees of the Group's subsidiaries in the PRC 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 2010 and 2009.

The employees of the Group's subsidiaries in the United Kingdom operate a defined contributions pension scheme. The assets of the scheme are held separately from those of the companies in an independently administered fund. The pension charge represents contribution payable by the companies and is charged to profit or loss.

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

28. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

(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	
	2010	2009
	RMB'000	*RMB'000*
Gain on waiver of other tax payable	**5,978**	4,350
Gain on disposal of property, plant and equipment	**37,742**	1,793
Gain on disposal of financial assets at fair value through profit and loss	**3,236**	31,506
Others	**2,070**	9,726
	49,026	47,375

30. OTHER INCOME

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Government grants in relation to		
— tax refunds *(a)*	**3,789**	11,627
— further development of manufacturing technology *(b)*	**33,360**	37,102
— relocation for environment protection *(b)*	**8,268**	10,100
— others	**7,215**	7,777
	52,632	66,606

30. OTHER INCOME *(CONTINUED)*

(a) These tax 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 2010 and 2009, 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 profit or loss.

31. FINANCE COSTS, NET

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Finance income		
— Interest income on short-term bank deposits	**29,617**	35,208
Interest expense:		
— Bank borrowings wholly repayable within five years	**(77,721)**	(64,666)
— Bank borrowings wholly repayable after five years	**—**	(1,642)
— Finance lease liabilities	**(484)**	(812)
Less: amounts capitalised on qualifying assets	**2,445**	1,803
	(75,760)	(65,317)
Net exchange loss	**(3,364)**	(1,303)
Net finance costs	**(49,507)**	(31,412)

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 CIT rate of most of the Group's subsidiaries in the PRC is 15% from 2008 to 2010. The six entities which are subject to CIT rate of 25% from 1 January 2010 onwards are as follows:

— the Company;

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

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

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

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

— Tianjin Chongtong Lixin Wind Power generation Equipment Co., Ltd.

For the year ended 31 December 2010, the applicable CIT rate of Chongqing Cummins Engine Co., Ltd. is 15% (2009: 15%).

The new CIT rate of 25% of Shenzhen Chongfa Cummins Engine Co., Ltd. will be gradually effective in a 5-year period. For the year ended 31 December 2010, the applicable corporate income tax rate is 22% (2009: 20%).

The income tax rate of Holroyd Precision Limited, Precision Components Limited, PTG Heavy Industries Limited, Milnrow Investments Limited and PTG Advanced Developments Limited is 28%. The income tax rate of PTG Deutschland GmbH is 31%.

32. TAXATION *(CONTINUED)*

(a) Income tax expense *(Continued)*

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

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Current income tax	**(119,718)**	(46,118)
Deferred tax *(Note 23)*	**53,420**	(13,796)
Income tax expense	**(66,298)**	(59,914)

32. TAXATION *(CONTINUED)*

(a) Income tax expense *(Continued)*

The difference between the actual income tax charge in profit or loss 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	
	2010	2009
	RMB'000	*RMB'000*
Profit before income tax	**765,058**	684,470
Tax calculated at domestic tax rates applicable to profits in the respective countries	**(114,759)**	(102,671)
Income not subject to tax		
— share of profit of associates	**9,916**	21,350
Tax concessions	**3,330**	1,635
Expenses not deductible for tax purposes	**(12,554)**	(13,945)
Utilisation of previously unrecognised tax assets	**4,426**	1,771
Re-measurement of deferred tax	**46,157**	1,559
Over provision of prior year's current tax	**—**	34,265
Tax losses with no deferred tax asset recognised	**(2,814)**	(3,878)
Tax expense	**(66,298)**	(59,914)

The weighted average applicable tax rate for the year ended 31 December 2010 is 15% (2009: 15%).

32. TAXATION *(CONTINUED)*

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

All companies now comprising the Group in the PRC 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 goods and equipment can be used to offset the output VAT to determine the net VAT payable.

(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 2010 (Note 20).

33. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors', supervisors' and senior management's emoluments

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Directors and supervisors		
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,175**	1,201
— Contributions to pension plans	**123**	83
— Discretionary bonuses	**1,858**	1,229
	3,156	2,513
Senior management		
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**541**	324
— Contributions to pension plans	**104**	69
— Discretionary bonuses	**1,774**	672
	2,419	1,065
	5,575	3,578

The emoluments received by individual directors, supervisors and senior management are presented as below.

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 2010:

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. Xie Huajun	120	—	—	120
Mr. He Yong	99	19	361	479
Mr. Liao Shaohua	109	25	377	511
Mr. Chen Xianzheng	109	25	289	423
Mr. Yu Gang	62	4	—	66
Mr. Huang Yong	48	—	—	48
Mr. Yang Jingpu	48	—	—	48
Mr. Wu Jian	24	—	—	24
Mr. Liu Liangcai	24	—	—	24
Mr. Lu Huawei	125	—	—	125
Mr. Ren Xiaochang	68	—	—	68
Mr. Kong Weiliang	68	—	—	68
Mr. Duan Rongsheng	48	—	—	48
Ms. Liao Rong	24	—	—	24
Ms. Wang Rongxue	30	—	—	30
Ms. He Xiaoping	12	—	—	12
Mr. Liu Xing	18	—	—	18
Mr. Wang Xuqi	87	21	253	361
Mr. Wu Chongjiang	20	—	117	137
Mr. Chen Qing	32	29	461	522
	1,175	123	1,858	3,156

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 2010: *(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. Ren Yong	18	4	—	22
Mr. Gong Wei	79	12	116	207
Mr. Duan Caijun	120	23	791	934
Mr. Zhang Ke	109	25	289	423
Mr. Wang Nongcheng	109	25	289	423
Ms. Miao Xiaoping	106	15	289	410
	541	104	1,774	2,419
	1,716	227	3,632	5,575

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 2009:

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind *RMB'000*	Contributions to pension plans *RMB'000*	Discretionary bonuses *RMB'000*	Total *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
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

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 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*
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)*

The emoluments of the directors, supervisors and senior management of the Company fall within the following bands:

	Year ended 31 December	
	2010	2009
Directors and supervisors		
— Nil to HKD1,000,000 (equivalent to approximately RMB850,930)	**20**	19
Senior management		
— Nil to HKD1,000,000 (equivalent to approximately RMB850,930)	**5**	3
— HKD1,000,001 - HKD1,500,000 (equivalent to approximately RMB850,930 - RMB1,276,395)	**1**	—
	26	22

For the years ended 31 December 2010 and 2009, 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 2010 and 2009 was also a director or senior management 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 2010 and 2009 are as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**647**	360
— Contributions to pension plans	**93**	95
— Discretionary bonuses	**2,506**	2,020
	3,246	2,475

The emoluments of the above four individuals fall within the following bands:

	Year ended 31 December	
	2010	2009
— Nil to HKD1,000,000 (equivalent to approximately RMB850,930)	**3**	4
— HKD1,000,001–HKD1,500,000 (equivalent to approximately RMB850,930–RMB1,276,395)	**1**	—
	4	4

34. EARNINGS PER SHARE

	Year ended 31 December	
	2010	2009
Profit attributable to equity holders of the Company *(RMB'000)*	**687,732**	594,277
Weighted average number of ordinary shares in issue *(thousands)*	**3,684,640**	3,684,640
Basic and diluted earnings per share *(RMB per share)*	**0.19**	0.16

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	
	2010	2009
	RMB'000	*RMB'000*
Profit before income tax	**765,058**	684,470
Adjustments for:		
— Depreciation of property, plant and equipment and investment properties	**135,109**	112,105
— Amortisation of intangible assets and lease prepayments	**17,809**	15,463
— Amortisation of deferred income	**(45,571)**	(18,901)
— Write-down of inventories	**10,058**	3,708
— Provision for/(reversal of) impairment of trade and other receivables	**26,374**	(12,290)
— Provision for impairment in property, plant and equipment	**628**	108
— Interest income	**(29,617)**	(35,208)
— Interest expense	**79,124**	65,317
— Share of profit from associates	**(65,801)**	(142,331)
— Net gain on disposal of property, plant and equipment *(Note 29)*	**(37,742)**	(1,793)
— Gain on disposal of financial assets at fair value through profit and loss *(Note 29)*	**(3,236)**	(31,506)
— Gain on waiver of other tax payable *(Note 29)*	**(5,978)**	(4,350)
	846,215	634,792

35. CASH GENERATED FROM OPERATIONS *(CONTINUED)*

(a) Reconciliation of profit for the year to net cash generated from operations *(Continued)*

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Changes in working capital:		
— Inventories	**(316,397)**	146,895
— Trade and other receivables	**(699,123)**	(577,445)
— Contract work-in-progress	**9,616**	25,904
— Restricted cash	**(53,258)**	(105,568)
— Retirement and termination benefit obligations	**(12,043)**	17,919
— Trade and other payables	**468,250**	200,887
	(602,955)	(291,408)
Cash generated from operations	**243,260**	343,384

35. CASH GENERATED FROM OPERATIONS *(CONTINUED)*

(b) Proceeds from disposal of property, plant and equipment

In the consolidated statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Net book amount	**4,898**	21,163
Gain on disposal of property, plant and equipment	**37,742**	1,793
Proceeds from disposal of property, plant and equipment	**42,640**	22,956

36. CONTINGENCIES

As at 31 December 2010, 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	
	2010	2009
	RMB'000	*RMB'000*
Property, plant and equipment	**174,962**	174,561
Intangible assets	**4,750**	3,129
	179,712	177,690

(b) Operating lease commitments

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

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
No later than 1 year	**8,101**	18,972
Later than 1 year and no later than 5 years	**32,403**	75,273
Later than 5 years	**65,850**	45,594
	106,354	139,839

38. BUSINESS COMBINATIONS

Current year

On 30 June 2010, the Group acquired the entire share capital of PTG six entities at a total cash consideration of UKP14,555,000 (equivalent to approximately RMB145,717,000). There is no contingent consideration. PTG six entities are incorporated outside of the PRC and are mainly engaged in screw processing and the design, production and sales of screw machinery tools, large-scale machinery tools and grinding machines. The acquisition is expected to increase the Group's market share in Europe.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
— cash paid	145,717

38. BUSINESS COMBINATIONS *(CONTINUED)*

Current year *(Continued)*

The assets and liabilities recognised as a result of the acquisition are as follows:

	Provisional fair value *RMB'000*
Cash and cash equivalents	3,854
Property, plant and equipment	41,998
Customer relationships	55,807
Brand	12,256
Inventories	15,473
Receivables	109,152
Borrowings	(41,459)
Payables	(147,822)
Provision	(7,455)
Current income tax payable	(685)
Net deferred income tax liabilities	(23,052)
Net identifiable assets acquired	18,067
Goodwill	127,650
	145,717
Outflow of cash to acquire business, net of cash acquired:	
— cash consideration	(145,717)
— cash and cash equivalents in subsidiaries acquired	3,854
Cash outflow on acquisition	(141,863)

38. BUSINESS COMBINATIONS *(CONTINUED)*

Current year *(Continued)*

The Group has engaged an independent valuer to identify the fair value of identifiable assets and liabilities acquired. The valuation has not yet been completed and the provisional fair value represents management's current best estimates of the fair values at acquisition, which are subject to change. The goodwill is attributable to PTG six entities' strong position and expected profitability in production and sales of machinery tools. None of the goodwill is expected to be deductible for tax purposes.

(a) Acquisition-related costs

Acquisition-related costs of approximately RMB10,131,000 are included within 'administrative expenses' in the statement of comprehensive income.

(b) Acquired receivables

The fair value of trade and other receivables is RMB109,152,000 and includes trade receivables with a fair value of RMB48,371,000. The gross contractual amount for trade receivables due is RMB54,039,000 of which RMB5,668,000 is expected to be uncollectible.

(c) Revenue and profit contribution

The revenue included in the consolidated statement of comprehensive income since 1 July 2010 contributed by PTG six entities were RMB109,260,000. PTG six entities also contributed loss of RMB825,000 over the same period.

If the acquisition had occurred on 1 January 2010, consolidated revenue and consolidated profit for the year ended 31 December 2010 would have been RMB8,951,775,000 and RMB661,916,000 respectively.

38. BUSINESS COMBINATIONS *(CONTINUED)*

Prior year

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 directly and indirectly owned 49% equity interests of Qijiang Forging. 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. Thereafter, Qijiang Gear and Qijiang Forging became wholly owned subsidiaries of the Group. Details of this business combination were disclosed in Note 38 of the Group's annual financial statements for the year ended 31 December 2009.

39. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC Government which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as the "state-owned enterprises").

In accordance with HKAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC Government are regarded as related parties of the Group ("other state-owned enterprises"). For purpose of related party transactions disclosure, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatization programs. Nevertheless, management believes that meaningful information relating to related party transactions has been adequately disclosed.

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the years ended 31 December 2010 and 2009 and balances arising from related party transactions as at 31 December 2010 and 2009.

(a) Significant related party transactions

For the years ended 31 December 2010 and 2009, the Group had the following significant transactions with related parties.

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Transactions with the Parent Company, fellow subsidiaries and associates		
Revenue		
— Revenue from sales of goods	**140,896**	113,546
— Revenue from provision of services	**560**	—
Expenses		
— Purchase of materials	**233,916**	140,865
— Services	**146**	100
— Other expenses	**15,977**	12,721
Transactions with jointly controlled entities *(i)*		
Revenue		
— Revenue from sales of goods	**113,345**	72,656

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions *(Continued)*

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Transactions with associates		
Revenue		
— Revenue from sales of goods	**27,367**	26,988
Expenses		
— Purchase of materials	**40,977**	19,495
— Services	**—**	85
Transactions with shareholders of jointly controlled entities		
Revenue		
— Revenue from sales of goods	**36,655**	133,940
Expenses		
— Purchase of materials	**7,817**	—
— Management fees and technical fees	**3,845**	3,698

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions *(Continued)*

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Transactions with non-controlling interests		
Revenue		
— Purchase of materials	**2,232**	2,577
Expenses		
— Purchase of materials	**9,409**	3,540
— Services	**59**	—
Transactions with other state-owned enterprises		
Revenue		
— Revenue from sales of goods	**2,573,106**	1,868,590
Expenses		
— Purchase of materials	**1,352,031**	1,734,341

(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 As at 31 December		Company As at 31 December	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and other receivables				
Trade receivables due from				
— Fellow subsidiaries and associates	**52,370**	49,735	**—**	—
— Jointly controlled entities	**791**	2,159	**—**	—
— Associates	**3,100**	2,496	**—**	—
— Shareholders of jointly controlled entities	**199**	2,561	**—**	—
— Other state-owned enterprises	**709,345**	592,051	**—**	—
Other receivables due from				
— CQMEHG	**247**	—	**72**	—
— Fellow subsidiaries	**323**	385	**295,694**	379,211
— Jointly controlled entities	**130**	2,146	**260**	2,146
— Associates	**3,304**	1,937	**1,937**	1,937
— Other state-owned enterprises	**10,382**	17,110	**—**	—
Prepayments due from				
— CQMEHG	**573**	—	**—**	—
— Fellow subsidiaries	**25,426**	29,563	**—**	—
	806,190	700,143	**297,963**	383,294
Less: long-term other receivables	**—**	—	**(153,957)**	(178,957)
Current portion	**806,190**	700,143	**144,006**	204,337

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties *(Continued)*

	Group As at 31 December		Company As at 31 December	
	2010	2009	**2010**	2009
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and other payables				
Trade payables due to				
— Fellow subsidiaries and associates	**122,107**	38,614	**—**	—
— Associates	**3,881**	814	**—**	—
— Shareholders of jointly controlled entities	**503**	—	**—**	—
— Other state-owned enterprises	**371,992**	462,114	**—**	—
Other payables due to				
— CQMEHG	**11,453**	11,453	**—**	—
— Fellow subsidiaries	**21,162**	34,421	**36,435**	39,309
— Shareholders of jointly controlled entities	**876**	1,418	**—**	—
— Other state-owned enterprises	**44,132**	59,855	**—**	—
	576,106	608,689	**36,435**	39,309
Borrowings				
— Associates	**—**	5,000	**—**	—
Other balances with other state-owned enterprises				
— Restricted cash	**473,016**	419,758	**5,010**	—
— Cash and cash equivalents	**2,117,061**	2,185,313	**858,956**	983,817
— Borrowings	**1,507,237**	1,153,494	**315,372**	194,000

39. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties *(Continued)*

As disclosed in Note 21(b), as at 31 December 2010, the Group's bank borrowings of approximately RMB136,372,000 (2009: RMB45,000,000) were guaranteed by related parties.

(c) Key management compensation

	Year ended 31 December	
	2010	2009
	RMB'000	*RMB'000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,716**	1,525
Contributions to pension plans	**227**	152
Discretionary bonuses	**3,632**	1,901
	5,575	3,578

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES

(a) Subsidiaries

As at the date of this report, the Company has direct and indirect interests in the following principal subsidiaries:

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
CAFF (重慶卡福汽車制動轉向系統有限公司)	PRC/27 June 2003	Limited liability company	58,800	100%	—	Manufacturing of vehicle parts and components
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)	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) *(i)*	PRC/6 April 1997	Limited liability company	756,986	98.35%	—	Manufacturing of general machinery
Chongqing Pump Industry Co., Ltd. (重慶水泵廠有限責任公司)	PRC/ 12 September 2002	Limited liability company	196,411	—	98.35%	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	—	98.35%	Manufacturing of separation machinery
Chongqing Gas Compressor Factory Co., Ltd. (重慶氣體壓縮機廠有限責任公司)	PRC/ 12 September 2002	Limited liability company	120,214	—	98.35%	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	—	98.35%	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	Attributable equity interest 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	—	98.35%	Provision of air-conditioner installation services
Tianjin Chongtong Lixin Wind Power Generation Equipment Co., Ltd. (天津重通立信風力發電設備有限公司) *(iv)*	PRC/10 March 2010	Limited liability company	480	—	98.35%	Manufacturing of environmental protection equipment
Chongqing Machine Tools (Group) Co., Ltd. (重慶機床(集團)有限責任公司)	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)	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	Indirectly held	Principal activities
Chongqing Tool Factory Co., Ltd. (重慶工具廠有限責任公司)	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
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

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 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) *(ii)*	PRC/16 April 2002	Limited liability company	33,835	98.69%	—	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) *(iii)*	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
Guizhou Changtong Pigeon Electrical Porcelain Co., Ltd. (貴州鴿牌長通電線電纜有限公司) *(v)*	PRC/ 17 August 2010	Limited liability company	10,000	—	27.89%	Manufacture electrical material

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
Holroyd Precision Limited, (霍洛伊德精密有限公司)	United Kingdom/ 12 June 2006	Limited liability company	1*	100%	—	Production and technical service of screw grinding machines and screw milling machines
Precision Components Limited, (精密零部件加工有限公司)	United Kingdom/ 2 June 2007	Limited liability company	—*	100%	—	Production of screw
PTG Heavy Industries Limited, (PTG重工有限公司)	United Kingdom/ 16 May 2008	Limited liability company	—*	100%	—	Design, manufacture machine tools
Milnrow Investments Limited, (米羅威投資有限公司)	United Kingdom/ 29 November 2006	Limited liability company	1*	100%	—	Leasing of properties
PTG Advanced Developments Limited, (PTG高級發展有限公司)	United Kingdom/ 4 April 2008	Limited liability company	—*	100%	—	Researching and developing of machinery tools
PTG Deutschland GmbH, (PTG德國公司)	Germany/ 15 May 2009	Limited liability company	220*	100%	—	Selling of machinery tools

(i) In March 2010, the paid in capital of Chongqing General Industry (Group) Co., Ltd. was increased from RMB717,986,000 to RMB756,986,000 as a result of an additional capital injection of RMB39,000,000 from the Company. After the injection, the Group's interest in Chongqing General Industry (Group) Co., Ltd. was increased from 98.26% to 98.35%.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(Continued)*

(ii) In March 2010, the paid in capital of Chongqing Huahao Smelting Co., Ltd. was increased from RMB30,835,000 to RMB33,835,000 as a result of an additional capital injection of RMB3,000,000 from the Company. After the injection, the Group's interest in Chongqing Huahao Smelting Co., Ltd. was increased from 98.57% to 98.69%.

(iii) 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.

(iv) Tianjin Chongtong Lixin Wind Power Generation Equipment Co., Ltd. was established in Tianjin, the PRC on 10 March 2010, which was wholly owned by Chongqing General Industry (Group) Co., Ltd..

(v) Guizhou Changtong Pigeon Electrical Porcelain Co., Ltd. was established in Guiyang, the PRC on 17 August 2010 and its 51% equity interest was owned by Chongqing Pigeon Electric Wire & Cable Co., Ltd.. Guizhou Changtong Pigeon Electrical Porcelain 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.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(a) Subsidiaries *(Continued)*

* The issued capital of Holroyd Precision Limited is UKP99 (equivalent to RMB1011);

The issued capital of Precision Components Limited is UKP1 (equivalent to RMB10);

The issued capital of PTG Heavy Industries Limited is UKP2 (equivalent to RMB20);

The issued capital of Milnrow Investments Limited is UKP98 (equivalent to RMB1001);

The issued capital of PTG Advanced Developments Limited is UKP1 (equivalent to RMB10);

The issued capital of PTG Deutschland GmbH is EUR25,000 (equivalent to RMB220,000).

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(b) Jointly controlled entities

As at the date of this report, the Company has the following principal jointly controlled entities (all are unlisted):

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	Indirectly held	Principal activities
Chongqing Cummins Engine Co., Ltd. (重慶康明斯發動機有限公司)	PRC/15 June 1995	Limited liability company	417,600	50%	—	Manufacturing of engines
Shenzhen Chongfa Cummins Engine Co., Ltd. (深圳崇發康明斯發動機有限公司) *(i)*	PRC/14 August 1997	Limited liability company	20,000	—	29.20%	Manufacturing of engines

(i) The Group has 50% interest in 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 of Chongqing Cummins Engine Co., Ltd. because its strategic, operating, investing and financing activities are jointly controlled by Chongqing Cummins Engine Co., Ltd. and other joint venture parties.

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(c) Associates

As at the date of this report, the Company has direct and indirect interest in the following principal associates (all are unlisted):

Name	Country/Place and date of incorporation	Type of legal entity	Issued/paid in capital *(RMB'000)*	Attributable equity interest Directly held	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 Fangda Automobile Suspension Co.,Ltd (重慶紅岩汽車方大汽車懸架有限公司) *(ii)*	PRC/27 June 2003	Limited liability company	119,081	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
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	—	44.25%	Manufacturing of refrigeration equipment
Chongqing Yongtong Gas Co., Ltd. (重慶永通燃氣股份有限公司) *(iii)*	PRC/6 December 2006	Limited liability company	20,000	—	19.67%	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	—	24.67%	Manufacturing of metallic products

40. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY CONTROLLED ENTITIES AND ASSOCIATES *(CONTINUED)*

(c) Associates *(Continued)*

(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, and only has significant influence on Chongqing Power Transformer Co., Ltd., therefore this entity is considered as an associate.

(ii) In April 2010, the paid in capital of Chongqing Hongyan Fangda Automobile Suspension Co.,Ltd (formerly known as Chongqing Hongyan Changli Automotive Spring Co., Ltd) was increased from RMB94,281,000 to RMB119,081,000 as a result of an additional capital injection of RMB10,912,000 from the Company. After the injection, the Group's interest in Chongqing Hongyan Fangda Automobile Suspension Co.,Ltd remained the same at 44%

(iii) The Group has 98.35% interest in Chongqing Gas Compressor Factory Co., Ltd. which owns 20% interest in Chongqing Yongtong Gas Co., Ltd. (formerly known as Chongqing Gas Engineering Co., Ltd) Chongqing Yongtong Gas Co., Ltd. is considered as an associate of the Group.

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 2010, the profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB100,103,000 (2009: RMB574,022,000).

43. EVENTS AFTER THE BALANCE SHEET DATE

Knorr-Bremse CAFF Systems for Commercial Vehicles (Chongqing) Ltd. ("Knorr-CAFF") was established in Chongqing, the PRC on 23 February 2011 by CAFF, a wholly owned subsidiary of the Company and Knorr-Bremse Asia Pacific (Holding) Ltd., an affiliated company of the Germany-based Knorr-Bremse Group Company. The registered capital of Knorr-CAFF is EUR 14,609,000, which is owned beneficially as 34% by CAFF and 66% by Knorr-Bremse Asia Pacific (Holding) Ltd. Knorr-CAFF is engaged principally in the assembly, parts manufacturing, sale, application engineering and after-sale service of valve products, air dryers and clutch actuation products for commercial vehicles.

CQME