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

2011 Annual Report

* For identification purposes only

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Xie Hua Jun *(Chairman)*
Mr. Yu Gang
Mr. Liao Shaohua
Mr. Chen Xianzheng

Non-executive Directors

Mr. Huang Yong
Mr. Wang Jiyu
Mr. Liu Liangcai
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

Members of the Nomination Committee

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

Members of the Strategic Committee

Mr. Xie Hua Jun *(Chairman)*
Mr. Yu Gang
Mr. Liao Shaohua
Mr. Chen Xianzheng
Mr. Ren Xiaochang
Mr. Kong Weiliang
Mr. Huang Yong

SUPERVISORS

Mr. Duan Rongsheng
Ms. Liao Rong
(Resigned on 9 December 2011)
Ms. Wang Rongxue
Mr. Liu Xing
Mr. Wang Xuqi
Mr. Chen Qing
Mr. Zhang Xinzhi
(Appointed on 9 December 2011)

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 AND CONTACT INFORMATION

Mr. Chen Xianzheng
No. 60 Middle Section of Huangshan Avenue
New North Zone, Chongqing City, the PRC
Postal code: 401123
Tel.: (86) 023-63075686

Mr. Wang Xiaojun
Suite 2008, 20th Floor, Jardine House, No. 1
Connaught Place, Central, Hong Kong
Tel.: 852 21670000

ALTERNATE AUTHORIZED REPRESENTATIVE AND CONTACT INFORMATION

Mr. Lo Wah Wai
33rd Floor, Shui On Centre,
No. 6–8 Harbour Road, Wanchai,
Hong Kong
Tel.: 852 28022191

REGISTERED ADDRESS

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

* Application has been made by the Company for the change in the registered address

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

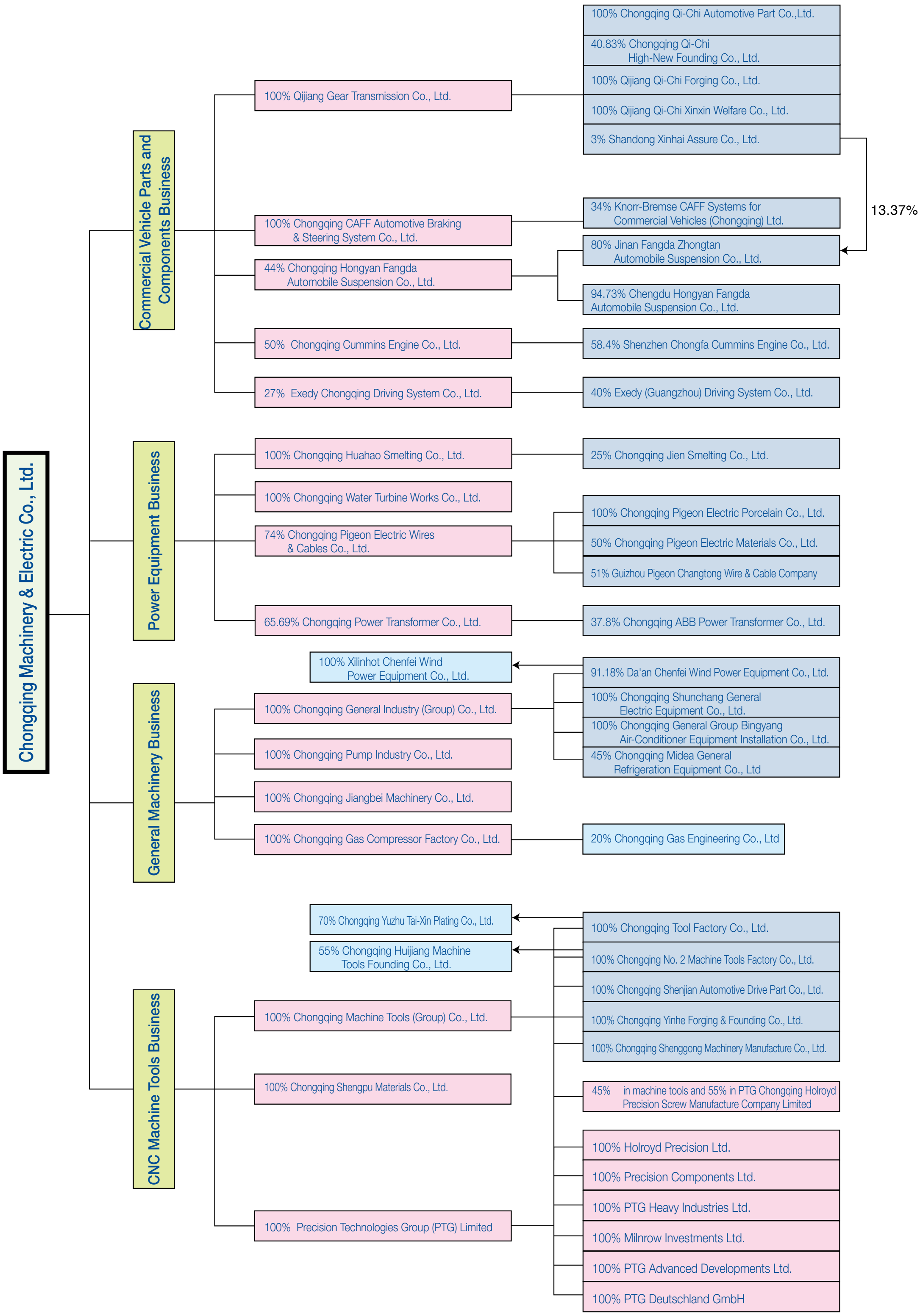
31 December

FINANCIAL HIGHLIGHTS

(RMB'000)	2007	2008	2009	2010	**2011**
Revenue and profit					
Revenue	5,485,500	5,949,655	6,893,290	8,883,202	**10,546,001**
Profit before taxation	519,729	602,557	684,470	765,058	**913,658**
Taxation	(45,906)	(78,676)	(59,914)	(66,298)	**(168,463)**
Profit for the year	473,823	523,881	624,556	698,760	**745,195**
Attributable to equity holders of the Company	450,015	503,531	594,277	687,732	**737,277**
Non-controlling interests	23,808	20,350	30,279	11,028	**7,918**
Dividends — Proposed final dividends	—	—	221,078	294,771	**221,078**
Earnings per share attributable to equity holders of the Company — Basic *(RMB)*	0.20	0.16	0.16	0.19	**0.20**
Assets and liabilities					
Non-current assets	2,006,776	2,254,156	2,554,216	2,907,784	**3,299,965**
Current assets	3,618,614	5,271,690	6,194,348	7,264,453	**8,460,007**
Current liabilities	3,199,885	3,543,477	3,951,129	4,442,554	**4,669,679**
Net current assets	418,729	1,728,213	2,243,219	2,821,899	**3,790,328**
Total assets less current liabilities	2,425,505	3,982,369	4,797,435	5,729,683	**7,090,293**
Non-current liabilities	513,230	511,530	678,163	1,155,475	**2,123,434**
Net assets	1,912,275	3,470,839	4,119,272	4,574,208	**4,966,859**
Equity attributable to equity holders of the Company	1,865,733	3,418,345	4,045,392	4,509,996	**4,924,901**
Non-controlling interests	46,542	52,494	73,880	64,212	**41,958**

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 2011 amounted to approximately RMB10,546.0 million, representing an increase of approximately 18.7% as compared with approximately RMB8,883.2 million for last year.

Profit attributable to the equity holders of the Company for the year ended 31 December 2011 was approximately RMB737.3 million, representing an increase of approximately 7.2% as compared with approximately RMB687.7 million for last year.

Basic earnings per share for the year ended 31 December 2011 was approximately RMB0.20 (2010: RMB0.19).

The board of directors (the "Board") proposed to declare a final dividend of RMB0.06 per share for the year ended 31 December 2011 (2010: RMB0.08).

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 2011 (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

In 2011, the world economy slowed down markedly amid European debt crisis, inflation and natural disasters, China's economy faced serious challenges such as inflation, credit tightening and Renminbi appreciation. In a bid to curb inflation and prevent housing bubbles, the central government implemented a proactive fiscal policy and other policies and prudent monetary policy. As a result of these efforts, China recorded a 9.2% GDP growth in 2011.

In response to the tough external environment and heated competition, the Group sized up the situation, overcame difficulties and followed the business philosophy of "dedication, innovation, open-up and speed-up". Harnessing the spirit of innovation and taking a pragmatic attitude, the Group spared no effort in operation management and market expansion, merger and financing, technological transformation and project implementation, internal control and corporate management, as well as culture shaping and brand building. By virtue of innovation and breakthroughs as well as good corporate governance, the Group has developed by leaps and bounds and completed all the development goals for the year.

Total revenue of the Group for the year ended 31 December 2011 was approximately RMB10,546.0 million (2010: RMB8,883.2 million), representing an increase of approximately RMB1,662.8 million or approximately 18.7% over last year. Gross profit was approximately RMB1,959.9 million, representing an increase of approximately RMB268.3 million or approximately 15.9% over last year. Profit attributable to the shareholders of the Company amounted to approximately RMB737.3 million (2010: RMB687.7 million), representing an increase of approximately RMB49.6 million or approximately 7.2% over last year.

During the Period, the Group's administrative expenses accounted for approximately 7.6% of the revenue while distribution and selling expenses accounted for approximately 2.9%, generally lower than last year. The Group maintained a healthy financial position during the Period. As at 31 December 2011, total cash and bank deposits of the Group amounted to approximately RMB3,084.7 million, higher than last year by approximately 19.0%.

For the year ended 31 December 2011, earnings per share was approximately RMB0.20 (2010: RMB0.19). Total assets amounted to approximately RMB11,760.0 million (2010: RMB10,172.2 million), while total liabilities amounted to approximately RMB6,793.1 million (2010: RMB5,598.0 million). Total equity attributable to the shareholders was approximately RMB4,924.9 million (2010: RMB4,510.0 million). Net asset value per share was approximately RMB1.35 (2010: RMB1.24).

BUSINESS REVIEW AND OUTLOOK

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

In 2011, against the backdrop of macroeconomic regulation, credit tightening and fierce competition in the industry, China's automobile industry experienced a pullback and correction in production and sales. Strong players survived in industrial slowdown and weak ones were eliminated. However, the Group's commercial vehicle parts and components business kept growing slowly. The transmission business grew at a satisfactory level, with market shares increased and production capacity improved. The braking and steering system business did well in accommodating the market demand. The diesel engine business continued to maintain rapid growth, boosted by adjustment of product mix and development of electrical equipment, engineering machinery and shipbuilding markets, which drove the commercial vehicle parts and components segment as a whole to sustain rapid growth in sales. The full-year revenue of this segment amounted to approximately RMB3,510.6 million, representing an increase of approximately 18.6%.

During the Period, the diesel engine business of the Group timely attained market demand, full-year sales of high-powered diesel engines amounted to 9,136 units, representing a year-on-year increase of approximately 35% and accounting for 42% of the total sales of diesel engines, 3 percentage points higher than the previous year. The outputs and sales of QSK19 and NT series of engines and KTA50 engines kept rising dramatically. Furthermore, the Group was building up capacity for mass production of its newly launched products: K19 IMO II and NT IMO II diesel engines.

In 2011, the Chinese government adjusted its guidance on automobile development by introducing new policies to spur consumers to buy new energy vehicles instead of simply encouraging car ownership. As the Group believes that new energy automobiles will be the dominant vehicles in future, we have taken the lead in initiating the national "863" program on pure electric gear boxes for battery-powered cars, developed a number of energy saving and environmentally friendly gear boxes including model QJ1112 and achieved good sales figures. Meanwhile, AT and AMT automatic gear boxes and 5S-160GP and 8S1800 gear boxes specially for engineering vehicles have been launched to the market and are well received by the users.

In order to optimize the shareholding structure, maximize asset values, strengthen industrial synergy and enhance core competitiveness, the Company completed the transfer of 100% interests in Chongqing Qi-Chi Automotive Part Co., Ltd. ("Qi-Chi Automotive Part") at nil consideration to Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear Transmission"), a wholly-owned subsidiary of the Company. Meanwhile, Qi-Chi Automotive Part transferred 100% interests in Qijiang Qi-Chi Forging Co., Ltd. ("Qi-Chi Forging") and 100% interests in Qijiang Qi-Chi Xinxin Welfare Co., Ltd. ("Qi-Chi Xinxin") it held to Qijiang Gear Transmission at nil consideration. After these transfers, Qijiang Gear Transmission and its related business realized economies of scale and synergic effects.

On 19 January 2011, Chongqing CAFF Automotive Braking & Steering Systems Co., Ltd. ("Chongqing 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, pursuant to which a joint venture company, Knorr-Bremse CAFF Systems for Commercial Vehicles Chongqing Ltd., (克諾爾卡福商用車系統(重慶)有限公司) was incorporated on 23 February 2011 with a registered capital of EUR14,609,000. The joint venture company, which is owned as to 34% and 66% by Chongqing 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). This joint venture, which has commenced production, will help drive the upgrading of the Group's technology and products in commercial vehicle parts and components business to achieve sustainable development.

The government's development, which is specified in the national "Twelfth Five-Year Plan", with emphasis on the development of "high-end equipment manufacturing industry" and "new energy automobile" will help boost the sustained growth of the Group's commercial vehicle parts and components business. As our high-powered engines business grows rapidly, the 200,000 units project for phase 1 of the production base for an annual output of 400,000 gear boxes for medium and heavy-duty vehicles will commence construction, and adjustment in the business of braking and steering systems is to be completed, this segment is expected to maintain rapid growth as a whole in 2012.

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

In 2011, benefiting from the national "Twelfth Five-Year Plan" and the central government's move to accelerate development of electricity transmission and transformation, hydropower, nuclear power and wind power provided sustained impetus for our power equipment-related business. The Group made every effort to expand into overseas markets and received orders in large scale for its hydroelectric generation equipment, making it a strong backstop. The electrical wires and cables business kept on the rise despite the negative impact of housing market regulation and high copper prices. The power equipment segment maintained its established advantages and grew at a fast pace. The full-year revenue of this segment amounted to approximately RM3,479.3 million, up approximately 18.5% over the same period last year.

During the Period, the Group put more effort into adjustment of product mix and new product development for the power equipment segment and achieved initial success in market expansion. The Group continued to receive orders for hydroelectric generation equipment from Europe and America with its innovative integrated CNC machining of high hydraulic wheels（衝擊式轉輪）and increased its share in the European market. Major breakthroughs were made in respect of newly developed copper bars and special copper materials for 1 million kilowatts ultra-critical generating units, wind power generating units and nuclear power generating units, which were later placed on the market.

Chongqing Huahao Smelting Co., Ltd. ("Huahao Smelting"), a wholly-owned subsidiary of the Company, completed the technological transformation and capacity expansion project for copper and copper based powder, bringing down the power consumption of electrolytic copper powder products per ton from 4,200 KWH to 3,000 KWH and increasing the annual production capacity of non-ferrous metal powder from over 2,000 tons to over 12,000 tons. In addition, clean production and comprehensive utilization of resources were remarkably promoted, making Huahao Smelting the largest powder production base in Asia.

In order to tap new markets, Chongqing Pigeon Electric Wire & Cable Co., Ltd. ("Pigeon Company"), a controlled subsidiary of the Company, established Guizhou Changtong Pigeon Electrical Wires & Cables Co., Ltd. ("Guizhou Pigeon"), a joint venture with a registered capital of RMB10 million in which it owns 51% interests. The joint venture's two newly built special wires and cables production lines, with an annual output of 0.14 million kM of environmentally friendly special wires and cables, officially commenced production in June 2011.

Chongqing ABB Power Transformer Co., Ltd. ("Chongqing ABB"), an associated company of the Company, put more efforts in exploration of overseas market, with tender win-rate raised steadily. It successfully set foot in the markets of Singapore, Vietnam, Malaysia and North America. Meanwhile, Chongqing ABB, in response to national "Twelfth Five-Year Plan", strengthened development of products special for smart grid and ultra high voltage transformer markets. Its 800 KV DC transformer products will be put into market in 2012, with good prospect.

The Company completed the acquisition of 1.31% equity interests in Huahao Smelting held by Chuanxing Plastic Ware Factory and Worker's Technical Association of Chongqing Smelter Factory which turned Huahao Smelting into a wholly-owned subsidiary of the Company, and is beneficial to the sustained development of Huahao Smelting.

Notwithstanding the sluggish growth of the electrical wires and cables business due to tougher housing industry regulation in 2012, the whole sector is expected to sustain growth in 2012 driven by favourable factors such as sufficient orders for hydroelectric generation equipment, accelerated adjustment of product mix and substantial rise in output of non-ferrous metal powder.

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

In 2011, the Group closely followed the national strategy for new energy development and expedited the development of nuclear power, wind power, oil, petrochemical products and market expansion to minimize the impact of adjustment in the steel & iron, metallurgy and cement industries. Water pressure test pumps and centrifugal upward injection pumps, secondary pumps for million-kilowatt pressurized water reactor nuclear power station, came into industrialized production. Industrial fans, refrigeration machines and wind power rotor blades maintained favourable growth momentum in terms of orders and sales. Large gas compressors business grew rapidly. GKH model centrifugal machine was successfully brought to the US market. The general machinery segment as a whole experienced a relatively rapid recovery, recording a full-year revenue of approximately RMB1,365.2 million, up approximately 11.1% over the same period last year.

The mega-watt wind power rotor blades and BCD300-1.90/1.00 high-end aeration fans newly developed by the Group were awarded the third grade of Chongqing Municipal Prize for Progress in Science and Technology 2010, and relevant technologies passed the national invention patent examination, laying a foundation for the Group's expansion into the new energy field and development of the wind power business. Meanwhile, the new-type centrifugal refrigeration units and cold water units used in the third-generation AP1000 nuclear power station were put into production.

During the Period, the Company energetically implemented the strategy for development of new energy equipment and completed the development layout for wind power rotor blades at opportune times. Chongqing General Industry (Group) Co., Ltd. ("General Group")acquired 100% interests in Da'an Chenfei Wind Power Equipment Co., Ltd.（大安晨飛風電設備有限公司）(Da'an Chenfei) with RMB75 million and injected additional RMB95.403 million in it. General Group established the wind power rotor blades production bases in Jilin, Da'an and Xilinhot, Inner Mongolia to cover the wind power markets of the northeastern China and eastern part of Inner Mongolia.

During the Period, the Company completed the acquisition of 1.65% interests in General Group from Chongqing Machinery and Electronic Holding (Group) Co., Ltd. (the "Parent Company") for a consideration of RMB22.301 million. As a result of this transaction, General Group became a wholly-owned subsidiary of the Company, which further clarified the shareholding relations of General Group and would facilitate the management of General Group by the Company.

In order to enhance the influence of Chongqing Pump Industry Co., Ltd., Chongqing Gas Compressor Factory Co., Ltd. and Chongqing Jiangbei Machinery Co., Ltd. in the industry and make the businesses in relation to industrial pump, compressor and separation machinery grow bigger and stronger, the Board of the Company approved the upgrade of these three companies to immediate subsidiaries of the Company on 25 November 2011. Such managerial upgrading surely goes a long way towards their business expansion on the new platform.

In 2012, the general machinery business of Group will continue to tap into the markets of wind power, nuclear power, oil and petrochemical industries, vigorously develop new products of containment spray pumps and low pressure safety injection pumps, facilitate in secondary pumps for nuclear power station, e.g. filter (presses) and separators, continue to exert the advantages of high-temperature centrifugal fans, secondary pumps for nuclear power stations and mega-watt wind power rotor blades in terms of product quality, industry-leading technology, premium brand and leading market position. It is expected that this business segment will keep growth at relatively high levels in 2012.

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

Despite the negative impact of macroeconomic regulation and credit tightening, China's auto industry maintained growth in 2011. Boosted by demands from the engineering machinery and general mechanical industries and backed by leading-edge technology and famous brand of the CNC gear hobbing machine and gear shaving machine, this business segment attained and maintained the leading market position and sustained relatively rapid growth, recording a full-year revenue of approximately RMB2,190.9 million, up approximately 24.6%.

During the Period, the Group launched Y4232CNC series CNC gear shaving machine and YK8425 CNC roll machines at world advanced levels as well as YX3132CNC4 4-axle 4-linkage CNC gear hobbing machine, YE3120CNC7 7-axle 4-linkage CNC high-speed dry-cutting automatic gear hobbing machine and YS3126CNC6 CNC high-speed dry-cutting gear hobbing machine at national advanced levels. Y31200CNC6 CNC high-efficiency large gear hobbing machine and the DT series high-speed high-precision CNC lathes R&D and industrialized application project were listed in 2011 Chongqing municipal key science and technology planning programs.

In order to further consolidate the six wholly-owned subsidiaries acquired overseas by the Company in 2011, establish a parent-subsidiary corporate governance structure, and reduce management cost, the Company incorporated Precision Technologies Group Limited ("PTG") under the Company Act 2006 of England and Wales in the City of Rochdale in August 2011. The Company's capital contribution was the aggregate prices of the equity interests owned by the Company in five British companies and one German company, and therefore PTG, with a registered capital of GBP20 million, is the de facto capital contributor of the six companies.

With a view to improving its international competitiveness and building an overseas technology innovation platform, the Company established on 16 August 2011 the European Innovation Centre of Chongqing M&E and European Marketing Centre of Chongqing M&E in Manchester, Britain.

On 18 January 2011, the Board of the Company 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 RMB942.0 million (please refer to the Company's announcement dated 18 January 2011 for details). This program was not completed as scheduled due to reasons related to the administrative examination and approval procedure with regard to planning, fire protection, security, environment protection and afforestation. The main part of the project is expected to be finished in 2012.

On 25 November 2011, the Board of the Company approved Chongqing Machine Tools (Group) Co., Ltd. ("Machine Tools Group") to establish Chongqing Holroyd Precision Screw Manufacture Company Limited jointly with PTG. This company already completed registration in Chongqing on 15 December 2011, and its establishment and operation will facilitate the further development of PTG.

In 2012, China's auto industry is likely to emerge from the wild fluctuation it experienced in the past two years and return to normal gradually. In spite of declining market demands for CNC machine tools, this business segment is expected to sustain growth in 2012 by virtue of product quality, market presence and famous brand.

DEVELOPMENT FOUNDATION AND ADVANTAGES

The Company was incorporated on 27 July 2007, and our H shares were listed on the Hong Kong Stock Exchange on 13 June 2008. Since its incorporation, the Company has always aligned its principal activities to the national development planning and national industrial policies. With the support from such policies as the national plan for revitalizing equipment manufacturing industry and the development plan for new strategic industries, the large-scale development of China's western region and Chongqing Municipal "314" overall strategic deployment, the Company, through years of healthy development, has created leading technologies, developed premium products, built up a prestigious reputation, formulated an effective governance structure, established sound and proper systems and strengthened operation risk control. As its performance keeps improving, its scale continues expanding and shareholder returns increase, the compound growth rate of revenue hit 21.02% since 2008, the Company has become an influential equipment manufacturing enterprise of western China. Meanwhile, in its sustained, scientific and rapid development process, the Company has accumulated extensive experience in technology research and development, market expansion, merger and acquisition, financing and funding, built a strong personnel team and established ever growing core competitiveness. The Board, management and all employees of the Group have confidence in future development of the Company.

DEVELOPMENT STRATEGY

The Group's development strategy and work priorities in 2012 are set out as follows:

I. Development Strategy

By virtue of the business philosophy of "dedication, innovation, open-up and speed-up" and guided by the scientific outlook on development, we will stick to the "Twelfth Five-Year Plan" as well as the "project" driven approach, forge ahead with the mission of "optimizing structure, ensuring growth, enhancing efficiency", keep opening up and pursue innovation, transform the mode of economic development, and work hard to create an equipment manufacturing enterprise with international competitiveness.

II. Work Priorities

1. Promote the project construction

The Group will take effective measures to push forward the implementation of existing projects and to ensure the early fulfillment of project goals; plan and reserve a batch of projects including product research and development, technology upgrading, merger and reorganization and set up a project bank in line with its own strategies and industries.

2. Press on with efforts for financing and funding

The Group will continue to innovate the approach to and optimize the mode and structure of financing and funding; strengthen centralized capital management and centralized credit; establish and perfect the financial risk control system; set up a finance company; apply various financing instruments such as financing lease and increase financing to satisfy the capital needs in development.

3. Promote technology innovation

The Group will strive to measure up to the world advanced standards, base its activities on the current industry and closely follow the planning deployment of the national "Twelfth Five-Year Plan"; put more efforts in research and development, push forward with the construction of technology innovation platform and brand building to improve capabilities for independent innovation; promote the application and protection of technological patent, speed up product technology upgrading and product mix adjustment and to expand core capabilities.

4. Press ahead with market expansion

The Group will keep a close eye to market changes, exercise more prudent judgment, strengthen operation control, adopt a strategy focused on a combination of production, design and services, expand into new industries, tap new markets, win new orders; innovate performance appraisal methods to motivate managers; strengthen lean production and production safety to meet market demand and control operation risks.

5. Enhance synergy within the Group

The Group will further promote centralized procurement for bulk commodity; tighten up the centralized allocation of capital and human resources; integrate internal resources to maximize production capacity; establish a computerized platform for information sharing.

6. Promote human resources development

The Group will, according to the human resources planning set out in the "Twelfth Five-Year Plan", further improve the system for human resources management and the six mechanisms for talents management, i.e. "selection, cultivation, utilization, retaining, dismissal and backup"; develop and identify excellent human resources by using various means such as quality training, talents exchange, cash incentives and performance appraisal to provide a strong talent base for the sustainable development of the Group.

7. Enhance scientific management and control

The Group will carry out the strategic performance management in an innovative way, proceed with the Group's "Twelfth Five-Year" development plan; commence the establishment of a comprehensive budget management system; generalize the excellent performance management; promote the in-depth implementation of the Company's internal control system, push subsidiaries to improve their internal control system, and consider the assessment of effectiveness of internal control; constantly strengthen corporate cultural development.

AWARDS

During the Period, the Group received the following awards:

- Machine Tools Group, a subsidiary of the Group, was granted the Chongqing Mayor's Award for Quality Management 2011.

- Chongqing Water Turbine Works Co., Ltd. ("Water Turbine Company"), a subsidiary of the Group, was awarded the second grade of Chongqing Municipal Prize for Progress in Science and Technology 2010 for its Cast Steel Pedestal of PC Beam for Straddle-type Light Railcar;

- Chongqing Pump Industry Co., Ltd. ("Pump Company"), a subsidiary of the Group, was awarded the second grade of the National Prize for Progress in Energy Science and Technology 2010 for the project of Model HSD150-80 Upward Charging Pump for Million-kilowatts Pressurized Water Reactor Nuclear Power Station (《百萬千瓦壓水堆核電站HSD150-80型上充泵》) jointly developed with China Nuclear Power Engineering Co., Ltd.;

- The project on Development and Industrialization of Key Technology and Equipment of Precision and High-efficiency CNC Gear Shaving Machine (《精密、高效數控剃齒關鍵技術與裝備研製及產業化》) jointly developed by Machine Tools Group and Chongqing Tool Factory Co., Ltd., both being subsidiaries of the Group, won the second grade of Chongqing Municipal Prize for Progress in Science and Technology 2010;

- General Group, a subsidiary of the Group, was awarded the third grade of Chongqing Municipal Prize for Progress in Science and Technology 2010 for its project on BCD300-1.90/1.00 Aeration Fan Mega-watt Wind Power Rotor Blades and Major Unit Parts and Components (《BCD300-1.90/1.00曝氣風機兆瓦級風力發電機葉片及機組重要零部件》) and the project on Mega-watt Wind Power Rotor Blades and Major Unit Parts and Components BCD300-1.90/1.00 Aeration Fan (《瓦級風力發電機葉片及機組重要零部件BCD300-1.90/1.00曝氣風機》);

- Chongqing No. 2 Machine Tools Factory Co., Ltd. of Machine Tools Group, a subsidiary of the Group, was awarded the third grade of Chongqing Municipal Prize for Progress in Science and Technology 2010 for its project on CK6130 and CK3050 Modularized CNC Lathe Research & Development and Industrialized Application (《CK6130、CK3050模組化數控車床研發及產業化應用》);

- The Company was presented the "Annual Investment Awards 2010" by the UK Trade & Investment;

- Pigeon Company, a subsidiary of the Group, was recognized as the "Chongqing Famous-brand Product 2011" for the tenth consecutive year;

- Chongqing Jiangbei Machinery Co., Ltd., a subsidiary of the Group, was granted the second grade of the Science & Technology Award of Chinese Mechanical Industry 2011 for its project on GKH1800-N Horizontal Siphon Scraper-unloading Centrifuge (「《GKH1800-N臥式虹吸刮刀卸料離心機》」);

- Machine Tools Group was granted the second grade of the Science & Technology Award of Chinese Mechanical Industry 2011 for its project on Development and Industrialization of Key Technology Package and Equipment of Y4232CNC9 Series of Precision and High-efficiency CNC Gear Shaving Machine (《Y4232CNC9系列數控精密高效剃齒機成套技術開發及產業化應用》);

- Chongqing Cummins Engine Co., Ltd. ("Chongqing Cummins"), both being subsidiaries of the Group, were granted Chongqing "May 1st" Labor Award 2011;

- Chongqing Cummins, Pigeon Company, Machine Tools Group and Qijiang Gear Transmission were ranked among the 2010 Chongqing Top 50 Enterprises by Chongqing Federation of Industrial Economics (重慶市工業經濟聯合會);

- Machine Tools Group was granted the Chongqing Mayor's Award for Quality Management 2011. Meanwhile, the registered trademark, "Chongji and logo" (「重機及圖」), was recognized as Famous Trademark of China;

- Machine Tools Group, Chongqing Cummins, Water Turbine Company, Chongqing CAFF and Chongqing Hongyan Fangda Automobile Suspension Co., Ltd. were recognized as the "Most Influential Famous-brand Enterprise of Chongqing" in the second such election on 29 December 2011;

- The high-waterhead mixed-flow hydro turbine generator (高水頭混流式水輪發電機) under the brand name of "Sanye" (「三葉牌」) produced by Water Turbine Company was recognized as a "Famous-brand Product of Chongqing 2011" by Chongqing Municipal Bureau of Quality and Technical Supervision.

SUMMARY

It remains to be seen whether a comprehensive solution to Europe's debt crisis will be realised in 2012. Despite a rebound in global economy, the recovery remains fragile. The world economy is still in the process of adjustment, facing many uncertain and unstable factors, and the risk of a double-dip recession remains. As inflation containment has become the main focus in the effort to stem rising inflation and overheating, the government will shift its monetary policy to a moderately loose stance. The tight liquidity situation in the banking industry and enterprises will be eased to some extent and the economy will maintain growth at a moderate level. Favorable policy such as structure upgrading of the Chinese mechanical industry and development opportunities still exist. Industrial policies will bring good development opportunities to the Group in spite of the challenges posed on its businesses of commercial vehicle parts and components, power equipment, general machinery and CNC machine tools. The Group will seize such opportunities and speed up development by virtue of our strong strengths in terms of market, product, R&D, funding, manpower, brand and governance. The Group's businesses are expected to maintain steady growth in 2012.

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 contributions to the development of the Group, and to our customers, suppliers and friends of all communities for their long-term support and trust in the Group. We will continue to promote our business philosophy of "dedication, innovation, open-up and speed-up", and work together for a better future and greater achievements.

Executive Director and Chairman
Xie Hua Jun

Chongqing, the PRC
20 March 2012

OUTLOOK AND PROSPECT

Principal business to keep stable growth in 2012

The year 2011 saw a notable slowdown in global economy in a complicated and difficult environment, with the driving force for recovery markedly weakening. As the main focus of Chinese economy was controlling inflation and preventing housing bubbles, the government adopted a proactive fiscal policy and prudent monetary policy. As a result of these efforts, China managed a soft landing and recorded a 9.2% growth in GDP.

In 2012, the world economy will continue to adjust itself, and the extent of recovery will hinge on the concrete efforts from all countries, developed ones in particular. China will continue to implement a proactive fiscal policy and prudent monetary policy, with focus of regulation shifting from fighting inflation to keeping up growth. It is expected that China's economy will grow at a slower pace.

Though there still are many uncertain and unstable factors in the macroeconomic environment in 2012, the Group will be able to overcome difficulties and ensure steady growth backed by its great strengths accumulated in years of development and effective management.

BUSINESS REVIEW

Business performance improved

The Group accomplished its economic goals for 2011 by significantly improving operation quality through market expansion and strengthened management. The Group consolidated and expanded the niche markets in which we have historic strengths, tapped new markets, cultivated after-sale service and system integration markets, expanded business in the overseas market, laying a solid foundation for the fulfillment of the sales objective for 2012. By February 2012, orders secured for the Group's principal businesses represented over 35% of the planned production objective for 2012. Orders for hydro turbine generators already met the full-year objective and orders for other products such as diesel engines also came close to their respective full-year objectives.

New progress made in project construction

In 2011, a total of over 20 projects of the Group were under construction or were launched. Seven fund-raising projects of General Group including large wind power rotor blades obtained the Acceptance of Completion Certificate and the capacity expansion purpose was accomplished.

With the acquisition of Da'an Chenfei by General Group and the establishment of the Xilinhot base, progress was made in the current stage of the Group's move to expand business into the field of blades for mega-watt mainstream units. As a new profit contributor, PTG also facilitated synergy and research & development and attained its annual business objectives; on 15 December 2011, PTG and Machine Tools Group jointly incorporated Chongqing Holroyd Precision Screw Manufacture Company Limited (重慶霍洛伊德精密螺杆製造有限公司); research & development of relevant topics of the European Innovation Centre of Chongqing M&E was already initiated. Knorr-Bremse CAFF Systems for Commercial Vehicles Chongqing Ltd. (克諾爾卡福商用車系統(重慶)有限公司), a joint venture established by Chongqing CAFF and Germany-based Knorr, officially commenced operation in May 2011. In June 2011, Guizhou Pigeon was officially put into production.

New accomplishments achieved in technological innovation

2011 is a banner year for the Group in respect of technological innovation, with 122 new product development projects completed, including 41 listed in the municipal plan for key new products development and 20 passed the evaluation of key new products of Chongqing Municipality. In addition, the Company applied for patents for over 500 projects and was granted over 20 patents by the State. Eight R&D projects of the Company were granted the 2011 Science & Technology Award of Chinese Mechanical Industry and Chongqing Municipal Prize for Progress in Science and Technology, including four for the second grade and four for the third grade. Financial backup from the government for technological innovation projects exceeded RMB50 million; "Chongji and logo" (「重機及圖」) of Machine Tools Group was recognized as a Famous Trademark of China. Up to now, two brands of the Company, "Pigeon" and "Chongji", are recognized as the Famous Trademark of China; Machine Tools Group was also granted the Chongqing Mayor's Award for Quality Management 2011. These achievements help further consolidate the Group's strengths in technological innovation and cement our leading position in the equipment manufacturing industry.

New breakthroughs made in financing and funding

As the government kept tightening the monetary policy, the Company strengthened financial management and forged ahead with centralized management of the Group's capital and credit so as to improve capital operation efficiency and effectively reduce finance cost and ease the liquidity crunch.

The Company successfully issued 5-year period corporate bonds with a coupon rate of 6.59% in August 2011 in China to raise proceeds of RMB1 billion, marking a change in its single financing structure and a breakthrough in the Company's efforts for diversified financing.

Management constantly improved

The Company consolidated the shareholding of its subsidiaries and upgraded the management level of some enterprises (please refer to "Significant Events" of the report from page 36 to page 40 for details) so as to make the shareholding structure clearer and optimize the management chain of outstanding enterprises by the Company, creating more favourable conditions for the Company's campaign to make investment, introduce strategic investors and increase financing channels.

In an effort to tighten internal control management, the Group established and perfected frameworks for all levels of management from corporate governance to business operation. During 2011, a total of 87 regulations and systems were formulated or revised and the Compilation of Systems of Chongqing Machinery & Electric Co., Ltd. was prepared.

Furthermore, the Group comprehensively commenced the development of the risk control system in a bid to reduce operation risk and enhance its abilities for risk control. By bringing in professional internal control systems to provide intelligent support, we have preliminarily built an integrated internal control framework and produced the internal control manual, authorization manual and report on recommendations for improvement of defects in internal control and system.

In a move to help enterprises to increase income, cut expenses, reduce losses and eliminate waste, the Group tightened up audit and efficiency oversight by taking various measures, e.g. economic responsibility audit, project audit, process audit and comprehensive investigation. Such measures proved to work well.

Human resources management enhanced

The Group always places great emphasis on the development of human resources system and strategic management. During the year, 22 related systems were established and improved; the six mechanisms for talents management, i.e. "selection, cultivation, utilization, retaining, dismissal and backup" were preliminarily set up; a special plan on HR management was formulated according to the "Twelfth Five-Year" strategic plan of the Company. As a result, the Company has basically set up a systematic and standardized system for human resources management with specific goals and strategic directions. Our efforts in human resources management will provide strong support for the implementation of the "Twelfth Five-Year" strategies.

During the Period, the Group attached great importance to training and development for staff, especially high-level staff, providing various training programs for more than 20,000 employees. We sponsored 6 elected senior management members on EMBA programs of Xiamen University, 60 financial executives on a senior financial management training program of Xiamen University and 19 key technical talents on a master's course in engineering jointly run by the Company and Chongqing University of Technology. Two employees enrolled with a master's degree in accounting in Chongqing University of Technology and 88 received intensive English training. The Group supplied RMB0.25 million to subsidiaries as initiative funds for employees training. The Group invested a total of RMB10.69 million in training. Such training enabled our human resources to create more business values.

The Company highly emphasizes the importance of establishment of corporate governance structure in its subsidiaries, and completed the reelection, rearrangement and formation of the board of director, supervisory committee and management team of 13 subsidiaries.

RESULTS OVERVIEW

Operation Analysis

Commercial vehicle parts and components

In 2011, against the backdrop of macroeconomic regulation, credit tightening and fierce industrial competition, China's automobile industry experienced a pullback in production and sales. Strong players survived in the industrial slowdown and weak ones were eliminated. However, the Group's commercial vehicle parts and components business kept growing. The transmission business grew at a satisfactory level, with market shares increased and production capacity improved. The braking and steering system business did well in entertaining market demand. The diesel engine business continued to maintain rapid growth, boosted by adjustment of product mix and development of electrical equipment, engineering machinery and shipbuilding markets. The segment recorded revenue of approximately RMB3,510.6 million for the year, representing an increase of approximately RMB551.2 million or approximately 18.6% as compared with approximately RMB2,959.4 million for 2010.

Power equipment

In 2011, the national "Twelfth Five-Year Plan" and the central government's move to accelerate development of electricity transmission and transformation, hydropower, nuclear power and wind power provided sustained impetus for our power equipment-related business. The Group made every effort to expand into overseas markets and received orders in large scale for its hydroelectric generation equipment, making it a strong backstop. The electrical wires and cables business kept on the rise despite the negative impact of housing market regulation and high copper prices. The power equipment segment maintained its established advantages and grew at a fast pace. The segment recorded revenue of approximately RMB3,479.3 million for the year, representing an increase of approximately RMB543.7 million or approximately 18.5% as compared with approximately RMB2,935.6 million for 2010.

General machinery

In 2011, the Group closely followed the national strategy for new energy development and expedited the development of nuclear power, wind power, oil, petrochemical products and market expansion to minimize the impact of adjustment in the steel & iron, metallurgy and cement industries. Water pressure test pumps and centrifugal upward injection pumps, secondary pumps for million-kilowatt pressurized water reactor nuclear power station, came into industrialized production. Industrial fans, refrigeration machines and wind power rotor blades maintained favorable growth momentum in terms of orders and sales. Large gas compressors business grew rapidly. GKH model centrifugal machine was successfully brought to the US market. The general machinery segment as a whole experienced a relatively rapid recovery. The segment recorded revenue of approximately RMB1,365.2 million for the year, representing an increase of approximately RMB135.9 million or approximately 11.1% as compared with approximately RMB1,229.3 million for 2010.

CNC machine tools

Despite the negative impact of macroeconomic regulation and credit tightening, China's auto industry maintained growth in 2011. Boosted by demands from the engineering machinery and general mechanical industries and backed by leading-edge technology and famous brand of the CNC gear hobbing machine and gear shaving machine, this business segment attained and maintained the leading market position and sustained rapid growth. The segment recorded revenue of approximately RMB2,190.9 million for the year, representing an increase of approximately RMB432.0 million or approximately 24.6% as compared with approximately RMB1,758.9 million for 2010.

SALES

For the year ended 31 December 2011, the Group's total revenue amounted to approximately RMB10,546.0 million, an increase of approximately RMB1,662.8 million or approximately 18.7% as compared with approximately RMB8,883.2 million for last year. As compared with 2010, the revenue of commercial vehicle parts and components was approximately RMB3,510.6 million (accounting for approximately 33.3% of total revenue), an increase of approximately 18.6%; revenue of power equipments was approximately RMB3,479.3 million (accounting for approximately 33.0% of total revenue), an increase of approximately 18.5%; revenue of general machinery was approximately RMB1,365.2 million (accounting for approximately 12.9% of total revenue), an increase of approximately 11.1%; and revenue of CNC machine tools was approximately RMB2,190.9 million (accounting for approximately 20.8% of total revenue), an increase of approximately 24.6%.

GROSS PROFIT

The gross profit for 2011 was approximately RMB1,959.9 million, increased by approximately RMB268.3 million or approximately 15.9%, as compared with approximately RMB1,691.6 million for last year, accounting for approximately 18.6% of sales.

As compared with last year, gross profit and the portion for power equipment and CNC machine tools increased, with their gross profit margins slightly increased from 7.0% and 18.0% last year to 7.1% and 18.4% in 2011 respectively. As such, their total gross profit increased. On the other hand, the gross profit margin for commercial vehicle parts and components and general machinery slightly dropped from 28.6% and 26.2% last year to 27.4% and 25.3% in 2011, though sales maintained growth.

OTHER INCOME AND GAINS

The other income and gains for 2011 were approximately RMB152.8 million, an increase of approximately RMB51.1 million or approximately 50.2%, as compared with approximately RMB101.7 million for last year, mainly due to the gain of approximately RMB25.2 million from acquisition at a low price by General Group of Da'an Chenfei and that approximately RMB20.1 million was successfully recovered in the Period when the Company was in dispute with former PTG shareholders on the acquisition price of PTG company.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for 2011 were approximately RMB1,104.7 million, an increase of approximately RMB60.2 million or approximately 5.8%, as compared with approximately RMB1,044.5 million for last year. The selling and administrative expenses accounted for approximately 10.5% of sales, a decrease of approximately 1.3 percentage points as compared with 11.8% for last year.

During the year, our selling costs recorded increased by approximately RMB3.5 million over last year, mainly due to the increase in selling and distribution costs including transportation expenses, costs for the sales staff and after-sales and warranty fees. Administrative expenses increased by approximately RMB56.7 million over last year, primarily due to an increase of approximately RMB36.7 million in domestic staff costs and office expenses. Another contributor to the increase in administrative expenses is the increase of approximately RMB14.9 million in maintenance expenses.

OPERATING PROFIT

The operating profit for 2011 was approximately RMB1,007.9 million, an increase of approximately RMB259.1 million or approximately 34.6%, as compared with approximately RMB748.8 million for last year. Eliminating the effect of one-off gains included in other income and gains, operating profit increased by approximately RMB208.0 million, or approximately 32.1%, over last year.

FINANCE COSTS

Interest expense for 2011 were approximately RMB131.3 million, an increase of approximately RMB52.2 million or approximately 66.0%, as compared with approximately RMB79.1 million for last year, mainly due to the increase in the amount of loans, higher interest rate and expenses incurred by issuing bonds for the Period.

SHARE OF PROFITS OF ASSOCIATED COMPANIES

The Group's share of profits of associated companies for the year ended 31 December 2011 was approximately RMB2.8 million, a substantial decrease of approximately RMB63.0 million or approximately 95.7%, as compared with approximately RMB65.8 million for last year. The decrease was due to the significant drop in profit of associated companies and the operating losses incurred by Chongqing Midea General Refrigeration Equipment Co., Ltd. and Chongqing Ji'en Smelting Co., Ltd. during the Period.

INCOME TAX EXPENSES

The corporate income tax expenses for the year ended 31 December 2011 were approximately RMB168.5 million, an increase of approximately RMB102.2 million, or approximately 154.1%, as compared with approximately RMB66.3 million for last year, mainly due to the increase in taxes payable and change in deferred income tax.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year ended 31 December 2011 was approximately RMB737.3 million, an increase of approximately RMB49.6 million or approximately 7.2% as compared with approximately RMB687.7 million for last year. Earnings per share increased from RMB0.19 per share last year to RMB0.20 per share. Please refer to Note 34 to the financial statements of this annual report.

According to the Articles of Association of the Company, the Company's reserves available for distribution based on the Company's profit are the lower of which is determined under HKFRS and China Accounting Standards for Business Enterprises("CAS").

The Company's reserves available for distribution as at 31 December 2011 under HKFRS and CAS were RMB850,135,000 and RMB979,482,153 respectively. Thus, as at 31 December 2011, the Company's distributable reserve attributable to shareholders of the Company amounted to RMB850,135,000.

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	
	2011	2010	**2011**	2010	**2011**	2010
	(RMB in millions, except for percentage)					
Commercial vehicle parts and components						
Engines	**1,898.4**	1,417.9	**651.8**	485.1	**527.2**	370.2
Transmissions	**1,172.1**	920.6	**253.2**	241.9	**105.0**	126.8
Other products	**440.1**	620.9	**57.7**	120.3	**20.8**	31.1
Total	**3,510.6**	2,959.4	**962.7**	847.3	**653.0**	528.1
% of total	**33.3%**	33.3%	**49.1%**	50.1%	**64.8%**	70.5%
Power equipment						
Hydroelectric generation equipment	**400.9**	313.4	**130.6**	86.5	**54.0**	46.9
Electrical wires and cables	**2,351.1**	2,120.4	**123.7**	100.9	**80.3**	41.2
Other products	**727.3**	501.8	**(6.8)**	18.8	**(23.6)**	5.5
Total	**3,479.3**	2,935.6	**247.5**	206.2	**110.7**	93.6
% of total	**33.0%**	33.1%	**12.6%**	12.2%	**11.0%**	12.5%
General machinery						
Total	**1,365.2**	1,229.3	**345.8**	322.0	**113.0**	75.1
% of total	**12.9%**	13.8%	**17.7%**	19.6%	**11.2%**	10.0%
CNC machine tools						
Total	**2,190.9**	1,758.9	**403.9**	316.1	**124.8**	91.3
% of total	**20.8%**	19.8%	**20.6%**	18.7%	**12.4%**	12.2%
Headquarters						
Total	**—**	—	**—**	—	**6.4**	(39.3)
% of total	**—%**	—%	**—%**	—%	**0.6%**	(5.2%)
Total	**10,546.0**	8,883.2	**1,959.9**	1,691.6	**1,007.9**	748.8

Commercial vehicle parts and components

Revenue from the commercial vehicle parts and components segment for the year ended 31 December 2011 was approximately RMB3,510.6 million, an increase of approximately RMB551.2 million or approximately 18.6%, as compared with approximately RMB2,959.4 million for the same period of 2010. Revenue from the engines and transmissions business increased significantly by approximately RMB480.5 million or approximately 33.9% and approximately RMB251.5 million or approximately 27.3% respectively as compared with same period last year, while revenue from other products decreased by approximately RMB180.8 million.

During the Period, gross profit for the commercial vehicle parts and components segment was approximately RMB962.7 million, an increase of approximately RMB115.4 million or approximately 13.6%, as compared with approximately RMB847.3 million for the year ended 31 December 2010. Gross profit margin decreased to 27.4% for 2011 from 28.6% for 2010, primarily due to the significant rebound of raw material prices and the increase of labour cost, which led to the rise of unit cost.

Overall, the result for the commercial vehicle parts and components segment for the year ended 31 December 2011 was approximately RMB653.0 million, an increase of approximately RMB124.9 million or approximately 23.7%, as compared with approximately RMB528.1 million for the same period last year.

Power equipment

Revenue from the power equipment segment for the year ended 31 December 2011 was approximately RMB3,479.3 million, an increase of approximately RMB543.7 million or approximately 18.5%, as compared with approximately RMB2,935.6 million for 2010, primarily due to an increase in revenue of approximately RMB230.7 million, or approximately 10.9%, from electrical wires and cables and revenue from other products including water turbine increased by approximately RMB313.0 million, or approximately 38.4%.

During the Period, gross profit for the power equipment segment was approximately RMB247.5 million, an increase of approximately RMB41.3 million or approximately 20.0%, as compared with approximately RMB206.2 million for the year ended 31 December 2010. Gross profit margin slightly increased to 7.1% for 2011 from 7.0% for 2010, primarily due to the increase in gross profit margin for hydro turbine generators to 32.6% for 2011 from 27.6% for 2010. However, other products recorded a loss of approximately RMB6.8 million, mainly due to great fluctuations in raw material prices and rising production costs, which left the gross profit margin below profitability during the Period.

Overall, the result for the power equipment segment for the year ended 31 December 2011 was approximately RMB110.7 million, an increase of approximately RMB17.1 million or approximately 18.3%, as compared with approximately RMB93.6 million for the same period last year.

General machinery

Revenue from the general machinery segment for the year ended 31 December 2011 was approximately RMB1,365.2 million, an increase of approximately RMB135.9 million or approximately 11.1% as compared with approximately RMB1,229.3 million for 2010, primarily due to growth of demand for refrigeration units used in nuclear power stations, wind power rotor blades and gas compressors.

During the Period, gross profit for the general machinery segment was approximately RMB345.8 million, an increase of approximately RMB23.8 million or approximately 7.4% as compared with approximately 322.0 million for the year ended 31 December 2010. Gross profit margin decreased slightly to 25.3% for 2011 from 26.2% for 2010. 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 2011 was approximately RMB113.0 million, an increase of approximately RMB37.9 million or approximately 50.5%, as compared with approximately RMB75.1 million for 2010.

CNC machine tools

Revenue from the CNC machine tools segment for the year ended 31 December 2011 was approximately RMB2,190.9 million, an increase of approximately RMB432.0 million or approximately 24.6%, as compared with approximately RMB1,758.9 million for 2010, primarily due to increases in revenue from gear-producing machines, complex precision metal cutting tools, CNC lathes and machine centers as driven by the demands for construction machinery and general machinery.

During the Period, gross profit for the CNC machine tools segment was approximately RMB403.9 million, an increase of approximately RMB87.8 million or approximately 27.8%, as compared with approximately RMB316.1 million for the year ended 31 December 2010. Gross profit margin slightly increased to 18.4% for 2011 from 18.0% for 2010, primarily due to the drop of unit cost as a result of output increase.

Overall, the result for the CNC machine tools segment for the year ended 31 December 2011 was approximately RMB124.8 million, an increase of approximately RMB33.5 million or approximately 36.7%, as compared with RMB91.3 million for 2010.

CASH FLOW

The Group's cash and bank deposits (including restricted cash) amounted to approximately RMB3,084.7 million as at 31 December 2011 (31 December 2010: RMB2,591.8 million), representing an increase of approximately RMB492.9 million or approximately 19.0% as compared with last year.

During the Period, the Group had a net cash inflow from operating activities of approximately RMB166.7 million (31 December 2010: RMB55.8 million), a net cash outflow from investing activities of approximately RMB295.9 million (31 December 2010: RMB186.4 million), and a net cash inflow from financing activities of approximately RMB804.7 million (31 December 2010: RMB65.4 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 2011, the Group had total assets of approximately RMB11,760.0 million, representing an increase of approximately RMB1,587.8 million as compared with approximately RMB10,172.2 million as at 31 December 2010. Total current assets amounted to approximately RMB8,460.0 million, increased by approximately RMB1,195.5 million as compared with approximately RMB7,264.5 million as at 31 December 2010, accounting for approximately 71.9% of total assets. However, total non-current assets was approximately RMB3,300.0 million, representing an increase of approximately RMB392.2 million as compared with approximately RMB2,907.8 million as at 31 December 2010, and accounting for approximately 28.1% of total assets.

As at 31 December 2011, total liabilities of the Group amounted to approximately RMB6,793.1 million, representing an increase of approximately RMB1,195.1 million as compared with approximately RMB5,598.0 million as at 31 December 2010. Total current liabilities were approximately RMB4,669.7 million, an increase of approximately RMB227.1 million as compared with approximately RMB4,442.6 million as at 31 December 2010, accounting for approximately 68.7% of total liabilities. However, total non-current liabilities were approximately RMB2,123.4 million, representing an increase of approximately RMB967.9 million as compared with approximately RMB1,155.5 million as at 31 December 2010, and accounting for approximately 31.3% of total liabilities.

As at 31 December 2011, net current assets of the Group were approximately RMB3,790.3 million, representing an increase of approximately RMB968.4 million as compared with approximately RMB2,821.9 million as at 31 December 2010.

CURRENT RATIO

As at 31 December 2011, current ratio (the ratio of current assets over current liabilities) of the Group increased from 1.64 :1 for 2010 to 1.81:1 for 2011.

GEARING RATIO

As at 31 December 2011, by comparing the borrowing and the total capital, the Group's gearing ratio was 35.0% (31 December 2010: 25.2%).

INDEBTEDNESS

As at 31 December 2011, the Group had an aggregate bank and other borrowings of approximately RMB2,669.7 million, representing an increase of approximately RMB1,126.7 million as compared with approximately RMB1,543.0 million as at 31 December 2010, primarily due to the Company's successful issuance of corporate bond with a maturity of 5-year period at coupon rate of 6.59% in an aggregate amount of RMB1 billion in the PRC in August 2011.

Borrowings repayable by the Group within one year were approximately RMB1,211.2 million, representing an increase of approximately RMB149.6 million as compared with approximately RMB1,061.6 million as at 31 December 2010. Borrowings repayable after one year were approximately RMB1,458.5 million, representing an increase of approximately RMB977.1 million as compared with approximately RMB481.4 million as at 31 December 2010.

PLEDGES OF ASSETS

As at 31 December 2011, approximately RMB295.1 million of the Group was deposited with the banks with security or restricted for use (31 December 2010: RMB473.0 million). In addition, certain bank borrowings of the Group were secured by certain land use rights, plants and machineries and trade receivables of the Group, which had a net book value of approximately RMB405.9 million as at 31 December 2011 (31 December 2010: RMB353.2 million).

CONTINGENT LIABILITIES

As at 31 December 2011, the Group had no significant contingent liabilities.

SIGNIFICANT EVENTS

1. On 3 March 2011, the Board resolved to approve the acquisition of 19.31% equity interests in Pigeon Company held by employees of Pigeon Company, thus increasing the shareholding of the Company to 74.0%;

2. On 30 May 2011, the Board resolved to approve the transfer of the following two properties:

   (1) Qijiang Gear Transmission, Qi-Chi Automotive Part, Qi-Chi Forging and Xinxin Welfare, the wholly-owned subsidiaries of the Company, transferred all the interests in 29,492.37m^2 of 28 properties to Qijiang Gear Factory, a wholly-owned subsidiary of the Parent Company, at the consideration of RMB 25,298,286.21.

   (2) Qijiang Gear Transmission, Qi-Chi Automotive Part and Qi-Chi Forging, the wholly-owned subsidiaries of the Company, transferred all the interests in 16,945.3m^2 of 11 properties to Qijiang Gear Factory, a wholly-owned subsidiary of the Parent Company, at the consideration of RMB 21,042,807.

   The aforesaid details are set out in the announcement made by the Board on the websites of the Hong Kong Stock Exchange and the Company on 2 December 2011.

3. On 1 August 2011, the Company incorporated PTG under the Company Act 2006 of England and Wales in the City of Rochdale. The Company's capital contribution was the aggregate prices of the equity interests owned by the Company in five British companies and one German company, and therefore the Company is the de facto capital contributor of the six companies.

4. On 16 August 2011, the Company set up the European Innovation Centre of Chongqing M&E, European Marketing Centre of Chongqing M&E and Chongqing Machine Tools & PTG European Machine Tool R&D Centre as unincorporated bodies in the City of Rochdale, Britain.

5. On 6 September 2011, the Board resolved to approve the acquisition of 100% equity interests in Da'an Chenfei Wind Power Equipment Co., Ltd. by General Group at the consideration of RMB 75 million. Details are set out in the announcement made by the Board on the websites of the Hong Kong Stock Exchange and the Company on 8 September 2011.

6. On 6 September 2011, the Board resolved to approve the acquisition of 1.65% equity interests held by the Parent Company in General Group by the Company at the consideration of RMB22.3 million. Details are set out in the announcement made by the Board on the websites of the Hong Kong Stock Exchange and the Company on 3 November 2011.

7. On 6 September 2011, the Board resolved to approve the transfer of 100% equity interests in Qi-Chi Automotive Part to Qijiang Gear Transmission at nil consideration and the transfer of 100% equity interests in Qijiang Qi-Chi Forging Co., Ltd. and 100% equity interests in Qi-Chi Xinxin to Qijiang Gear Transmission at nil consideration.

8. On 25 October 2011, the Board resolved to approve the construction of Xilinhot production base by Da'an Chenfei Wind Power Equipment Co, Ltd. of General Group, and the investment of RMB45 million by the Company to be used specifically for the construction of the production base. Relevant details are set out in the announcement made by the Board on the websites of the Hong Kong Stock Exchange and the Company on 25 October 2011.

9. On 25 November 2011, the Board resolved to approve the establishment of Chongqing Holroyd Precision Screw Manufacture Co., Ltd. as the joint venture of the Machine Tools Group and PTG. The company completed registration in Chongqing on 15 December 2011.

10. On 25 November 2011, the Board resolved to approve the upgrading of Chongqing Machine Tools (Group) Sheng Pu Machinery Set Co., Ltd. and three subsidiaries of General Group including Chongqing Pump Industry Co., Ltd., Chongqing Jiangbei Machinery Co., Ltd. and Chongqing Gas Compressor Factory Co., Ltd. as direct subsidiaries of the Company.

11. The Board of the Company approved the articles of association of the Strategic Committee of the Board of the Company and established the first session of Strategic Committee of the Board of the Company on 23 December 2011.

12. The 2010 annual general meeting of the Company was held on 6 June 2011, at which the following matters were considered and approved:

    (1) the proposed annual caps of the price payable by the Parent Company and its associates to the Group under the Master Supplemental Sales Agreement for the financial years ended 31 December 2011, 2012 and 2013 were revised upward to RMB155.0 million, RMB185.0 million and RMB210.0 million, respectively;

    (2) the proposed annual caps of the price payable by the Group to the Parent Company and its associates under the Master Supplemental Supplies Agreement for the financial years ended 31 December 2011, 2012 and 2013 were revised upward to RMB410.0 million, RMB480.0 million and RMB550.0 million, respectively;

    (3) a mandate to the Board of the Company 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;

    (4) authorized the Board of the Company to issue and dispose of corporate bonds with an aggregate nominal value of up to RMB1.0 billion in the PRC and to authorize the Board to delegate two directors namely Mr. Yu Gang and Mr. Chen Xianzheng to jointly deal with, at their full discretion, all matters relating to the issue of corporate bonds. Official approval of the corporate bond issue was obtained from CSRC on 23 July 2011. On 22 August 2011, the Company completed the public issuance at the Shanghai Stock Exchange. For details, please refer to the announcement published on the websites of the Hong Kong Stock Exchange and the Company on 22 August 2011.

13. The first extraordinary general meeting of the Company in 2011 was held on 9 December 2011, at which the following matters were considered and approved:

    (1) The amendment to the Articles is proposed to change "Chongqing Yufu Assets Management Co. Ltd.*"（重慶渝富資產經營管理有限公司）to "Chongqing Yufu Assets Management (Group) Co. Ltd.*"（重慶渝富資產經營管理集團有限公司）.

    (2) Provision of guarantee by the Company for a loan of GBP4.2 million of Holroyd;

    (3) The Company intended to establish a finance company in Chongqing with the Parent Company and China Industrial International Trust Limited.

    (4) The Company approved the appointment of Mr. Zhang Xinzhi as a supervisor after Ms. Liao Rong's resignation as a supervisor of the Company.

14. 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. The Group seized opportunity for development and integration, and achieved the following goals during the Period:

    (1) Acquired 19.31% equity interests in Pigeon Company held by its employees, thus increasing the shareholding of the Company to 74%;

    (2) Acquired 1.31% equity interests in Huahao Smelting held by Chuanxing Plastics Plant（川星塑料廠）and Worker's Technical Association of Chongqing Smelter Factory（重冶職工技協）, thus increasing the shareholding of the Company to 100%.

    (3) Acquired 1.65% equity interests in General Group held by the Parent Company, thus increasing the shareholding of the Company to 100%.

(4) Completed the transfer of 100% equity interests in Qi-Chi Automotive Part to Qijiang Gear Transmission at nil consideration and the transfer of 100% equity interests in Qi-Chi Forging and 100% equity interests in Qi-Chi Xinxin to Qijiang Gear Transmission at nil consideration, as well as the registration of the change with the industry and commerce administration.

(5) Completed the registration with the industry and commerce administration for Chongqing Machine Tools (Group) Shengpu Machinery Set Co., Ltd. (renamed as Chongqing Shengpu Materials Co., Ltd.) as a direct subsidiary of the Company.

(6) Completed the issuance of corporate bonds in 2011.

(7) Completed the registration for the establishment of Chongqing Holroyd Precision Screw Manufacture Co., Ltd. as the joint venture of PTG and the Machine Tools Group.

Through the above consolidations of equity interests, the equity structures of relevant enterprises are clearer, thus creating better conditions for outbound investments and introduction of strategic investors.

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

CAPITAL EXPENDITURE

As at 31 December 2011, the total capital expenditure of the Group was approximately RMB522.7 million, which was principally used for plant expansion, production technology improvement, equipment upgrade and the expansion of production capacity (31 December 2010: 506.4 million).

CAPITAL COMMITMENT

As at 31 December 2011, the Group had capital commitments of approximately RMB147.4 million (31 December 2010: RMB179.7 million) in respect of fixed assets and intangible assets.

RISK OF FOREIGN EXCHANGE

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

EMPLOYEES

As at 31 December 2011, the Group had a total of 18,082 employees (31 December 2010: 17,910 employees). The Group will continue the upgrade of its technical talent base, foster and recruit technical and management personnel possessed with extensive professional experiences, establish differentiated distribution system that links with the remunerations and 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.

USE OF PROCEEDS

After deducting related expenses, the net proceeds from the Company's Global Offering on the Stock Exchange on 13 June 2008 amounted to approximately RMB1,008.8 million. From 2008 to 29 February 2012, approximately RMB1,008.77 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 (details are set out in the announcement of general meeting dated 25 June 2009).

The following table sets out information regarding our Directors:

Name	Age	Position
Xie Hua Jun	58	Executive Director, Chairman
Yu Gang	47	Executive Director
Liao Shaohua	48	Executive Director
Chen Xianzheng	57	Executive Director
Huang Yong	49	Non-executive Director
Wang Jiyu	54	Non-executive Director
Liu Liangcai	58	Non-executive Director
Yang Jingpu	56	Non-executive Director
Lo Wah Wai	48	Independent Non-executive Director
Ren Xiaochang	55	Independent Non-executive Director
Kong Weiliang	65	Independent Non-executive Director

EXECUTIVE DIRECTORS

Mr. Xie Hua Jun, aged 58, 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 and concurrently served as the dean of Chongqing Research Institute of Mechanical and Electrical Equipment Technology (重慶機電裝備技術研究院) under the Parent Group since June 2011. 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 studied on the postgraduate program of Public Administration of the School of Government Administration (政府管理學院) 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 47, 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 the chairman of Chongqing Cummins Engine Co., Ltd. since January 2011 and 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 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 graduated from Southwest Normal School with a master's degree in business management in 2002. He also graduated from Xiamen University with an EMBA degree in December 2011.

Mr. Liao Shaohua, aged 48, 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 planning and technology of our Company. Mr. Liao has concurrently served as a director of Qijiang Gear Transmission Co., Ltd. since October 2011 and a director of Chongqing Water Turbine Works Co., Ltd. and Chongqing Jiangbei Machinery Co., Ltd. since December 2011. Mr. Liao has over 20 years of experience in the machine tools and machinery manufacture industry. Mr. Liao has been the chairman and general manager of Machine Tools Group 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 Machine Tools Group) from 1998 to 2005 in charge of production of machine tools, general management, legal and audit matters. Mr. Liao is a professor-level senior engineer. He graduated from Chongqing University with a bachelor's degree in automobile manufacture in 1985 and a master's degree in mechanics in 1988. He also obtained his PRC machinery industry senior professional manager qualification in 2005. He has been a deputy director of China Machine Tool Industry Association from 1999 to April 2010, a technology consultant of Chongqing City since 2007 and an expert judge for National Science and Technology Awards and an expert in comprehensive bid evaluation of Chongqing City since 2008.

Mr. Chen Xianzheng, aged 57, joined the Parent Group in August 1976 and joined the Company 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 concurrently served as a director of Chongqing General Industry (Group) Co., Ltd. since July 2007 and a director of Chongqing CAFF Automotive Braking & Steering System Co., Ltd. and Chongqing Huahao Smelting Co., Ltd. since December 2011. 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 Party Committee with a college degree in 1986.

NON-EXECUTIVE DIRECTORS

Mr. Huang Yong, aged 49, 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, finance and human resources. Since January 2011, Mr. Huang has concurrently served as the chairman and General Manager of Chongqing Helicopter Investment Corporation Limited (重慶直升機產業投資有限公司). 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. From 2000 to 2004, Mr. Huang has been involved in the management of Chongqing Heavy Vehicle Group Co., Ltd. and was the general manager and thereafter the chairman 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 55, 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. He has been the chairman of Chongqing Communications, Transport, Electromechanical & Logistics Co., Ltd. (重慶交運機電物流有限公司) since April 2011. 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 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 and 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. 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 60, 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 (Group) Co., Ltd. (formerly known as Chongqing Yufu Assets Management Co., Ltd.) in charge of the supervision of business operation and management and building of corporate culture. Mr. Liu has concurrently served as the chairman of the Supervisory Committee of Huarong Yufu Equity Investment Fund Management Co., Ltd.(華融渝富股權投資基金管理有限公司) since July 2010 and a director of Bank of Chongqing Co., Ltd.(重慶銀行股份有限公司) since December 2010. Mr. Liu worked in large state-owned enterprises in Chongqing City for 20 years. From May 2000 to September 2003, he was the vice secretary of the Enterprises Union Department of the Committee of Chongqing City and the vice secretary of the Communist Party Committee of SASAC of Chongqing City from September 2003 to November 2007 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 has been a chief of department or bureau level since May 2004. He served as party and government cadre, scientific technology cadre and performed corporate leadership management of the Chongqing municipal government organization department from November 1986 to May 2000. Mr. Liu is a senior professor level political scientist who graduated from Sichuan Broadcasting and Television University with a bachelor's degree in Language in June 1985 and the Party School 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 Normal University in June 2000.

Mr. Yang Jingpu, aged 56, joined the Company in August 2007 and has been a non-executive Director of our Company since then. Mr. Yang has been the chairman and general manager of Chongqing Construction Engineering Holdings Investment Co., Ltd. (重慶建工控股投資有限公司) since November 2007 and chairman of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) since May 2010, 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 chairman and general manager of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司) from July 2007 to May 2010. 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 professor-level 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 48, 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 Tenfu (Cayman) Holdings Company Limited (stock code: 6868), a company listed on the Main Board of the Stock Exchange since September 2011 and engaged in sale and marketing of a comprehensive range of tea products and the development of product concepts, tastes and packaging designs as a leading enterprise of traditional Chinese tea leaves in China. 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 55, 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 Co., Ltd.) since January 1982 and is currently the vice chairman, legal representative and General Manager (superintendent) 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. Ren is a senior engineer of researcher's grade, an expert of Machinery Industrial Scientific Technology Specialist of the PRC and an expert with special allowance from the State Council.

Mr. Kong Weiliang, aged 65, 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 deputy 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	60	Supervisor and Chairman of Supervisory Committee
Liao Rong	54	Supervisor (Resigned on 9 December 2011)
Wang Rongxue	66	Independent Supervisor
Liu Xing	54	Independent Supervisor
Wang Xuqi	59	Supervisor
Chen Qing	56	Supervisor
Zhang Xinzhi	40	Supervisor (Appointed on 9 December 2011)

Mr. Duan Rongsheng, aged 60, 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 served as 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 June 2006 to May 2011. Mr. Duan has been the chairman of the Supervisory Committee of the Parent Group since September 2010. From September 2000 to March 2010, 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 University with a master's degree in business management in 2000.

Ms. Wang Rongxue, aged 66, 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 Bureau of Metallurgical Industry and the Chongqing City Economic Committee. From 2000 to 2007, she was responsible for supervising Chongqing Construction and Engineering Group (重慶建工集團), Chongqing Engineering Construction Corporation (重慶工程建設總公司), Chongqing Urban Construction Investment Co., Ltd. (重慶城市建設投資公司), Chongqing Gas Group (重慶燃氣集團), Chongqing Public Bidding Group (重慶招標集團), Chongqing Chemical & Pharmaceutical Group (重慶化醫集團) and Chongqing Grain & Oil Group (重慶糧油集團). 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 55, 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 visits 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-practicing 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 59, joined the Parent Group and the Group in December 1976. Since July 2007, he has been a Supervisor of the Company. Mr. Wang has over 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. In December 2011, Mr. Wang resigned as the General Manager of Huahao Smelting. Mr. Wang served as a director of the Parent Group from 2004 to 2007 and has been the chairman and general manager of Chongqing Smelter (Group) Corporation Limited from 1998 to 2011. Mr. Wang has served at Chongqing Smelter Factory since 1984 and has been the deputy general manager of Chongqing Smelter Factory since 1993. Mr. Wang graduated from Chongqing Normal School with an associate 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 56, has been a supervisor of the Company since June 2010. He joined the Parent Group and the Group in June 1985 and served as the chairman of Chongqing General Industry (Group) Co., Ltd. and the chairman of Pump Company from September 2007 to February 2010. Mr. Chen has been the chairman and Secretary of the Party Committee of Chongqing Pump Industry Co., Ltd. since November 2002. Mr. Chen has over 20 years of experience in the industrial pump research and development and manufacturing industry. From November 2002 to September 2007, Mr. Chen was the general manager of Chongqing Pump Industry Co., Ltd. (formerly known as: Chongqing Pump Plant). 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 Central China College of Technology (華中工學院) 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.

Mr. Zhang Xinzhi, aged 40, has been a supervisor of the Company since 9 December 2011. Mr. Zhang has about 20 years of experience in finance. Mr. Zhang served as a member of the Party Committee, secretary of the Disciplinary Inspection Committee and deputy general manager of the Chongqing Office of China Huarong Asset Management Corporation in April 2011. He graduated from Jiangxi Bank School in July 1993. From July 1993 to September 1997, he served as the director of the sub-office at the Jiujiang Branch of Industrial and Commercial Bank of China. From September 1997 to April 2000, he served as the director of the sub-branch credit department and deputy director of the accounting center of the Jiujiang Branch of Industrial and Commercial Bank of China. From April 2000 to April 2011, he served as manager, senior assistant manager, senior deputy manager, senior manager, member of the Party Committee, and assistant general manager at the Nanchang Office of China Huarong Asset Management Corporation, and graduated from the University of International Business and Economics as a finance major in September 2005. Mr. Zhang is an economist and chartered financial analyst

SENIOR MANAGEMENT

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

Name	Age	Position
Yu Gang	47	General Manager
Liao Shaohua	48	Vice General Manager
Ren Yong	54	Vice General Manager
Gong Wei	50	Vice General Manager
Duan Caijun	47	Vice General Manager
Kam Chun Ying	45	Qualified Accountant

Mr. Yu Gang, aged 47, 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 48, 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 54, is a Vice General Manager of the Company. He joined the Parent Group in February 1982 and the Group in March 2005. He has been director of parent company since November 2004. He has been Chairman and party committee secretary of Chongqing Heavy Vehicle Group Co., Ltd. since July 2005, and served as Chairman of Chongqing CAFF Automotive Braking & Steering System Co., Ltd. from March 2005 to December 2011. Mr. Ren has been Director and vice Chairman of SAIC-IVECO HONGYAN Commercial Vehicle Co., Ltd. (上汽依維柯紅岩商用車有限公司) since June 2006, and concurrently served as a director of Chongqing Power Transformer Co., Ltd. (重慶變壓器有限責任公司) since October 2011 and a director of Chongqing Pump Industry Co., Ltd. and Chongqing Pigeon Electric Wire & Cable Co., Ltd. since December 2011. 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 studied in Chongqing University for a master's degree in Business and Administration.

Mr. Gong Wei, aged 49, is a Vice General Manager of the Company. He joined the Parent Group and the Group in August 1982. He served as the general manager of Chongqing CAFF Automotive Braking & Steering System Co., Ltd. from June 2003 to February 2011. 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 46, is a Vice General Manager of the Company. He joined the Parent Group and the Group in July 1987. He had served as the Chairman and general manager of Chongqing Pigeon Electric Wire & Cable Co., Ltd. from March 2001 to December 2011 and the General Manager of Chongqing Pigeon Electric Wire & Cable Co., Ltd. from October 1998 to June 2003; Mr. Duan has concurrently served as the director and Vice Chairman of Exedy (Chongqing) Driving System Co., Ltd.(愛思帝(重慶)驅動系統有限公司) since April 2011 and a director of Chongqing Machine Tool (Group) Co., Ltd. (重慶機床(集團)有限責任公司) and Chongqing Gas Compressor Factory Co., Ltd.(重慶氣體壓縮機廠有限責任公司) since December 2011. Mr. Duan has over 20 years of experience in enterprise management. From July 1997 to October 1998, 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 June 1992 to November 1996, 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 currently serves as the vice chairman of Chongqing Youth Federation, executive chairman of Chongqing Young Entrepreneurs Association and vice chairman of Chongqing Volunteers Association. 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. He was also recognized as a Paragon of Moral Rectitude of Chongqing and received an Honourable Mention Award in the first selection of National Paragon of Moral Rectitude.

Mr. Kam Chun Ying, Francis, aged 45, 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.

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 2011.

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 2011 are set out in the consolidated income statements in this annual report on pages 95 to 97.

FINAL DIVIDEND

The Board of the Company has recommended the payment of a final dividend of RMB0.06 per share (tax inclusive) (31 December 2010: RMB0.08 per share) for the year ended 31 December 2011, which is calculated based on the total share capital of 3,684,640,154 shares for the year ended 31 December 2011, totalling RMB221,078,409.24 (totalling RMB294,771,212.32 for the year ended 31 December 2010). Subject to approval by shareholders at the annual general meeting to be convened on Monday, 18 June 2012, the proposed final dividend will be paid on or about 31 July 2012 to shareholders whose names appear on the Register of Members of the Company on 29 June 2012 ("Record Date").

In order to ascertain the entitlements of the shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Saturday, 23 June 2012 to Friday, 29 June 2012 (both days inclusive), during which period no transfer of shares will be registered. All transfer documents accompanied by share certificates of the holders of H Shares of the Company must be lodged at our H Share Registrar at Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 22 June 2012.

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 18 May 2012. 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 18 May 2012. 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, 19 May 2012 to Monday, 18 June 2012 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and attending 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 18 May 2012.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31 December 2011, equity attributable to the shareholders of the Group amounted to approximately RMB4,924.9 million (31 December 2010: approximately RMB4,510.0 million). During this Period, the Group funded its working capital by internal cash flow and proceeds of approximately RMB1 billion raised from the successful issuance of corporate bond with maturity of 5-year period in the PRC. As at 31 December 2011, 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 35.0% (31 December 2010: 25.2%). The Group's current ratio (being the current assets as a percentage of current liabilities) increased to 1.81:1 in 2011 from 1.64:1 in 2010.

As at 31 December 2011, cash, bank balances and time deposits (including restricted cash) were approximately RMB3,084.7 million, indicating a healthy financial position. (31 December 2010: approximately RMB2,591.8 million)

FINANCIAL HIGHLIGHTS

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

INVESTMENT PROPERTIES, PROPERTY, PLANT AND EQUIPMENT

During the Period, the Group invested approximately RMB518.0 million in acquisition of property, plant and equipment for business expansion (31 December 2010: approximately RMB261.2 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 2011. Details of the share capital of the Company are set out in Note 18 to the consolidated financial statements.

ISSUE OF BONDS

Details of bonds issued by the Group and the Company during the year under review are set out in Note 21 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 RMB3.9 million (31 December 2010: approximately RMB2.2 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.	4.23%
Chongqing Second Light Industry Supply and Marketing Corporation	2.63%
Zhengzhou Yutong Bus Co., Ltd.	2.41%
Chongqing Wangsheng Cables Co., Ltd. (重慶網盛線纜有限公司)	2.21%
Chongqing Jiangong Group Logistics Co., Ltd.	1.96%
Total amount of the top five customers	13.44%

None of the top five customers are connected persons 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.	6.40%
Congqing Zhuoyue Industrial Development Co., Ltd. (重慶卓越實業發展有限公司)	3.80%
Yunnan Copper Industry Co., Ltd. (雲南銅業股份有限公司)	3.71%
China Ordins Corporation Southwest Co., Ltd. (中國兵工物質西南有限公司)	3.65%
Gansu Jinyu Materials Co., Ltd. (甘肅金宇物質有限公司)	3.20%
Total amount of the top five suppliers	20.76%

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 5% or more of our issued share capital, has any beneficial interest in any of our top five customers and suppliers.

COMPETING INTEREST

As at 31 December 2011, the non-competition agreement entered into by and between the Company and the Parent 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
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 (Resigned on 9 December 2010)
Wang Rongxue	27 July 2007
Liu Xing	15 June 2010
Wang Xuqi	27 July 2007
Chen Qing	15 June 2010
Zhang Xinzhi	9 December 2011

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 with the Company 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 of the Company 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 43 to 56 of this annual report.

DIRECTORS' REMUNERATION

The Directors' fees of the Company 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 and responsibility of each Director and the operating results of the Group. Please refer to Note 33 to the consolidated financial statements set out on pages 217 to 225 of this annual report.

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 2011, 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 2011, 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 of the Company 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 corporations.

SIGNIFICANT LITIGATION

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

SIGNIFICANT EVENTS

Please refer to pages 36 to 40 of this Annual report.

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

As at 31 December 2011, so far as the Directors of the Company 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 (Group) Co., Ltd. (formerly known as 「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 of controlled corporation	(1)	92.42	(L)	64.82
Ministry of Finance of the People's Republic of China	195,962,467	Interest of controlled Corporation	(3)	7.58	(L)	5.32

(L): Long Position

H shares of RMB1.00 each of the Company

Name of Shareholders	Number of shares	Capacity	Note	Percentage of total issued H shares (%)	Percentage of total issued shares (%)
FIL Limited	99,780,000 (L)	Investment manager		9.07 (L)	2.71 (L)
National Council for Social Security Fund	88,061,470 (L)	Beneficial owner		8.00 (L)	2.39 (L)
GE Asset Management Incorporated	87,551,632 (L)	Investment manager		7.96 (L)	2.38 (L)
The Bank of New York Mellon	87,276,000 (L)	Custodian		7.93 (L)	2.37 (L)
(formerly known as "The Bank of New York")	0 (P)			0 (P)	0 (P)
The Bank of New York Mellon Corporation	87,276,000 (L) 87,276,000 (P)	Interest of corporation controlled by substantial Shareholder	(4)	7.93 (L) 7.93 (P)	2.37 (L) 2.37 (P)
Templeton Asset Management Limited	66,626,600 (L)	Investment manager		6.06 (L)	1.81 (L)
BlackRock, Inc.	55,192,000 (L) 0 (S)	Interest of corporation controlled by substantial Shareholder	(5)	5.01 (L) 0 (S)	1.50 (L) 0 (S)

(L) Long Position
(S) Short Position
(P) Lending Pool

Note:

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

5. BlackRock Inc. was interested in 55,192,000 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	Name of the controlling shareholder	Percentage of ownership in controlled corporation %	Direct interest (Y/N)	Number of shares
BlackRock Holdco 2 Inc	BlackRock Inc.	100	N	55,192,000 (L)
BlackRock Financial Management, Inc.	BlackRock Holdco 2 Inc.	100	Y	55,192,000 (L)
BlackRock Holdco 4 LLC	BlackRock Financial Management, Inc.	100	N	54,956,000 (L)
BlackRock Holdco 6 LLC	BlackRock Holdco 4 LLC	100	N	54,956,000 (L)
BlackRock Delaware Holdings, Inc.	BlackRock Holdco 6 LLC	100	N	54,956,000 (L)
BlackRock Institutional Trust Company, N.A.	BlackRock Delaware Holdings, Inc.	100	Y	54,956,000 (L)
BlackRock Fund Advisors	BlackRock Institutional Trust Company, N.A.	100	Y	574,000 (L)
BlackRock Advisors Holdings Inc.	BlackRock Financial Management, Inc.	100	N	236,000 (L)
BlackRock International Holdings Inc.	BlackRock Advisors Holdings Inc.	100	N	236,000 (L)
BR Jersey International LP	BlackRock International Holdings Inc.	100	N	236,000 (L)
BlackRock Australia Holdco Pty Ltd	BR Jersey International LP	100	N	16,000 (L)
BlackRock Asset Management Australia Limited	BlackRock Australia Holdco Pty Ltd	100	Y	16,000 (L)
BlackRock Group Limited	BR Jersey International LP	100	N	220,000 (L)
Blackrock Advisors UK Ltd.	BlackRock Group Limited	100	Y	220,000 (L)

Save as disclosed above, the Directors of the Company are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were require to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2011.

CONTINUING CONNECTED TRANSACTIONS

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

Master Sales Agreement

On 16 June 2010, a master sales agreement was renewed by and between the Company and 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. As approved at the 2010 annual general meeting, the annual caps for 2011, 2012 and 2013 were adjusted on 6 June 2011, pursuant to which the annual caps for 2011, 2012 and 2013 were set at RMB155 million, RMB185 million and RMB210 million respectively.

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

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

For the year ended 31 December 2011, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB98.3 million.

Master Supplies Agreement

On 16 June 2010, a master supplies agreement was renewed 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. As approved at the 2010 annual general meeting, the annual caps for 2011, 2012 and 2013 were adjusted on 6 June 2011, pursuant to which the annual caps for 2011, 2012 and 2013 were set at RMB410 million, RMB480 million and RMB550 million respectively.

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

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

For the year ended 31 December 2011, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB248.0 million.

Master Leasing Agreement

On 16 June 2010, the Company renewed the 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, the annual caps of leasing amounts for 2011, 2012 and 2013 were set at RMB22 million.

For the year ended 31 December 2011, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB16.1 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 2011, 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.

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

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

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

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

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

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

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

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

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

PRE-EMPTIVE RIGHTS

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

COMMITTEES UNDER THE BOARD

The Board of Company has established Audit Committee, Remuneration Committee, Nomination Committee and Strategic Committee ("Board Committees"). Biographical details of the Board Committees are set out in the section of Corporate Governance on pages 79 to 89 of this annual report.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2011, the Group had a total of approximately 18,082 employees (31 December 2010: 17,910 employees). Their salaries are determined based on the market trends and their performance, and welfare includes insurance and pension schemes, which are strictly executed in accordance with national regulations.

Remuneration of the Directors of the Company is determined by the Remuneration Committee, taking the operating results of the Company and comparable market statistics into consideration. Please refer to the Directors' Report set out in pages 57 to 76 in this annual report.

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 their associates and the executives are not allowed to participate in the determination of their own remuneration.

POST BALANCE SHEET DATE EVENTS

Details of significant events after the balance sheet date are set out in Note 44 to the consolidated financial statements.

PUBLIC FLOAT

During the year ended 31 December 2011, 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.

DISTRIBUTABLE RESERVES

According to the Articles of Association of the Company, the Company's reserves available for distribution based on the Company's profit are the lower of which is determined under HKFRS and China Accounting Standards for Business Enterprises ("CAS").

The Company's reserves available for distribution as at 31 December 2011 under HKFRS and CAS were RMB850,135,000 and RMB979,482,153 respectively. Thus, as at 31 December 2011, the Company's distributable reserve attributable to shareholders of the Company amounted to RMB850,135,000.

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 2011. 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 2012 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, 20 March 2012

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 in accordance with the Rules of Procedures of the Supervisory Committee of the Company. In order to improve the effectiveness of supervision, the Supervisory Committee, based on the actual conditions of the Company, identified the business highlights and difficulties, and performed concentrated inspection, special inspection of accounts receivable, analysis of financial statements for a half year, comprehensive investigation of subsidiaries and project tracking supervision respectively. It effectively promoted the sound development and management level though "identifying troubles, ascertaining reasons, proposing suggestions and taking effects". In respect of daily supervision, 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 2011, 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. In 2011, the Company established and revised 87 rules and regulations and formulated the Guidebook on the Systems of Chongqing Machinery & Electric Co., Ltd. These systems have been effectively implemented, which 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 are objective and fair.

- 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, 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 2011, 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 2011 annual general meeting of the Company.

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

Chongqing, the PRC, 20 March 2012

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 2011 in compliance with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules and Corporate Governance Report.

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 2011.

THE BOARD

The Board of the Company is responsible for formulating the Company's governance rules, overseeing the Company's business, finance, making financial decisions 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 of the Company has also delegated various responsibilities to the Audit Committee, Nomination Committee, Remuneration Committee and the Strategic 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 of the Company 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. In accordance with the working rules of the Board of the Company, the Board is responsible for executing the resolutions of general meetings, deciding on medium and long term development strategic planning, annual operation and investment plans and schemes of the Company; preparing annual financial budget, profit distribution plans, financing, acquisition and merger plans and significant events of the Company. The General Manager is responsible for the Group's daily operation and business management.

Notice of meetings shall be delivered to each Director at least 14 days prior to the date of the regular 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 of the Company 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 of the Company consisted of 11 Directors, including 4 executive Directors, 4 non-executive Directors and 3 independent non-executive Directors.

The Board of the Company 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 2011 to 31 December 2011, the Board held 15 meetings.

Attendance of Directors to the Board meetings of the Company is as follows:

Name of Director	Position	Meetings attended/ total meetings held
Xie Hua Jun	Executive Director, Chairman	15/15
Yu Gang	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	Non-executive Director	15/15
Liu Liangcai	Non-executive Director	15/15
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 43 to 49 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 under the Board of the Company assumes the role of consultant of the Board and its articles of association has written terms of reference in accordance with the Code on Corporate Governance Practices, which are available on the websites of the Hong Kong Stock Exchange and the Company. The Remuneration Committee consists of 2 independent non-executive Directors and 1 non-executive Director. The chairman shall be an independent 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, which were approved by the Board.

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

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

NOMINATION COMMITTEE

The Nomination Committee under the Board of the Company consists of 2 independent non-executive Directors and 1 non-executive Director. The Committee's articles of association has written terms of reference which are available on the websites of the Hong Kong Stock Exchange and the Company. The Nomination Committee is responsible for the identification and evaluation of candidates for appointment or reappointment as directors and senior management, 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 election at the general meeting. The independency of the independent non-executive Directors shall be examined.

The Nomination Committee convened 1 meeting 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	1/1
Ren Xiaochang	Independent Non-executive Director	1/1
Huang Yong	Non-executive Director	1/1

AUDIT COMMITTEE

The Board of the Company 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 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. The Committee has written terms of reference, which are available on the websites of the Hong Kong Stock Exchange and the Company.

At the moment, the Audit Committee consists of 2 independent non-executive Directors and 1 non-executive Director. The Remuneration Committee convened 4 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	4/4
Kong Weiliang	Independent Non-executive Director	4/4
Liu Liangcai	Non-executive Director	4/4

During the year, the Audit Committee approved the 2010 Condensed Consolidated Financial Information and the 2011 Condensed Consolidated Interim Financial Information of the Company audited 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 of the Company.

STRATEGIC COMMITTEE

Based on the Company's needs of corporate internal control system construction, the Board of the Company considered, in the comprehensive research and judgment of the effectiveness of corporate organizational structure, that the planning of corporate strategic development is an indispensable work for the sustainable development of the Company. The Board of the Company approved the Articles of Association of the Strategic Committee of the Board on 23 December 2011 and established the first session of Strategic Committee of the Board to be mainly in charge of studying and proposing suggestions on the Company's long-term development strategies and material investment decisions and providing decision-making references to the Board.

The Strategic Committee consists of 4 executive Directors, 2 independent non-executive Directors and 1 non-executive Director. The chairman of the Committee is assumed by the Chairman of the Board. Members of the Committee are set out in the table below.

Name of Director	Position
Xie Hua Jun *(Chairman)*	Executive Director
Yu Gang	Executive Director
Liao Shaohua	Executive Director
Chen Xianzheng	Executive Director
Ren Xiaochang	Independent Non-executive Director
Kong Weiliang	Independent Non-executive Director
Huang Yong	Non-executive Director

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises 6 members, 2 of whom are independent Supervisors. During the Period, Mr. Zhang Xinzhi was appointed as a supervisor to fill the vacancy arising from Ms. Liao Rong's resignation as a supervisor. Relevant details are set out in the circular of the 2011 first extraordinary general meeting issued by the Company on 21 October 2011.

The Supervisory Committee of the Company 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 2011, 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 has enhanced the independence and scientificity 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, which used to be led by the General Manager, was adjusted to be directly accountable 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 Year, the Internal Audit Department of the Company seriously performed its functions of supervision, evaluation and control and well conducted internal supervision following the work idea of "to manage personnel through accountability audit ", " to manage matters through construction project audit" and "to manage assets through financial audit ". For legal representatives, "audit must be conducted in case of resignation" was implemented. The accountability audit was firstly performed during their tenure. For major construction projects, follow-up audit was performed throughout the whole process and the way of supervision was innovated. For subsidiaries, the comprehensive investigation and research work was conducted for the purpose of strengthening monitoring and promoting management. Four basic auditing systems were established and improved, thus effectively enhancing the audit work.

ENHANCEMENT OF INTERNAL CONTROL

During the Period, the Company took various measures to enhance internal control and formulate the Company's internal control manual, 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 procedures and 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, implemented newly formulated Internal Control Manual and Internal Control Authorization Manual of the Company, and segregated duties in the principle of incompatibility. Each functional department collaborated, checked and balanced with each other to strength corporate governance and supervision improvement. The Company was in strict compliance with requirements of the Listing Rules of Stock Exchange of Hong Kong and five ministries including Ministry of Finance of the PRC, to strengthen and implement risk control over the Company.

ACCOUNTABILITY AND AUDITORS

The Board of the Company 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 2011 amounted to approximately RMB5.0 million (2010: approximately RMB6.0 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 131 institutional investors or investors in 110 meetings such as roadshows, investor presentations, site visits and communications, and telephone interviews. The full communication with investors enhanced the Group's relationship with investors and allowed them to better understand and enhance confident in operations and developments of the Group.

TRAINING OF DIRECTORS

In accordance with the code provisions, the Company arranged trainings on relevant laws and regulations including the Listing Rules for 16 Directors, supervisors and senior management of the Company for 7 times through the Hong Kong Institute of Chartered Secretaries, Chongqing Listed Companies Association, securities regulatory institutions and special trainings, etc.

羅兵咸永道

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 92 to 256, which comprise the consolidated and company balance sheets as at 31 December 2011, 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.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

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 2011, 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, 20 March 2012

BALANCE SHEETS

(All amounts in RMB unless otherwise stated)

		Group		Company	
		As at 31 December		As at 31 December	
		2011	2010	**2011**	2010
	Note	***RMB '000***	*RMB '000*	***RMB '000***	*RMB '000*
ASSETS					
Non-current assets					
Property, plant and equipment	6	**2,194,838**	1,812,713	**4,873**	4,435
Investment properties	7	**36,007**	21,718	**—**	—
Lease prepayments	8	**301,674**	270,516	**—**	—
Intangible assets	9	**268,520**	274,467	**—**	—
Investments in associates	10	**397,655**	397,943	**209,206**	209,206
Investments in subsidiaries	11	**—**	—	**2,145,489**	2,001,964
Investments in jointly controlled entities	12	**—**	—	**200,929**	200,929
Trade and other receivables	14	**—**	—	**363,958**	153,957
Deferred income tax assets	23	**83,482**	115,898	**—**	—
Available-for-sale financial assets		**3,529**	4,317	**—**	—
Other non-current assets		**14,260**	10,212	**—**	—
		3,299,965	2,907,784	**2,924,455**	2,570,491
Current assets					
Inventories	13	**1,788,669**	1,612,628	**—**	—
Trade and other receivables	14	**3,302,678**	2,901,478	**400,185**	144,120
Dividend receivable		**—**	—	**255,315**	—
Amount due from customers for contract work	15	**283,991**	158,521	**—**	—
Restricted cash	16	**295,099**	473,016	**5,945**	5,010
Cash and cash equivalents	17	**2,789,570**	2,118,810	**1,515,485**	858,962
		8,460,007	7,264,453	**2,176,930**	1,008,092
Total assets		**11,759,972**	10,172,237	**5,101,385**	3,578,583

		Group		Company	
		As at 31 December		As at 31 December	
		2011	2010	**2011**	2010
	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	**(827,006)**	(847,198)	**(810,899)**	(858,692)
Retained earnings					
— Proposed final dividend	20	**221,078**	294,771	**221,078**	294,771
— Others	19	**1,846,189**	1,377,783	**629,057**	100,253
		4,924,901	4,509,996	**3,723,876**	3,220,972
Non-controlling interests		**41,958**	64,212	**—**	—
Total equity		**4,966,859**	4,574,208	**3,723,876**	3,220,972
LIABILITIES					
Non-current liabilities					
Borrowings	21	**1,458,533**	481,359	**1,185,277**	263,086
Deferred income	22	**556,000**	513,017	**—**	—
Deferred income tax liabilities	23	**32,120**	29,311	**—**	—
Long-term employee benefit obligations	24	**76,781**	131,788	**—**	—
		2,123,434	1,155,475	**1,185,277**	263,086

		Group		Company	
		As at 31 December		As at 31 December	
		2011	2010	**2011**	2010
	Note	***RMB '000***	*RMB '000*	***RMB '000***	*RMB '000*
Current liabilities					
Trade and other payables	25	**3,281,339**	3,226,915	**110,595**	42,239
Dividends payable		**40,184**	—	**15,677**	—
Amount due to customers for contract work	15	**7,852**	24,785	**—**	—
Current income tax liabilities		**63,976**	55,385	**—**	—
Borrowings	21	**1,211,158**	1,061,592	**65,960**	52,286
Current portion of long-term employee benefit obligations	24	**12,554**	14,078	**—**	—
Provisions for warranty	26	**52,616**	59,799	**—**	—
		4,669,679	4,442,554	**192,232**	94,525
Total liabilities		**6,793,113**	5,598,029	**1,377,509**	357,611
Total equity and liabilities		**11,759,972**	10,172,237	**5,101,385**	3,578,583
Net current assets		**3,790,328**	2,821,899	**1,984,698**	913,567
Total assets less current liabilities		**7,090,293**	5,729,683	**4,909,153**	3,484,058

The notes on pages 102 to 256 are an integral part of these financial statements.

The financial statements on pages 92 to 256 were approved by the Board of Directors on 20 March 2012 and were signed on its behalf

Director *Director*

		Year ended 31 December	
		2011	2010
	Note	***RMB '000***	*RMB '000*
Revenue	5	**10,546,001**	8,883,202
Cost of sales	27	**(8,586,096)**	(7,191,584)
Gross profit		**1,959,905**	1,691,618
Distribution costs	27	**(304,379)**	(300,931)
Administrative expenses	27	**(800,342)**	(743,581)
Other gains, net	29	**116,255**	49,026
Other income	30	**36,508**	52,632
Operating profit		**1,007,947**	748,764
Finance income		**34,187**	29,617
Finance costs		**(131,324)**	(79,124)
Finance costs, net	31	**(97,137)**	(49,507)
Share of profit of associates	10	**2,848**	65,801
Profit before income tax		**913,658**	765,058
Income tax expense	32	**(168,463)**	(66,298)
Profit for the year		**745,195**	698,760

		Year ended 31 December	
		2011	2010
	Note	***RMB '000***	*RMB '000*
Other comprehensive income:			
Changes in fair value of available-for-sale financial assets		**(788)**	(2,623)
Income tax relating to changes in fair value of available-for-sale financial assets		**517**	579
Currency translation differences		**528**	(6)
Other comprehensive income for the year, net of tax		**257**	(2,050)
Total comprehensive income for the year		**745,452**	696,710
Profit attributable to:			
Equity holders of the Company		**737,277**	687,732
Non-controlling interests		**7,918**	11,028
		745,195	698,760

		Year ended 31 December	
		2011	2010
	Note	***RMB '000***	*RMB '000*
Total comprehensive income attributable to:			
Equity holders of the Company		**737,534**	685,682
Non-controlling interests		**7,918**	11,028
		745,452	696,710
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	**0.20**	0.19
Dividends proposed after the balance sheet date to all shareholders	20	**221,078**	294,771

The notes on pages 102 to 256 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 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-sales 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
Total contributions by and distributions to equity holders of the Company recognised directly in equity						
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
Total contributions by and distributions to equity holders of the Company	—	—	(221,078)	(221,078)	(20,696)	(241,774)
Transfer to reserves	—	37,151	(37,151)	—	—	—
Total transactions with equity holders	—	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

		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		*Note 19*	*Note 19*			
Balance at 1 January 2011		3,684,640	(847,198)	1,672,554	4,509,996	64,212	4,574,208
Comprehensive income							
Profit for the year		—	—	737,277	737,277	7,918	745,195
Other comprehensive income							
Changes in fair value of available-for-sale financial assets, net of tax		—	(271)	—	(271)	—	(271)
Currency translation differences		—	528	—	528	—	528
Total other comprehensive income		—	257	—	257	—	257
Total comprehensive income		—	257	737,277	737,534	7,918	745,452
Total contributions by and distributions to equity holders of the Company recognised directly in equity							
Dividends relating to 2010		—	—	(294,771)	(294,771)	—	(294,771)
Dividends to non-controlling interests		—	—	—	—	(15,418)	(15,418)
Total contributions by and distributions to equity holders of the Company		—	—	(294,771)	(294,771)	(15,418)	(310,189)
Changes in ownership interests in subsidiaries without change of control	38	—	(27,858)	—	(27,858)	(14,754)	(42,612)
Transfer to reserves		—	47,793	(47,793)	—	—	—
Total transactions with equity holders		—	19,935	(342,564)	(322,629)	(30,172)	(352,801)
Balance at 31 December 2011		3,684,640	(827,006)	2,067,267	4,924,901	41,958	4,966,859

The notes on pages 102 to 256 are an integral part of these financial statements.

		Year ended 31 December	
		2011	2010
	Note	***RMB '000***	*RMB '000*
Cash flows from operating activities			
Cash generated from operations	35	**409,447**	243,260
Interest paid		**(106,910)**	(75,275)
Income tax paid		**(134,084)**	(105,208)
Transaction costs in relation to acquisition of subsidiaries		**(1,722)**	(6,976)
Net cash generated from operating activities		**166,731**	55,801
Cash flows from investing activities			
Purchase of short-term investments at fair value through profit or loss		**(5,370,000)**	—
Proceeds from return of short-term investments at fair value through profit or loss		**5,392,971**	—
Proceeds from return of investments		**—**	8,000
Purchase of available-for-sale financial assets		**—**	(395)
Additional investment to associates		**—**	(10,912)
Proceeds from government grants related to assets		**77,234**	—
Purchases of property, plant and equipment and investment properties		**(428,002)**	(212,495)
Increase in lease prepayments		**(1,147)**	(2,224)
Purchase of intangible assets		**(3,540)**	(5,204)
Acquisition of subsidiaries, net of cash acquired	39	**(64,133)**	(141,863)
Proceeds from disposal of property, plant and equipment	35	**24,768**	42,640
Interest received		**34,187**	29,617
Dividends received		**41,723**	106,431
Net cash used in investing activities		**(295,939)**	(186,405)

		Year ended 31 December	
		2011	2010
	Note	***RMB '000***	*RMB '000*
Cash flows from financing activities			
Proceeds from borrowings		**2,252,146**	1,231,658
Repayments of borrowings		**(1,074,941)**	(924,977)
Finance lease paid		**(44,170)**	(5,470)
Contribution from non-controlling interests		**20,000**	4,900
Dividends paid to company's shareholders		**(271,043)**	(215,092)
Dividends paid to non-controlling interests		**(14,642)**	(25,596)
Transactions with non-controlling interests		**(62,612)**	—
Net cash generated from financing activities		**804,738**	65,423
Net increase/(decrease) in cash and cash equivalents		**675,530**	(65,181)
Cash and cash equivalents at beginning of the year		**2,118,810**	2,187,362
Exchange losses on cash and cash equivalents		**(4,770)**	(3,371)
Cash and cash equivalents at end of the year	17	**2,789,570**	2,118,810

The notes on pages 102 to 256 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 20 March 2012.

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.

2.1.1 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 2011.

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

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures *(Continued)*

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

- HKAS 24 (Revised), "Related party disclosures" is effective for annual period beginning on or after 1 January 2011. It introduces an exemption from all of the disclosure requirements of HKAS 24 for transactions among government related entities and the government. Those disclosures are replaced with a requirement to disclose:

  - The name of the government and the nature of their relationship;

  - The nature and amount of any individually significant transactions; and

  - The extent of any collectively-significant transactions qualitatively or quantitatively.

  It also clarifies and simplifies the definition of a related party. See Note 40 for disclosures of transactions among government related entities.

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

2.1 Basis of preparation *(Continued)*

2.1.1 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 2011 and the Group has not been early adopted

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

- HKFRS 9, 'Financial instruments' addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKAS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 upon its effective date, which is for the accounting period beginning on or after 1 January 2015.

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

2.1 Basis of preparation *(Continued)*

2.1.1 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 2011 and the Group has not been early adopted (Continued)

- HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

- HKFRS 12 'Disclosures of interests in other entities' includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Group is yet to assess HKFRS 12's full impact and intends to adopt HKFRS 12 no later than the accounting period beginning on or after 1 January 2013.

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

2.1 Basis of preparation *(Continued)*

2.1.1 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 2011 and the Group has not been early adopted (Continued)

- HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The Group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

There are no other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the Group.

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

2.2 Subsidiaries

2.2.1 Consolidation

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. The group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise from circumstances such as enhanced minority rights or contractual terms between shareholders, etc.

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.

Inter-company transactions, balances, income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognised in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the group.

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

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(a) *Business combinations*

The Group applies 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 to the former equity holders of the acquiree 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. The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis, either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through profit or loss.

Any contingent consideration to be transferred by the group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in accordance with HKAS 39 either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

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

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(a) Business combinations (Continued)

Goodwill is initially measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognised in profit or loss.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. The difference between fair value of 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 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(c) Disposal of subsidiaries

When the group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, 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, joint venture 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.

2.2.2 Separate financial statements

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 and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.3 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. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The group's investment in associates includes goodwill identified on acquisition.

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 is reclassified to profit or loss where appropriate.

The group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to 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 legal or constructive obligations or made payments on behalf of the associate.

The group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to 'share of profit/(loss) of an associate' in the income statement.

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

2.3 Associates *(Continued)*

Profits and losses resulting from upstream and downstream transactions between the group and its associate are recognised in the group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealised losses are 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 the income statement.

2.4 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 2.11). The results of jointly controlled entities are accounted for by the Company on the basis of dividends received and receivable.

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

2.5 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.

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

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

2.6 Foreign currency translation *(Continued)*

(b) Transactions and balances *(Continued)*

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.

(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

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

2.6 Foreign currency translation *(Continued)*

(c) Group companies *(Continued)*

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

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. Exchange differences arising are recognised in equity.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a jointly controlled entity that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the exchange differences accumulated in equity in respect of that operation attributable to the equity holders of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the group's ownership interest in associates or jointly controlled entities that do not result in the group losing significant influence or joint control) the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

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

2.7 Property, plant and equipment

Land and buildings comprise mainly factories, retail outlets and offices. All property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

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

For the moulds included in equipment machinery, the depreciation is calculated using the unit-of-production method to allocate their cost to their residual values over their estimated frequency of use, as follows:

	Estimated production units	Depreciation rate per unit
— Moulds	500	0.2%

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

2.7 Property, plant and equipment *(Continued)*

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

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.

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.

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

2.9 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.

2.10 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries, associates and joint ventures and represents the excess of the consideration transferred over the Group's interest in net fair value of the net identifiable assets, liabilities and contingent liabilities of the acquiree and the fair value of the non-controlling interest in the acquiree.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognised immediately as an expense and is not subsequently reversed.

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

2.10 Intangible assets *(Continued)*

(b) Technical know-how

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

(c) Brand and customer relationships

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

2.11 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.

2.12 Financial assets

2.12.1 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.

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

2.12 Financial assets *(Continued)*

2.12.1 Classification *(Continued)*

(b) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the 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 2.17 and 2.18).

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

2.12 Financial assets *(Continued)*

2.12.2 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. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the group's right to receive payments is established.

Changes in the fair value of monetary 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 as 'gains and losses from investment securities'.

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

2.12 Financial assets *(Continued)*

2.12.2 Recognition and measurement *(Continued)*

Interest on available-for-sale securities calculated using the effective interest method is recognised in profit or loss as part of other income. 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.

2.13 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.

2.14 Impairment of financial assets

(a) Assets carried at amortised cost

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

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

2.14 Impairment of financial assets *(Continued)*

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

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

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 the consolidated income statement. If a loan or held- to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

2.14 Impairment of financial assets *(Continued)*

(b) Assets classified as available-for-sale

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

2.15 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)*

2.16 Inventories

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

2.17 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.

2.18 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)*

2.19 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.

2.20 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.

2.21 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.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

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

2.21 Borrowings and borrowing costs *(Continued)*

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.

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

2.22 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.

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

2.22 Current and deferred income tax *(Continued)*

(a) Current income tax

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.

(b) Deferred income tax

Inside basis differences

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)*

2.22 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

Outside basis differences

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.

(c) Offsetting

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.23 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.

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.

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

2.23 Employee benefits *(Continued)*

(a) Pension obligations *(Continued)*

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.

(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.

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

2.23 Employee benefits *(Continued)*

(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.

(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.

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

2.23 Employee benefits *(Continued)*

(e) Bonus entitlement

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

(f) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to 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.

2.24 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.

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

2.24 Provisions *(Continued)*

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.

2.25 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)*

2.26 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.

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'.

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

2.26 Construction contracts *(Continued)*

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).

2.27 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts returns and value added taxes. The group recognises revenue when the amount of revenue can be reliably measured; when 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 of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(a) Sales of goods

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

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

2.27 Revenue recognition *(Continued)*

(b) Revenue from construction contracts

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

(c) Sales of services

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

(d) Interest income

Interest income is recognised 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.

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

2.27 Revenue recognition *(Continued)*

(f) Dividend income

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

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

2.29 Research and development

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

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

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

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

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

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

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

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

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

2.30 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") (Note 17). 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.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk (Continued)

As at 31 December 2011, if RMB had weakened/strengthened by 1% (2010: 1%) against HKD with all other variables held constant, the Group's post-tax profit for the year would have been approximately RMB652,000 (2010: RMB705,000) higher/lower, mainly as a result of foreign exchange gains/losses on translation of HKD-denominated bank deposits.

As at 31 December 2011, if RMB had weakened/strengthened by 1% (2010: 1%) against USD with all other variables held constant, the Group's net profit for the year then ended would have been approximately RMB912,000 (2010: RMB557,000) 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 rates expose the Group to cash flow 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 2011 and 2010, 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.

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 2011, if the interest rate of the Group's bank deposits had been increased/decreased by 10% (2010: 10%) and all other variables were held constant, the Group's post-tax profit for the year then ended would increase/decrease by approximately RMB1,300,000 (2010: RMB2,517,000).

As at 31 December 2011, if the interest rate of the Group's bank borrowings at variable rates had been increased/decreased by 10% (2010: 10%) and all other variables were held constant, the Group's net profit for the year then ended would decrease/increase by approximately RMB6,963,000 (2010: RMB3,915,000).

(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.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

As at 31 December 2011 and 2010, 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 2011 and 2010 were as follows:

	As at 31 December	
	2011	2010
	RMB '000	*RMB '000*
Big four commercial banks *(i)*	**1,072,548**	571,754
Other listed banks	**1,986,150**	1,962,875
Other non-listed banks	**23,995**	55,448
	3,082,693	2,590,077

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

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

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

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

(c) Liquidity risk

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

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

The table below analyses the Group's and 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 2011				
Bank borrowings	1,226,268	177,312	316,327	—
Other borrowings	45,584	—	—	—
Corporate bonds	65,900	65,900	1,197,700	—
Finance lease liabilities	1,587	21,050	—	—
Trade and other payables	2,195,935	—	—	—
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	—	—	—

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

Company	Less than 1 year RMB '000	Between 1 and 2 years RMB '000	Between 2 and 5 years RMB '000	Over 5 years RMB '000
At 31 December 2011				
Bank borrowings	79,504	84,504	138,584	—
Corporate bonds	65,900	65,900	1,197,700	—
Trade and other payables	85,518	—	—	—
Financial guarantee contracts	210,400	—	—	—
At 31 December 2010				
Bank borrowings	67,839	80,917	211,796	—
Trade and other payables	42,112	—	—	—
Financial guarantee contracts	279,510	—	—	—

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.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.2 Capital risk management *(Continued)*

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.

The gearing ratios at 31 December 2011 and 2010 were as follows:

	31 December 2011 RMB '000	31 December 2010 RMB '000
Total borrowings	**2,669,691**	1,542,951
Total equity	**4,966,859**	4,574,208
Total capital	**7,636,550**	6,117,159
Gearing ratio	**35%**	25%

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

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).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2011.

	Level 1 *RMB '000*	**Level 2** *RMB '000*	**Level 3** *RMB '000*	**Total** *RMB '000*
Assets				
Available-for-sale financial assets				
— Equity securities	3,529	—	—	3,529
Total assets	3,529	—	—	3,529

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

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

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.3 Fair value estimation *(Continued)*

The carrying amounts of the Group's financial assets including cash and cash equivalents, restricted cash 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.

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

(a) Taxation *(Continued)*

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

As at 31 December 2011, the Group has deferred tax assets in the amount of approximately RMB83,482,000. 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 tax rate be increased every 1% would render a further write up of deferred tax asset in the amount of approximately RMB5,565,000.

(b) Impairment of non-financial assets

Non-financial assets are reviewed for impairment in accordance with the accounting policy stated in Note 2.11. The recoverable amount of an asset or a cash-generating unit is the higher of an asset's or a cash-generating unit's fair value less costs to sell and value-in-use. 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 labor 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 expense 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 2011 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	1,898,383	1,172,147	400,876	2,352,305	1,365,169	2,194,927	—	1,167,363	10,551,170
Inter-segment revenue	—	—	—	(1,164)	—	(4,005)	—	—	(5,169)
Revenue from external customers	1,898,383	1,172,147	400,876	2,351,141	1,365,169	2,190,922	—	1,167,363	10,546,001
Operating profit	527,180	105,006	53,972	80,316	113,043	124,753	—	3,677	1,007,947
Finance income	7,138	206	2,579	4,897	4,144	5,577	—	9,646	34,187
Finance costs	958	(6,117)	(4,652)	(31,775)	(10,618)	(22,492)	—	(56,628)	(131,324)
Share of profit from associates	—	(189)	—	—	(4,602)	—	10,335	(2,696)	2,848
Profit before income tax									913,658
Income tax expense	(89,233)	(14,628)	(5,574)	(10,257)	(24,168)	(23,107)	—	(1,496)	(168,463)
Profit for the year									745,195
Depreciation on property, plant and equipment and investment properties	10,559	28,891	8,416	16,939	34,757	36,883	—	17,727	154,172
Amortisation of lease prepayments and intangible assets	3,041	3,207	944	1,305	6,089	6,699	—	399	21,684
Write down/(write-back) of inventories	86	(491)	—	2,137	(2,802)	4,817	—	(807)	2,940
(Reversal of)/provision for impairment on trade and other receivables	(315)	(136)	1,103	1,706	(6,658)	9,697	—	84	5,481
Total assets	984,520	1,325,898	802,320	970,819	2,721,436	2,448,780	161,215	2,344,984	11,759,972
Total assets include:									
Investments in associates	—	1,070	—	—	74,902	—	161,215	160,468	397,655
Additions to non-current assets (other than financial instruments and deferred tax assets)	21,772	47,591	18,633	11,971	132,122	231,476	—	59,099	522,664

5. SEGMENT INFORMATION (CONTINUED)

The segment information for the year ended 31 December 2010 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	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	(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)*

Except Holroyd Precision Limited, Precision Components Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited, PTG Deutschland GmbH ("PTG six entities") and Precision Technologies Group (PTG) Limited, the other entities of the Group are domiciled in the PRC. The result of the Group's revenue from external customers in the PRC for the year ended 31 December 2011 is approximately RMB 10,203,233,000 (for the year ended 31 December 2010: RMB8,659,295,000), and the total of its revenue from external customers from other countries is approximately RMB 342,768,000 (for the year ended 31 December 2010: RMB223,907,000).

The total of non-current assets other than financial instruments and deferred income tax assets located in the PRC were RMB2,948,166,000 (2010: RMB2,554,096,000), and the total of non-current assets located in other countries were RMB264,788,000 (2010: RMB233,473,000).

6. PROPERTY, PLANT AND EQUIPMENT

Group

	Buildings and plants RMB '000	Equipment machinery and moulds RMB '000	Motor vehicles RMB '000	Assets under construction RMB '000	Total RMB '000
At 1 January 2010					
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 subsidiaries	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	(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	858,829	1,825,411	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	664,172	989,733	48,315	110,493	1,812,713

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

Group *(Continued)*

	Buildings and plants RMB '000	Equipment machinery and moulds RMB '000	Motor vehicles RMB '000	Assets under construction RMB '000	Total RMB '000
Year ended 31 December 2011					
Opening net book amount	664,172	989,733	48,315	110,493	1,812,713
Acquisition of a subsidiary *(Note 39)*	43,794	26,994	639	90	71,517
Transfers	65,388	118,225	732	(184,345)	—
Additions	4,430	39,651	36	473,860	517,977
Additions -Sale and leaseback transaction *(Note 22)*	—	59,660	—	—	59,660
Transfers to investment properties *(Note 7)*	(17,267)	—	—	—	(17,267)
Transfers to lease prepayment *(Note 8)*	—	—	—	(10,730)	(10,730)
Transfers to intangible assets*(Note 9)*	—	—	—	(715)	(715)
Investment in an associate *(Note 41)*	—	(25,234)	—	—	(25,234)
Disposals *(Note 35)*	(271)	(3,541)	(1,709)	—	(5,521)
Deduction -Sale and leaseback transaction *(Note 22)*	—	(54,260)	—	—	(54,260)
Other deduction	(380)	(1,437)	—	(291)	(2,108)
Depreciation charge	(34,652)	(110,069)	(6,473)	—	(151,194)
Closing net book amount	725,214	1,039,722	41,540	388,362	2,194,838
At 31 December 2011					
Cost	954,523	1,985,469	91,730	390,920	3,422,642
Accumulated depreciation and impairment	(229,309)	(945,747)	(50,190)	(2,558)	(1,227,804)
Net book amount	725,214	1,039,722	41,540	388,362	2,194,838

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 2010				
Cost	914	2,470	373	3,757
Accumulated depreciation	(402)	(507)	—	(909)
Net book amount	512	1,963	373	2,848
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
Year ended 31 December 2011				
Opening net book amount	502	1,725	2,208	4,435
Additions	113	—	845	958
Depreciation charge	(282)	(238)	—	(520)
Closing net book amount	333	1,487	3,053	4,873
At 31 December 2011				
Cost	1,263	2,470	3,053	6,786
Accumulated depreciation	(930)	(983)	—	(1,913)
Net book amount	333	1,487	3,053	4,873

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

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

	Group		Company	
	Year ended 31 December		Year ended 31 December	
	2011	2010	**2011**	2010
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
Cost of sales	**122,253**	110,905	**—**	—
Administrative expenses	**28,941**	21,814	**520**	484
	151,194	132,719	**520**	484

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

(b) Bank borrowings were secured by certain of the Group's property, plant and equipment with an aggregate carrying value of approximately RMB203,081,000 as at 31 December 2011 (2010: RMB150,065,000) (Note 21).

(c) Lease rental expenses amounting to approximately RMB18,872,000 (2010: RMB19,204,000) relating to the lease of property were included in profit or loss (Note 27).

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

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

Group

	As at 31 December	
	2011	2010
	RMB '000	*RMB '000*
Cost - capitalised finance leases	**60,811**	16,350
Accumulated depreciation	**(1,734)**	(2,839)
Net book amount	**59,077**	13,511

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

(e) For the year ended 31 December 2011, interest expense of approximately RMB1,452,000 (2010: RMB2,445,000) arising from borrowings specifically for the construction of property, plant and equipment has been capitalized in the cost of property, plant and equipment at the weighted average interest rate of 6.40% (2010: 5.67%) per annum.

7. INVESTMENT PROPERTIES

Group

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
At beginning of year		
Cost	**38,252**	38,252
Accumulated depreciation	**(16,534)**	(14,144)
Net book amount	**21,718**	24,108
For the year		
Opening net book amount	**21,718**	24,108
Transfers from owner-occupied property *(Note 6)*	**17,267**	—
Depreciation charge	**(2,978)**	(2,390)
Closing net book amount	**36,007**	21,718
At end of year		
Cost	**58,344**	38,252
Accumulated depreciation	**(22,337)**	(16,534)
Net book amount	**36,007**	21,718
Fair value at end of the year	**224,950**	165,799

As at 31 December 2011 and 2010, 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 RMB19,327,000 as at 31 December 2011 (2010: RMB21,718,000) (Note 21).

The following amounts have been recognised in profit or loss:

Group

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
Rental income	**10,971**	9,581
Direct operating expenses arising from investment properties that generate rental income	**(2,977)**	(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	
	2011	2010
	RMB '000	*RMB '000*
In the PRC, held on land use rights with lease term of 45 years	**35,649**	21,718

7. INVESTMENT PROPERTIES *(CONTINUED)*

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

Group

	As at 31 December	
	2011	2010
	RMB '000	*RMB '000*
Not later than 1 year	**7,572**	8,907
Later than 1 year and not later than 5 years	**24,122**	17,860
	31,694	26,767

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 in the PRC. The movement is as follows:

Group

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
At beginning of the year		
Cost	**317,749**	315,525
Accumulated amortisation	**(47,233)**	(40,784)
Net book amount	**270,516**	274,741
For the year		
Opening net book amount	**270,516**	274,741
Additions	**1,147**	2,224
Acquisition of a subsidiary *(Note 39)*	**25,987**	—
Transfer from assets under construction *(Note 6)*	**10,730**	—
Amortisation charge	**(6,706)**	(6,449)
Closing net book amount	**301,674**	270,516
At end of the year		
Cost	**355,613**	317,749
Accumulated amortisation	**(53,939)**	(47,233)
Net book amount	**301,674**	270,516

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

(b) As at 31 December 2011, bank borrowings were secured by certain of the Group's land use rights with an aggregate carrying value of approximately RMB75,067,000 (2010: RMB111,378,000) (Note 21).

9. INTANGIBLE ASSETS

Group

	Goodwill RMB '000	Technical know-how RMB '000	Computer software RMB '000	Brand RMB '000	Customer relationships RMB '000	Others RMB '000	Total RMB '000
At 1 January 2010							
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
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 subsidiaries	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
Year ended 31 December 2011							
Opening net book amount	143,018	24,890	6,514	28,556	67,665	3,824	274,467
Acquisition of a subsidiary *(Note 39)*	—	4,830	—	—	—	—	4,830
Investment in an associate *(Note 41)*	—	(25)	(29)	—	—	—	(54)
Transfer from assets under construction *(Note 6)*	—	—	715	—	—	—	715
Additions	—	928	2,435	—	—	177	3,540
Amortisation charge	—	(5,235)	(2,091)	—	(6,377)	(1,275)	(14,978)
Closing net book amount	143,018	25,388	7,544	28,556	61,288	2,726	268,520
At 31 December 2011							
Cost	143,018	81,506	18,124	28,556	73,345	12,577	357,126
Accumulated amortisation	—	(56,118)	(10,580)	—	(12,057)	(9,851)	(88,606)
Net book amount	143,018	25,388	7,544	28,556	61,288	2,726	268,520

9. INTANGIBLE ASSETS *(CONTINUED)*

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

(b) No development costs were capitalized by the Group during the years ended 31 December 2011 and 2010.

(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	20%	23%

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	
	2011	2010	**2011**	2010
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
At beginning of the year	**397,943**	427,661	**209,206**	198,294
Additions *(Note 41)*	**44,231**	10,912	**—**	10,912
Share of profit	**2,848**	65,801	**—**	—
Dividend declared	**(41,723)**	(106,431)	**—**	—
Other deduction	**(5,644)**	—	**—**	—
At end of the year	**397,655**	397,943	**209,206**	209,206

(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	
	2011	2010
	RMB '000	*RMB '000*
Total assets	**852,504**	818,245
Total liabilities	**(454,849)**	(420,302)
Net assets	**397,655**	397,943

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	
	2011	2010
	RMB '000	*RMB '000*
Revenue	**923,362**	710,668
Share of profit for the year	**2,848**	65,801

(b) As at the date of this report, the particulars of the Group's principal associates are set out in Note 41.

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 41.

12. INVESTMENTS IN JOINTLY CONTROLLED ENTITIES

As at the date of this report, the particulars of the Group's jointly controlled entities are set out in Note 41. All the jointly controlled entities are unlisted.

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

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

Group *(Continued)*

	As at 31 December	
	2011	2010
	RMB '000	*RMB '000*
Assets		
Non-current assets	**147,410**	142,381
Current assets	**837,110**	824,777
	984,520	967,158
Liabilities		
Non-current liabilities	**(170)**	(424)
Current liabilities	**(709,337)**	(397,490)
	(709,507)	(397,914)
Net assets	**275,013**	569,244

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
Income	**1,902,466**	1,423,998
Expenses	**(1,351,945)**	(1,048,586)
Profit before income tax	**550,521**	375,412
Income tax expense	**(89,233)**	(52,958)
Profit for the year	**461,288**	322,454

13. INVENTORIES

Group *(Continued)*

	As at 31 December	
	2011	2010
	RMB '000	*RMB '000*
Raw materials	**436,971**	394,954
Work in progress	**637,010**	637,938
Finished goods	**668,241**	542,903
Consumables	**46,447**	36,833
	1,788,669	1,612,628

For the year ended 31 December 2011, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB7,734,529,000 (2010: RMB6,406,326,000).

For the year ended 31 December 2011, write-down of inventories recognised in cost of sales in profit or loss amounted to approximately RMB2,940,000 (2010: RMB10,058,000).

As at 31 December 2011, no inventories were pledged for the Group's borrowings (2010:RMB70,000,000).

14. TRADE AND OTHER RECEIVABLES

	Group		Company	
	As at 31 December		As at 31 December	
	2011	2010	**2011**	2010
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
Trade and bills receivables *(a)*	**3,197,968**	2,701,706	**105,714**	—
Less: provision for impairment of trade receivables	**(247,554)**	(249,038)	**—**	—
Trade and bills receivables - net	**2,950,414**	2,452,668	**105,714**	—
Deposits paid	**76,918**	59,821	**—**	3
Less: provision for impairment of deposits paid	**(10,341)**	(10,341)	**—**	—
Deposits paid - net	**66,577**	49,480	**—**	3
Prepayments	**198,087**	296,194	**—**	—
Staff advances	**33,873**	36,118	**598**	90
Others	**73,157**	85,516	**657,831**	297,984
Less: provision for impairment of receivables other than trade receivables and deposits paid	**(19,430)**	(18,498)	**—**	—
	3,302,678	2,901,478	**764,143**	298,077
Less: long-term other receivables	**—**	—	**(363,958)**	(153,957)
Current portion	**3,302,678**	2,901,478	**400,185**	144,120

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	
	2011	2010
	RMB '000	*RMB '000*
Less than 30 days	**787,037**	674,344
31 days to 90 days	**920,947**	820,827
91 days to 1 year	**1,023,290**	770,569
1 year to 2 years	**234,619**	187,392
2 years to 3 years	**62,563**	91,457
Over 3 years	**169,512**	157,117
	3,197,968	2,701,706

As at 31 December 2011 and 2010, 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 2011, trade and bills receivables of approximately RMB1,238,317,000 (2010: RMB953,661,000) 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	
	2011	2010
	RMB '000	*RMB '000*
91 days to 1 year	**1,008,848**	747,868
1 year to 2 years	**202,726**	163,719
2 years to 3 years	**26,743**	42,074
	1,238,317	953,661

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 2011, trade receivables of RMB251,667,000(2010: RMB252,874,000) were individually impaired and provided for. The amount of the provision was RMB247,554,000 as at 31 December 2011 (2010: RMB249,038,000). 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	
	2011	2010
	RMB '000	*RMB '000*
91 days to 1 year	**14,442**	22,701
1 year to 2 years	**31,893**	23,673
2 years to 3 years	**35,820**	49,383
Over 3 years	**169,512**	157,117
	251,667	252,874

(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	
	2011	2010
	RMB '000	*RMB '000*
RMB	**3,197,294**	2,612,049
UK pound ("UKP")	**70,583**	127,306
USD	**22,900**	94,250
Other currencies	**11,901**	67,873
	3,302,678	2,901,478

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

Group

	Year ended 31 December	
Trade receivables	**2011**	2010
	RMB '000	*RMB '000*
At beginning of the year	**249,038**	226,639
Provision for impairment of receivables	**4,549**	25,559
Receivables written off during the year as uncollectible	**(6,033)**	(3,160)
At end of the year	**247,554**	249,038

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 2011 RMB '000	2010 RMB '000
At beginning of the year	**10,341**	10,031
Provision for impairment of receivables	**—**	310
At end of the year	**10,341**	10,341

Other items	Year ended 31 December 2011 RMB '000	2010 RMB '000
At beginning of the year	**18,498**	17,993
Provision for impairment of receivables	**932**	505
At end of the year	**19,430**	18,498

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 40 for Group's trade and other receivables due from related parties.

(h) As at 31 December 2011, the Group's trade and bills receivables with carrying value of approximately RMB108,442,000 (2010:nil) were pledged for the Group's borrowings (Note 21).

15. CONTRACT WORK-IN-PROGRESS

Group

	As at 31 December	
	2011	2010
	RMB '000	*RMB '000*
Contract cost incurred plus recognised profit less recognised losses	**1,229,006**	959,649
Less: progress billings	**(952,867)**	(825,913)
Contract work-in-progress	**276,139**	133,736
Representing:		
Amount due from customers for contract work	**283,991**	158,521
Amount due to customers for contract work	**(7,852)**	(24,785)
	276,139	133,736

Group

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
Contract revenue recognised as revenue in the year	**332,530**	244,733

16. RESTRICTED CASH

	Group As at 31 December		Company As at 31 December	
	2011	2010	**2011**	2010
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
Restricted cash denominated in RMB	**295,099**	473,016	**5,945**	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 As at 31 December		Company As at 31 December	
	2011	2010	**2011**	2010
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
Cash on hand	**1,976**	1,749	**42**	6
Cash at bank	**743,679**	638,877	**436,166**	153,545
Short-term bank deposits *(a)*	**2,043,915**	1,478,184	**1,079,277**	705,411
Cash and cash equivalents	**2,789,570**	2,118,810	**1,515,485**	858,962
Cash and cash equivalents denominated in:				
— RMB	**2,660,895**	2,012,298	**1,438,710**	776,075
— HKD	**76,735**	82,887	**76,735**	82,887
— USD	**8,588**	6,283	**—**	—
— UKP	**39,532**	12,327	**40**	—
— European dollar ("EUR")	**3,820**	5,015	**—**	—
	2,789,570	2,118,810	**1,515,485**	858,962

(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 2010 (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
At 31 December 2011 (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	Translation	Total	Retained earnings	Total
	RMB '000	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*
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)	2,339	122,520	(6)	(847,198)	1,672,554	825,356
At 1 January 2011	(972,051)	2,339	122,520	(6)	(847,198)	1,672,554	825,356
Profit for the year	—	—	—	—	—	737,277	737,277
Dividend	—	—	—	—	—	(294,771)	(294,771)
Changes in fair value of available-for-sales financial assets, net of tax	—	(271)	—	—	(271)	—	(271)
Currency translation differences	—	—	—	528	528	—	528
Changes in ownership interests in subsidiaries without change of control *(Note 38)*	(27,858)	—	—	—	(27,858)	—	(27,858)
Transfer to reserves	—	—	47,793	—	47,793	(47,793)	—
At 31 December 2011	(999,909)	2,068	170,313	522	(827,006)	2,067,267	1,240,261

19. RESERVES *(CONTINUED)*

Statement of changes in equity of the Company for the year ended 31 December 2011.

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 2010	(981,212)	85,369	(895,843)	553,240	(342,603)
Profit for the year *(Note 43)*	—	—	—	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)
At 1 January 2011	(981,212)	122,520	(858,692)	395,024	(463,668)
Profit for the year *(Note 43)*	—	—	—	797,675	797,675
Dividends *(Note 20)*	—	—	—	(294,771)	(294,771)
Transfer to reserves	—	47,793	47,793	(47,793)	—
At 31 December 2011	(981,212)	170,313	(810,899)	850,135	39,236

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 RMB47,793,000 was appropriated to the statutory surplus reserve fund from the net profit for the year ended 31 December 2011 (2010: RMB37,151,000).

20. DIVIDENDS

A final dividend for 2010 of RMB294,771,000(RMB0.08 per share) was paid in 2011.

The Board of Directors, in a meeting held on 20 March 2012, proposed to distribute a final dividend for 2011 to equity holders of the Company of RMB221,078,000 (RMB0.06 per share), based on total number of shares which are in issue as at 31 December 2011. Such dividend distribution is still subject to the approval of shareholders' meeting, and is not reflected in these consolidated financial statements.

	2011 ***RMB '000***
Dividends proposed after the balance sheet date:	
— final dividend for 2011	221,078

21. BORROWINGS

	Group		Company	
	As at 31 December		As at 31 December	
	2011	2010	**2011**	2010
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
Non-current				
Borrowings *(1)*	**1,438,538**	480,934	**1,185,277**	263,086
Finance lease liabilities *(2)*	**19,995**	425	**—**	—
	1,458,533	481,359	**1,185,277**	263,086
Current				
Borrowings *(1)*	**1,210,906**	1,057,104	**65,960**	52,286
Finance lease liabilities *(2)*	**252**	4,488	**—**	—
	1,211,158	1,061,592	**65,960**	52,286
Total borrowings	**2,669,691**	1,542,951	**1,251,237**	315,372

21. BORROWINGS *(CONTINUED)*

(1) Borrowings

	Group As at 31 December		Company As at 31 December	
	2011	2010	**2011**	2010
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
Non-current				
Long-term bank borrowings — unsecured *(b)*	**445,087**	480,934	**191,826**	263,086
Corporate bonds *(d)*	**993,451**	—	**993,451**	—
Total non-current borrowings	**1,438,538**	480,934	**1,185,277**	263,086
Current				
Short-term bank borrowings				
— secured *(a)*	**373,442**	349,143	**—**	—
— unsecured *(b)*	**792,118**	677,160	**65,960**	52,286
	1,165,560	1,026,303	**65,960**	52,286
Other unsecured borrowings				
— due to independent third parties *(c)*	**45,346**	30,801	**—**	—
	45,346	30,801	**—**	—
Total current borrowings	**1,210,906**	1,057,104	**65,960**	52,286
	2,649,444	1,538,038	**1,251,237**	315,372

21. BORROWINGS *(CONTINUED)*

(1) Borrowings *(Continued)*

(a) As at 31 December 2011, all these bank borrowings were secured by certain of the Group's property, plant and equipment, investment properties, land use rights and trade receivables within net book value of RMB203,081,000, RMB19,327,000, RMB75,067,000 and RMB108,442,000 respectively (Notes 6, 7, 8 and 14).

(b) As at 31 December 2011 and 2010, a portion of the bank borrowings of approximately RMB257,785,000 and RMB315,372,000 were guaranteed by the following parties respectively:

	Group		Company	
	As at 31 December		As at 31 December	
	2011	2010	**2011**	2010
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
Chongqing Sanxia Credit Guarantee Co., Ltd.	**154,000**	179,000	**154,000**	179,000
CQMEHG *(Note 40)*	**103,785**	136,372	**103,785**	136,372
	257,785	315,372	**257,785**	315,372

(c) As at 31 December 2011 and 2010, 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.

(d) The Company issued RMB 1 billion corporate bonds in August 2011, with annual interest rate of 6.59% and maturity of 5 years. As at 31 December 2011, the bond is measured at RMB 993,451,000 at the amortised cost.

21. BORROWINGS *(CONTINUED)*

(1) Borrowings *(Continued)*

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

	Group		Company	
	As at 31 December		As at 31 December	
	2011	2010	**2011**	2010
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
Total borrowings				
— Within 1 year	**1,210,906**	1,057,104	**65,960**	52,286
— Between 1 and 2 years	**153,163**	214,286	**70,961**	67,286
— Between 2 and 5 years	**1,285,375**	265,800	**1,114,316**	195,800
— Over 5 years	**—**	848	**—**	—
	2,649,444	1,538,038	**1,251,237**	315,372

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	
	2011	2010	**2011**	2010
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
RMB	**2,468,937**	1,368,532	**1,147,452**	179,000
UKP	**76,722**	33,134	**—**	—
USD	**103,785**	136,372	**103,785**	136,372
	2,649,444	1,538,038	**1,251,237**	315,372

(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	
	2011	2010	**2011**	2010
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
Bank borrowings	**5.92%**	5.65%	**5.04%**	5.51%
Corporate bonds	**6.59%**	—	**6.59%**	—

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 As at 31 December		Company As at 31 December	
	2011	2010	**2011**	2010
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
Carrying amount				
Bank borrowings	**445,087**	480,934	**191,826**	263,086
Corporate bonds	**993,451**	—	**993,451**	—
	1,438,538	480,934	**1,185,277**	263,086
Fair value				
Bank borrowings	**447,127**	481,265	**192,614**	263,670
Corporate bonds	**1,030,000**	—	**1,030,000**	—
	1,477,127	481,265	**1,222,614**	263,670

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 3.11% to 8.55% (2010: 2.76% 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	
	2011	2010
	RMB '000	*RMB '000*
Fixed rate		
— Expiring within 1 year	**152,982**	95,591
— Expiring beyond 1 year	**122,683**	169,130
	275,665	264,721

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	
	2011	2010
	RMB '000	*RMB '000*
Gross finance lease liabilities - minimum lease payments		
No later than 1 year	**1,587**	4,688
Later than 1 year and no later than 5 years	**21,050**	464
	22,637	5,152
Unrecognised future finance charge on finance leases	**(2,390)**	(239)
Present value of finance lease liabilities	**20,247**	4,913

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

	As at 31 December	
	2011	2010
	RMB '000	*RMB '000*
— Within 1 year	**252**	4,488
— Later than 1 year and no later than 5 years	**19,995**	425
	20,247	4,913

22. DEFERRED INCOME

	As at 31 December	
	2011	2010
	RMB '000	*RMB '000*
— Government grants *(a)*	**550,207**	513,017
— Deferred income on sell and leaseback transaction *(b)*	**4,607**	—
— Acquisition of a subsidiary *(Note 39)*	**1,186**	—
	556,000	513,017

(a) Government grants

Group

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
At beginning of the year	**513,017**	166,381
Additions		
— government grants related to assets	**77,234**	392,207
Amortisation *(Note 27)*	**(40,044)**	(45,571)
At end of the year	**550,207**	513,017

22. DEFERRED INCOME *(CONTINUED)*

(a) Government grants *(Continued)*

(i) In prior years, certain subsidiaries of the Group received grants of approximately RMB687,304,000 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. After completion of these relocations, the net of grants received and relocation expenses spent was recorded as deferred income. Up to 31 December 2010, all these relocations were completed, and in total RMB353,148,000 was recognized as deferred income, which is amortized on a straight-line basis throughout the period of the useful lives of the underlying assets ranging from 4 to 40 years.

(ii) For the year ended 31 December 2011, the Group obtained grants from local government of approximately RMB77,234,000 (2010: RMB39,059,000), 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 20 years.

22. DEFERRED INCOME *(CONTINUED)*

(b) Deferred income on sale and leaseback transaction

Group

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
At beginning of the year	**—**	—
Additions	**4,739**	—
Amortisation *(Note 27)*	**(132)**	—
At end of the year	**4,607**	—

During the year ended 31 December 2011, the Group had sold its machineries with the carrying amount of RMB54,261,000 at the consideration of RMB59,000,000 and then lease back all of them at the fair value of RMB59,660,000 which resulted in a financial lease. As a result, the excess of sales proceeds over the carrying amount of RMB4,739,000 would be deferred over the lease term of 2 years.

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	
	2011	2010
	RMB '000	*RMB '000*
Deferred tax assets		
— Deferred tax assets to be recovered after more than 12 months	**22,002**	17,442
— Deferred tax assets to be recovered within 12 months	**61,480**	98,456
	83,482	115,898
Deferred tax liabilities		
— Deferred tax liabilities to be recovered more than 12 months	**(26,673)**	(27,117)
— Deferred tax liabilities to be recovered within 12 months	**(5,447)**	(2,194)
	(32,120)	(29,311)
Deferred tax assets (net)	**51,362**	86,587

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	
	2011	2010
	RMB '000	*RMB '000*
At beginning of the year	**86,587**	55,640
Recognised in profit or loss *(Note 32)*	**(25,857)**	53,420
Acquisition of a subsidiary *(Note 39)*	**(9,885)**	(23,052)
Recognised in other comprehensive income	**517**	579
At end of the year	**51,362**	86,587

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 2010	38,015	3,827	15,047	10,002	66,891
Acquisition of subsidiaries	—	—	—	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
Acquisition of a subsidiary *(Note 39)*	—	—	—	1,077	1,077
Recognised in the income statement	(28,234)	(976)	(7,856)	3,573	(33,493)
At 31 December 2011	42,559	8,467	6,704	25,752	83,482

23. DEFERRED INCOME TAX *(CONTINUED)*

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

Deferred tax liabilities

	Recognition of fair value change relating to acquisition of subsidiary *RMB '000*	Changes in fair value of available-for-sales financial assets *RMB '000*	Total *RMB '000*
At 1 Janurary 2010	(9,789)	(1,462)	(11,251)
Recognised in equity	—	579	579
Acquisition of subsidiaries	(23,574)	—	(23,574)
Recognised in the income statement	4,935	—	4,935
At 31 December 2010	(28,428)	(883)	(29,311)
Recognised in equity	—	517	517
Acquisition of a subsidiary *(Note 39)*	(10,962)	—	(10,962)
Recognised in the income statement	7,636	—	7,636
At 31 December 2011	(31,754)	(366)	(32,120)

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 2011, the Group did not recognise deferred tax assets of approximately RMB18,505,000 (2010: RMB32,437,000) of tax losses amounting to approximately RMB121,665,000 (2010: RMB129,749,000), as management believes it is more than likely that such tax losses would not be utilised before they expire. As at 31 December 2011 and 2010, the tax losses carried forward are as follows:

	As at 31 December	
	2011	2010
	RMB '000	*RMB '000*
Year of expiry of tax losses		
— 2011	**—**	28,696
— 2012	**29,883**	30,468
— 2013	**29,619**	30,204
— 2014	**28,540**	29,125
— 2015	**10,672**	11,256
— 2016	**22,951**	—
	121,665	129,749

24. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

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

Group

	As at 31 December	
	2011	2010
	RMB '000	*RMB '000*
Non-current		
Retirement benefit obligations	**46,329**	94,087
Termination benefit obligations	**30,452**	37,701
	76,781	131,788
Current		
Retirement benefit obligations	**2,853**	4,253
Termination benefit obligations	**9,701**	9,825
	12,554	14,078
	89,335	145,866

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

Group

	As at 31 December	
	2011	2010
	RMB '000	*RMB '000*
Present value of defined benefits obligations	**90,974**	153,061
Unrecognised actuarial loss	**(1,639)**	(7,195)
Liability on the balance sheet	**89,335**	145,866
Less: current portion	**(12,554)**	(14,078)
	76,781	131,788

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

The movements of retirement and termination benefit obligations for the years ended 31 December 2011 and 2010 are as follows:

Group

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
At beginning of the year	**145,866**	157,909
For the year		
— Interest cost	**2,725**	5,480
— Actuarial loss/(gain)	**395**	(3,170)
— Additions on termination benefit obligations	**1,486**	—
— Payment	**(13,273)**	(14,353)
— Deduction *(a)*	**(47,864)**	—
At end of the year	**89,335**	145,866

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

(a) Pursuant to the notice jointly issued by Chongqing Human Resources and Social Security Bureau and Chongqing Finance Bureau (Yu Ren She Fa [2010] No. 290), part of the Group's obligations arising from certain defined benefit plan has been reduced effective from 1 January 2011, which resulted in a decrease of long-term employee benefit obligations of approximately RMB47,864,000. Such decrease was credited into profit or loss during the year ended 31 December 2011.

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

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

(b) Discount rates adopted (per annum):

	As at 31 December	
	2011	2010
Discount rates	**3.75%**	3.50%

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.

(c) Trend rate: 5%–10% (2010: 5%–11%);

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

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

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

	Change in assumption	**Impact on overall liability**
Discount rate	Increase/decrease by 0.5%	Decrease/increase by 4.0%/4.4%

25. TRADE AND OTHER PAYABLES

	Group		Company	
	As at 31 December		As at 31 December	
	2011	2010	**2011**	2010
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
Trade and bills payables *(a)*	**1,867,930**	1,959,662	**—**	—
Other taxes payables	**101,652**	115,520	**27**	23
Other payables	**328,005**	327,993	**85,518**	42,112
Interest payables	**24,740**	—	**24,740**	—
Accrued payroll and welfare	**206,986**	192,191	**310**	104
Advances from customers	**746,459**	628,514	**—**	—
Advances from government *(b)*	**5,567**	3,035	**—**	—
	3,281,339	3,226,915	**110,595**	42,239

(a) As at 31 December 2011 and 2010, the ageing analysis of the trade and bills payables was as follows:

Group

	As at 31 December	
	2011	2010
	RMB '000	*RMB '000*
Less than 30 days	**659,123**	697,355
31 days than 90 days	**662,431**	585,372
91 days to 1 year	**473,773**	541,700
1 year to 2 years	**37,343**	56,596
2 years to 3 years	**13,461**	26,963
Over 3 years	**21,799**	51,676
	1,867,930	1,959,662

25. TRADE AND OTHER PAYABLES *(CONTINUED)*

(b) As at 31 December 2010, the balance received from the local government in respect of improvement of the Group's manufacturing technology was approximately RMB3,035,000. For the year ended 31 December 2011, the Group received such grants of approximately RMB2,532,000. As such activities were only partly completed by 31 December 2011, the remaining balance of the grants received of approximately RMB5,567,000 was recorded as advances from government.

(c) Refer to Note 40 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 2010	19,462
Acquisition of subsidiaries	7,455
Charged to cost of sales	52,948
Utilised during the year	(20,066)
At 31 December 2010	59,799
Acquisition of a subsidiary *(Note 39)*	69
Charged to cost of sales *(Note 27)*	60,598
Utilised during the year	(67,850)
At 31 December 2011	52,616

27. EXPENSES BY NATURE

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
Depreciation on property, plant and equipment *(Note 6)*	**151,194**	132,719
Depreciation on investment properties *(Note 7)*	**2,978**	2,390
Amortization of lease prepayments *(Note 8)*	**6,706**	6,449
Amortization of intangible assets *(Note 9)*	**14,978**	11,360
Amortization of deferred income *(Note 22)*	**(40,176)**	(45,571)
Employee benefit expense *(Note 28)*	**989,389**	889,205
Changes in inventories of finished goods and work in progress	**(127,350)**	(270,191)
Raw materials and consumables used	**7,861,879**	6,676,517
Transportation	**113,453**	88,273
Research and development costs	**111,772**	99,793
Technology usage fee	**18,371**	15,031
Utilities	**193,480**	171,880
Repairs and maintenance expenditure on property, plant and equipment	**60,080**	50,437
Operating lease rentals *(Note 6)*	**18,872**	19,204
Write-down of inventories *(Note 13)*	**2,940**	10,058
Provision for impairment of receivables *(Note 14)*	**5,481**	26,374
Provision for impairment of property, plant and equipment *(Note 6)*	**—**	628
Provision for warranty *(Note 26)*	**60,598**	52,948
Auditors' remuneration	**5,800**	6,000
Other expenses	**240,372**	292,592
Total cost of sales, distribution costs and administrative expenses	**9,690,817**	8,236,096

28. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
Salaries, wages and bonuses	**751,167**	678,328
Contributions to pension plans *(a)*	**123,570**	107,516
Supplemental pension benefits to qualified employees *(b) (Note 24)*		
— Interest cost	**2,725**	5,480
— Actuarial loss/(gain)	**395**	(3,170)
— Additions on termination benefit obligations	**1,486**	—
— Deduction	**(47,864)**	—
Housing benefits *(c)*	**44,315**	30,340
Welfare, medical and other expenses	**113,595**	70,711
	989,389	889,205

(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 2011 and 2010.

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. For details, please refer to Note 24.

(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	
	2011	2010
	RMB '000	*RMB '000*
Gain on waiver of other tax payable	**—**	5,978
Gain on disposal of property, plant and equipment	**19,247**	37,742
Gain on disposal of financial assets at fair value through profit or loss	**22,971**	3,236
Gain on bargain purchase *(Note 39)*	**25,205**	—
Adjustment to consideration of prior year's business combination *(a)*	**20,069**	—
Others	**28,763**	2,070
	116,255	49,026

(a) In September 2011, the Group received UKP 2 million (approximately RMB:20,069,000) from the former shareholder of PTG six entities as the adjustment to consideration of prior year's business combination.

30. OTHER INCOME

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
Government grants in relation to		
— Tax refunds *(a)*	**3,641**	3,789
— Further development of manufacturing technology *(b)*	**20,513**	33,360
— Relocation for environment protection *(b)*	**930**	8,268
— Others	**11,424**	7,215
	36,508	52,632

(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 2011 and 2010, 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	
	2011	2010
	RMB '000	*RMB '000*
Finance income		
— Interest income on short-term bank deposits	**34,187**	29,617
Finance cost:		
— Bank borrowings wholly repayable within five years	**(108,104)**	(77,721)
— Corporate bond	**(25,191)**	—
— Finance lease liabilities	**(504)**	(484)
Less: amounts capitalized on qualifying assets	**1,452**	2,445
	(132,347)	(75,760)
Net exchange gain/(loss)	**1,023**	(3,364)
Net finance costs	**(97,137)**	(49,507)

32. TAXATION

(a) Income tax expense

(i) On 27 July 2011, the Ministry of Finance, the General Administration of Customs, and the State Administration of Taxation of the PRC jointly issued Cai Shui [2011] No. 58 (the "Notice") in respect of favourable corporate income tax policy applicable to qualified enterprises located in western China. The directors of the Company are of the opinion that those group entities previously entitled to the 15% preferential income tax rate during the period from 2001 to 2010, will continue to be qualified under the new policy for the 15% preferential income tax rate from 2011 to 2020.

(ii) Other than the above mentioned group entities, the following group entities are not entitled to the benefit of above mentioned favourable corporate income tax policy and subject to CIT rate of 25% for the years ended 31 December 2010 and 2011:

— the Company;

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

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

— Chongqing Shengpu Materials Co., Ltd.;

— Da'an Chenfei Wind-Power Equipment Co., Ltd.("Da'an Chenfei")

32. TAXATION *(CONTINUED)*

(a) Income tax expense *(Continued)*

(iii) For the year ended 31 December 2011, with reference to the Notice, the directors of Chongqing Cummins Engine Co., Ltd., a joint venture, are of the opinion that it is qualified to adopt CIT rate at 15% (2010: 15%).

(iv) For Shenzhen Chongfa Cummins Engine Co., Ltd., the new CIT rate of 25% in effect since 2008 is gradually effective in a 5-year period. For the year ended 31 December 2011, the applicable corporate income tax rate for this entity is 24% (2010: 22%).

(v) The income tax rate of Holroyd Precision Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited and Precision Technologies Group (PTG) Limited is 26.49% (2010:28%). The income tax rate of Precision Components Limited is 20.25% (2010:28%). The income tax rate of PTG Deutschland GmbH is 31% (2010:31%).

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

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
Current income tax	**(142,606)**	(119,718)
Deferred tax *(Note 23)*	**(25,857)**	53,420
Income tax expense	**(168,463)**	(66,298)

The adjustment of deferred tax in connection with the change in tax rate from 25% to 15% as a result of the "Notice" amounting to RMB40,746,000 was charged in profit or loss for the year 31 December 2011 (2010: nil).

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	
	2011	2010
	RMB '000	*RMB '000*
Profit before income tax	**913,658**	765,058
Tax calculated at domestic tax rates (15%) applicable to profits	**(137,049)**	(114,759)
Income not subject to tax		
— share of profit of associates	**1,775**	9,916
Tax concessions	**12,714**	3,330
Expenses not deductible for tax purposes	**(3,809)**	(12,554)
Utilisation of previously unrecognised tax assets	**2,095**	4,426
Re-measurement of deferred tax	**(40,746)**	46,157
Tax losses with no deferred tax assets recognised	**(3,443)**	(2,814)
Tax expense	**(168,463)**	(66,298)

The weighted average applicable tax rate for the year ended 31 December 2011 is 15% (2010: 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 2011 (Note 20).

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

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

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
Directors and supervisors		
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,334**	1,175
— Contributions to pension plans	**295**	123
— Discretionary bonuses	**1,257**	1,858
	2,886	3,156
Senior management		
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**331**	541
— Contributions to pension plans	**197**	104
— Discretionary bonuses	**813**	1,774
	1,341	2,419
	4,227	5,575

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 2011:

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	—	381	501
Mr. Liao Shaohua	110	66	305	481
Mr. Chen Xianzheng	110	66	305	481
Mr. Yu Gang	136	66	30	232
Mr. Huang Yong	48	—	—	48
Mr. Wang Jiyu	48	—	—	48
Mr. Yang Jingpu	48	—	—	48
Mr. Liu Liangcai	48	—	—	48
Mr. Lu Huawei	120	—	—	120
Mr. Ren Xiaochang	68	—	—	68
Mr. Kong Weiliang	68	—	—	68
Mr. Duan Rongsheng	48	—	—	48
Ms. Liao Rong	24	—	—	24
Ms. Wang Rongxue	36	—	—	36

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 2011: *(Continued)*

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind	Contributions to pension plans	Discretionary bonuses	Total
	RMB '000	*RMB '000*	*RMB '000*	*RMB '000*
Directors and supervisors				
Mr. Liu Xing	36	—	—	36
Mr. Wang Xuqi	134	37	50	221
Mr. Chen Qing	132	60	186	378
	1,334	295	1,257	2,886
Senior management				
Mr. Ren Yong	110	66	51	227
Mr. Gong Wei	110	66	389	565
Mr. Duan Caijun	110	66	373	549
	330	198	813	1,341
	1,664	493	2,070	4,227

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 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

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 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*
Directors and supervisors				
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)*

(ii) 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)*

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

	Year ended 31 December	
	2011	2010
Directors and supervisors		
— Nil to HKD1,000,000 (equivalent to approximately RMB810,700)	**17**	20
Senior management		
— Nil to HKD1,000,000 (equivalent to approximately RMB810,700)	**3**	5
— HKD1,000,001–HKD1,500,000(equivalent to approximately RMB810,700–RMB1,216,050)	**—**	1
	20	26

For the years ended 31 December 2011 and 2010, 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

None of the five highest paid individuals of the Group for the years ended 31 December 2011 was a director or senior management of the Company whereas one of the five highest paid individual was a senior management of the Company and the emolument of the directors and senior management was reflected in the analysis presented in Note 33 (a) above in 2010. The emoluments payable to all the five individuals for the year ended 31 December 2011 and 2010 are as follows:

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**3,149**	647
— Contributions to pension plans	**403**	93
— Discretionary bonuses	**2,132**	2,506
	5,684	3,246

33. DIRECTORS', SUPERVISORS' AND SENIOR MANAGEMENT'S EMOLUMENTS *(CONTINUED)*

(b) Five highest paid individuals *(Continued)*

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

	Year ended 31 December	
	2011	2010
— Nil to HKD1,000,000 (equivalent to approximately RMB810,700)	**—**	3
— HKD1,000,001–HKD1,500,000 (equivalent to approximately RMB810,700–RMB1,216,050)	**5**	1
	5	4

34. EARNINGS PER SHARE

	Year ended 31 December	
	2011	2010
Profit attributable to equity holders of the Company *(RMB'000)*	**737,277**	687,732
Weighted average number of ordinary shares in issue *(thousands)*	**3,684,640**	3,684,640
Basic and diluted earnings per share *(RMB per share)*	**0.20**	0.19

Diluted earnings per share is equal to basic earnings per share as there were no potential dilutive ordinary shares outstanding for all years presented.

35. CASH GENERATED FROM OPERATIONS

(a) Reconciliation of profit before income tax to net cash generated from operations

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
Profit before income tax	**913,658**	765,058
Adjustments for:		
— Depreciation of property, plant and equipment and investment properties	**154,172**	135,109
— Amortisation of intangible assets and lease prepayments	**21,684**	17,809
— Amortisation of deferred income	**(40,176)**	(45,571)
— Amortisation of non-current assets	**5,404**	—
— Write-down of inventories	**2,940**	10,058
— Provision for impairment of trade and other receivables	**5,481**	26,374
— Provision for impairment in property, plant and equipment	**—**	628
— Interest income	**(34,187)**	(29,617)
— Interest expense	**131,324**	79,124
— Share of profit from associates	**(2,848)**	(65,801)
— Net gain on disposal of property, plant and equipment *(Note 29)*	**(19,247)**	(37,742)
— Net gain on investment and acquiring subsidiaries	**(35,963)**	—
— Gain on disposal of financial assets at fair value through profit and loss *(Note 29)*	**(22,971)**	(3,236)
— Gain on waiver of other tax payable *(Note 29)*	**—**	(5,978)
	1,079,271	846,215

35. CASH GENERATED FROM OPERATIONS *(CONTINUED)*

(a) Reconciliation of profit before income tax to net cash generated from operations *(Continued)*

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
Changes in working capital:		
— Inventories	**(118,618)**	(316,397)
— Trade and other receivables	**(513,364)**	(699,123)
— Contract work-in-progress	**(142,403)**	9,616
— Restricted cash	**177,917**	(53,258)
— Retirement and termination benefit obligations	**(56,531)**	(12,043)
— Trade and other payables	**(16,825)**	468,250
	(669,824)	(602,955)
Cash generated from operations	**409,447**	243,260

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	
	2011	2010
	RMB '000	*RMB '000*
Net book amount	**5,521**	4,898
Gain on disposal of property, plant and equipment	**19,247**	37,742
Proceeds from disposal of property, plant and equipment	**24,768**	42,640

36. CONTINGENCIES

As at 31 December 2011 and 2010, the Group and the Company 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	
	2011	2010
	RMB '000	*RMB '000*
Property, plant and equipment	**145,919**	174,962
Intangible assets	**1,493**	4,750
	147,412	179,712

(b) Operating lease commitments

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

	As at 31 December	
	2011	2010
	RMB '000	*RMB '000*
No later than 1 year	**17,028**	8,101
Later than 1 year and no later than 5 years	**26,185**	32,403
Later than 5 years	**42,304**	65,850
	85,517	106,354

37. COMMITMENTS *(CONTINUED)*

(c) Investment commitments

The Company intends to contribute RMB306,000,000 to establish a finance company in Chongqing with CQMEHG and China Industrial International Trust Limited. As at 31 December 2011, the establishment of this finance company has not been approved by local government.

38. CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL

(a) Acquisition of additional interests in subsidiaries

The effects of changes in the ownership interests of subsidiaries on the equity attributable to equity holders of the Company for the year ended 31 December 2011 are summarised as follows:

	Chongqing Pigeon Electric Wire & Cable Co., Ltd. *(note i)* *RMB '000*	Chongqing Huahao Smelting Co., Ltd. *(note ii)* *RMB '000*	Chongqing General Industry (Group) Co., Ltd. *(note iii)* *RMB '000*	Total *RMB '000*
Decrease in non-controlling interests	10,897	632	17,663	29,192
Consideration paid to non-controlling interests	(39,648)	(663)	(22,301)	(62,612)
Decrease in equity attributable to equity holders of the Company	(28,751)	(31)	(4,638)	(33,420)

38. CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL *(CONTINUED)*

(a) Acquisition of additional interests in subsidiaries *(Continued)*

(i) On 25 May 2011, the Company acquired an additional 19.31% of the share capital of Chongqing Pigeon Electric Wire & Cable Co., Ltd. with a purchase consideration of RMB 39,648,000. The carrying amount of the non-controlling interests in Chongqing Pigeon Electric Wire & Cable Co., Ltd. on the date of acquisition approximated RMB 10,897,000. The Group recognised a decrease in non-controlling interests of RMB10,897,000 and a decrease in equity attributable to equity holders of the Company of RMB 28,751,000.

(ii) On 8 June 2011, the Company acquired an additional 1.31% of the share capital of Chongqing Huahao Smelting Co., Ltd. with a purchase consideration of RMB663,000. The carrying amount of the non-controlling interests in Chongqing Huahao Smelting Co., Ltd. on the date of acquisition approximated RMB632,000. The Group recognised a decrease in non-controlling interests of RMB632,000 and a decrease in equity attributable to equity holders of the Company of RMB31,000.

(iii) On 3 November 2011, the Company acquired an additional 1.65% of the share capital of Chongqing General Industry (Group) Co., Ltd. with a purchase consideration of RMB 22,301,000. The carrying amount of the non-controlling interests in Chongqing General Industry (Group) Co., Ltd. on the date of acquisition approximated RMB17,663,000. The Group recognised a decrease in non-controlling interests of RMB17,663,000 and a decrease in equity attributable to equity holders of the Company of RMB4,638,000.

For the year ended 31 December 2010, there was no transaction incurred in relation to changes in ownership interests in subsidiaries without change of control.

38. CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL *(CONTINUED)*

(b) Disposal of interests in a subsidiary without loss of control

On 8 November 2011, the Company disposed of 9% of interests in Da'an Chenfei at a consideration of RMB20,000,000. The carrying amount of interests disposed as at the date of disposal approximated RMB14,438,000. The Group recognised an increase in non-controlling interests of RMB14,438,000 and an increase in equity attributable to equity holders of the Company of RMB5,562,000. The effect of changes in the ownership interests on the equity attributable to equity holders of the Company during the year is summarised as follows:

	2011 ***RMB '000***	2010 *RMB '000*
Increase in non-controlling interests	**(14,438)**	—
Consideration received from non-controlling interests	**20,000**	—
Increase in equity attributable to equity holders of the Company	**5,562**	—

38. CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL *(CONTINUED)*

(c) Effects of changes in ownership interests in subsidiaries without change of control on the equity attributable to equity holders of the Company for the year ended 31 December 2011

	2011
	RMB '000
Total comprehensive income for the year attributable to equity holders of the Company	737,534
Changes in equity attributable to equity holders of the Company arising from:	
— Acquisition of additional interests in subsidiaries	(33,420)
— Disposal of interests in a subsidiary without loss of control	5,562
Net effect for changes in ownership interests in subsidiaries without change of control on equity attributable to equity holders of the Company	709,676

39. BUSINESS COMBINATIONS

Current year

On 8 September 2011, one of the Group's subsidiaries, Chongqing General Industry (Group) Co., Ltd., acquired the entire share capital of Da'an Chenfei Wind-Power Equipment Co., Ltd. ("Da'an Chenfei") at a total cash consideration of RMB75,000,000. As at 31 December 2011, parts of the consideration of RMB10,000,000 was yet to be paid by Chongqing General Industry (Group) Co., Ltd. There is no contingent consideration. Da'an Chenfei is incorporated in Jilin Province in the PRC and is mainly engaged in production and sales of wind-power equipment. The acquisition is expected to increase the Group's market share in wind-power market.

Details of the purchase consideration, the net assets acquired and gain on bargain purchase are as follows:

	RMB '000
Purchase consideration:	
— cash paid/payable	75,000

39. 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	867
Property, plant and equipment	71,517
Lease prepayment	25,987
Intangible assets	4,830
Deferred tax assets	1,077
Inventories	60,363
Receivables	9,095
Payables	(61,314)
Provision	(69)
Deferred income	(1,186)
Deferred tax liabilities	(10,962)
Net identifiable assets acquired	100,205
Gain on bargain purchase	25,205
Outflow of cash to acquire business, net of cash acquired:	
— cash consideration	75,000
— unpaid cash consideration	(10,000)
— cash and cash equivalents in subsidiaries acquired	(867)
Cash outflow on acquisition	64,133

39. BUSINESS COMBINATIONS *(CONTINUED)*

Current year *(Continued)*

The Group 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 fair value of net identifiable assets acquired exceeds the cost of business combination by RMB25,205,000 is recognised in 'Other gains' in the income statement.

(a) Acquisition-related costs

Acquisition-related costs of approximately RMB1,722,000 are included within 'administrative expenses' in the statement of comprehensive income.

(b) Acquired receivables

The fair value of trade and other receivables is RMB9,095,000 and includes trade receivables with a fair value of RMB825,000. The gross contractual amount for trade receivables due is RMB825,000 of which all are expected to be collectible.

(c) Revenue and profit contribution

The revenue included in the consolidated statement of comprehensive income since 8 September 2011 contributed by Da'an Chenfei was approximately RMB39,001,000. Da'an Chenfei also contributed loss of approximately RMB10,461,000 over the same period.

If the acquisition had occurred on 1 January 2011, consolidated revenue and consolidated profit for the year ended 31 December 2011 would have been RMB 10,546,001,000 and RMB 737,971,000 respectively.

39. BUSINESS COMBINATIONS *(CONTINUED)*

Prior 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 the PRC and are mainly engaged in screw processing and 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 this business combination were disclosed in Note 38 of the Group's annual financial statements for the year ended 31 December 2010.

40. RELATED PARTY TRANSACTIONS

The Group has adopted HKAS 24 (revised), "Related Party Disclosures" from 1 January 2011. According to HKAS 24 (revised), government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group.

The Company's parent company is CQMEHG, a state-owned enterprise established in the PRC and is controlled by the PRC Government that owns a significant portion of the productive assets in the PRC. Accordingly as stipulated by HKAS 24 (revised), related parties include CQMEHG and its subsidiaries (other than the Group), other government-related entities and their subsidiaries, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and CQMEHG as well as their close family members.

Other than those disclosed elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the years ended 31 December 2011 and 2010 and balances arising from related party transactions as at 31 December 2011 and 2010.

40. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions

For the years ended 31 December 2011 and 2010, the Group had the following significant transactions with related parties.

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
Transactions with the Parent Company, fellow subsidiaries and associates		
Revenue		
— Revenue from sales of goods	**137,242**	140,896
— Revenue from provision of services	**286**	560
Expenses		
— Purchase of materials	**268,577**	233,916
— Services	**209**	146
— Other expenses	**16,103**	15,977
Transactions with jointly controlled entities *(i)*		
Revenue		
— Revenue from sales of goods	**377,641**	113,345
Transactions with associates		
Revenue		
— Revenue from sales of goods	**33,686**	27,367
Expenses		
— Purchase of materials	**28,377**	40,977

40. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
Transactions with shareholders of jointly controlled entities		
Revenue		
— Revenue from sales of goods	**54,889**	36,655
Expenses		
— Purchase of materials	**8,896**	7,817
— Management fees and technical fees	**3,518**	3,845
Transactions with non-controlling interests		
Revenue		
— Revenue from sales of goods	**—**	2,232
Expenses		
— Purchase of materials	**—**	9,409
— Services	**—**	59

(i) The transactions with jointly controlled entities shown above are after elimination of the Group's proportionate interests in them.

40. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties

	Group		Company	
	As at 31 December		As at 31 December	
	2011	2010	**2011**	2010
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
Trade and other receivables				
Trade receivables due from				
— Fellow subsidiaries and associates	**24,285**	52,370	**—**	—
— Jointly controlled entities	**3,574**	791	**—**	—
— Associates	**598**	3,100	**—**	—
— Shareholders of jointly controlled entities	**3,988**	199	**—**	—
Other receivables due from				
— CQMEHG	**177**	247	**—**	72
— Fellow subsidiaries	**2,411**	323	**507,637**	295,694
— Jointly controlled entities	**106**	130	**211**	260
— Associates	**5,534**	3,304	**1,937**	1,937
Prepayments due from				
— CQMEHG	**—**	573	**—**	**—**
— Fellow subsidiaries	**30,946**	25,426	**—**	**—**
	71,619	86,463	**509,785**	297,963
Less: long-term other receivables	**—**	—	**(363,958)**	(153,957)
Current portion	**71,619**	86,463	**145,827**	144,006

40. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

	Group		Company	
	As at 31 December		As at 31 December	
	2011	2010	**2011**	2010
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
Trade and other payables				
Trade payables due to				
— Fellow subsidiaries and associates	**38,337**	122,107	**—**	—
— Associates	**2,415**	3,881	**—**	—
— Shareholders of jointly controlled entities	**—**	503	**—**	—
Other payables due to				
— CQMEHG	**9,331**	11,453	**—**	—
— Associates	**31,036**	—	**—**	—
— Fellow subsidiaries	**28,180**	21,162	**37,441**	36,435
— Shareholders of jointly controlled entities	**825**	876	**—**	—
	110,124	159,982	**37,441**	36,435

40. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) Key management compensation

	Year ended 31 December	
	2011	2010
	RMB '000	*RMB '000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,665**	1,716
Contributions to pension plans	**492**	227
Discretionary bonuses	**2,070**	3,632
	4,227	5,575

(d) Transactions with government-related entities in PRC

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

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

41. 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 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
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

41. 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 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	100%	—	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	—	100%	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	—	100%	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	—	100%	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	—	100%	Manufacturing of general electric apparatus for general machine

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

(a) Subsidiaries *(Continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued / paid in capital *(RMB '000)*	Attributable equity interest Directly held	Indirectly held	Principal activities
Chongqing General Group Bingyang Air conditioner Equipment installation Co., Ltd. (重慶通用集團冰洋製冷空調設備安裝有限公司)	PRC / 11 May 1994	Limited liability company	8,223	—	100%	Provision of air-conditioner installation services
Da'an Chenfei Wind-Power Equipment Co., Ltd. (大安晨飛風電設備有限公司)*(ii)*	PRC / 17 September 2009	Limited liability company	152,656	—	91.18%	Manufacturing of wind-power 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

41. 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 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
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 Shengpu Materials Co., Ltd. (重慶盛普物資有限公司) *(viii)*	PRC / 1 February 2007	Limited liability company	1,405	100%	—	Sales of machinery materials
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

41. 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 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
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) *(iii)*	PRC / 16 April 2002	Limited liability company	61,335	100%	—	Metallurgical production
Chongqing Pigeon Electric Wire & Cable Co., Ltd. (重慶鴿牌電線電纜有限公司) *(iv)*	PRC / 20 January 2001	Limited liability company	52,000	74%	—	Manufacture electric wires and cables

41. 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 Pigeon Electric Materials Co., Ltd. (重慶鴿牌電工材料有限公司) *(v)*	PRC / 19 October 2006	Limited liability company	6,800	—	37%	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	—	74%	Manufacture electrical porcelain
Guizhou Changtong Pigeon Electrical Porcelain Co., Ltd. (貴州鴿牌長通電線電纜有限公司)	PRC / 17 August 2010	Limited liability company	10,000	—	37.74%	Manufacture electrical material
Precision Technologies Group (PTG) Limited (精密技術集團有限公司)*(vi)*	United Kingdom / 1 August 2011	Limited liability company	UKP20,000*	100%	—	Production and technical service of machineries
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

41. 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
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 and manufacture of 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 2010	Limited liability company	220*	—	100%	Selling of machinery tools
Chongqing Holroyd Precision Rotors Manufacturing Co., Ltd. (重慶霍洛伊德精密螺杆製造有限責任公司) *(vii)*	PRC/ 15 December 2011	Limited liability company	40,000	—	100%	Design, manufacture and selling screw

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

(a) Subsidiaries *(Continued)*

(i) In November 2011, the Company acquired an additional 1.65% of the share capital of Chongqing General Industry (Group) Co., Ltd. from its non-controlling shareholders. After the transaction, the Group's interests in Chongqing General Industry (Group) Co., Ltd. was increased from 98.35%.to 100%.(Note 38).

(ii) In September 2011, the company acquired Da'an Chenfei with the consideration of RMB 75,000,000. After the transaction, Da'an Chenfei became one of the Group's wholly owned subsidiaries. (Note 39)

In November 2011, Chongqing General Industry (Group) Co., Ltd. made the additional investment by injecting cash with the amount of RMB45,000,000 and its equipment and technology with the evaluated value of and RMB50,403,000. At the same time, another company, Jilin Technology Fund Co., Ltd. injected cash with the amount of RMB20,000,000 into Da'an Chenfei. After the injection, Da'an Chenfei was beneficially owned 91.18% by Chongqing General Industry (Group) Co., Ltd. and 8.82% by Jilin Technology Fund Co., Ltd. pursuant to the capital injection agreement. As a result, the paid-in capital of Da'an Chenfei was increased from RMB75,000,000 to RMB152,656,000 and the excess of the total capital injection over the paid-in capital was recognized in the capital surplus with the amount of RMB37,747,000.

(iii) In June 2011, the Company acquired an additional 1.31% of the share capital of Chongqing Huahao Smelting Co., Ltd. from its non-controlling shareholders. After the transaction, the Group's interests in Chongqing Huahao Smelting Co., Ltd. was increased from 98.69% to 100%. (Note 38)

In December 2011, the paid in capital of Chongqing Huahao Smelting Co., Ltd. was increased from RMB33,835,000 to RMB61,335,000 as a result of an additional capital injection of RMB27,500,000 from the Company.

(iv) In May 2011, the Company acquired an additional 19.31% of the share capital of Chongqing Pigeon Electric Wire & Cable Co., Ltd. from its non-controlling shareholders. After the transaction, the Group's interests in Chongqing Pigeon Electric Wire & Cable Co., Ltd. was increased from 54.69% to 74%. (Note 38)

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

(a) Subsidiaries *(Continued)*

(v) The Group has 74% 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 the Group controls its strategic, operating, investing and financing activities.

(vi) On 1 August 2011, the Company established Precision Technologies Group (PTG) Limited under the Company Act 2006 of England and Whales in the City of Rochdale in United Kingdom. The Company injected the capital by transferring all its interests in five British subsidiaries and one Germany subsidiary. As a result, PTG was inserted as the intermediate holding company of PTG Six Entities and directly held by the Company.

(vii) In December 2011, Chongqing Machine Tools (Group) Co., Ltd. and Precision Technologies Group (PTG) Limited jointly established Chongqing Holroyd Precision Rotors Manufacturing Co., Ltd. in PRC. Chongqing Machine Tools (Group) Co., Ltd. injected cash with the amount of RMB22,000,000, whereas Precision Technologies Group (PTG) Limited injected cash with the amount of GBP1,820,000(equivalent to RMB18,000,000). After the injection, Chongqing Holroyd Precision Rotors Manufacturing Co., Ltd. is 55% owned by Chongqing Machine Tools (Group) Co., Ltd. and 45% owned by Precision Technologies Group (PTG) Limited. Since both of its shareholders are wholly owned subsidiaries of the Company, Chongqing Holroyd Precision Rotors Manufacturing Co., Ltd. is 100% indirectly held by the Company.

(viii) In December 2011, Chongqing Machine Tools (Group) Co., LTtd. transferred all its equity in Chongqing Shengpu Material Co., Ltd. (formerly known as Chongqing Machine Tools (Group) Shengpu Machinery Set Co., Ltd.) to the Company with no consideration. As a result, Chongqing Shengpu Material Co., Ltd. became one of the subsidiaries directly held by the Company.

41. 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).

The issued capital of Precision Technologies Group (PTG) Limited is UKP20,000,000 (equivalent to RMB198,928,000).

41. 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% interests in Chongqing Cummins Engine Co., Ltd. which owns 58.4% interests in Shenzhen Chongfa Cummins Engine Co., Ltd.. Shenzhen Chongfa Cummins Engine Co., Ltd. is considered as the 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.

41. 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 interests in the following principal associates (all are unlisted):

Name	Country/Place and date of incorporation	Type of legal entity	Issued / paid in capital *(RMB '000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Qijiang Qi-Chi High-New Founding Co., Ltd. (重慶市綦齒高新鑄造有限責任公司)	PRC / 13 July 2000	Limited liability company	1,200	—	40.83%	Manufacturing of foundry products
Chongqing Hongyan 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	—	45%	Manufacturing of refrigeration equipment

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

(c) Associates *(Continued)*

Name	Country/Place and date of incorporation	Type of legal entity	Issued / paid in capital *(RMB '000)*	Attributable equity interest Directly held	Attributable equity interest Indirectly held	Principal activities
Chongqing Yongtong Gas Co., Ltd. (重慶永通燃氣股份有限公司)*(ii)*	PRC/ 6 December 2006	Limited liability company	20,000	—	20%	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
Knorr-Bremse CAFF Systems for Commercial Vehicles (Chongqing) Ltd. *(iii)*	PRC / 23 February 2011	Limited liability company	131,645	—	34%	Manufacturing of vehicle parts and components

(i) Although the Company owns 65.69% equity interests 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. This entity is therefore accounted for as an associate.

(ii) The Group has 100% interests in Chongqing Gas Compressor Factory Co., Ltd. which owns 20% interests in Chongqing Yongtong Gas Co., Ltd. (formerly known as Chongqing Gas Engineering Co., Ltd.). Chongqing Yongtong Gas Co., Ltd. is accounted for as an associate of the Group.

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

(c) Associates *(Continued)*

(iii) Knorr-Bremse CAFF Systems for Commercial Vehicles (Chongqing) Ltd. ("Knorr-CAFF") was established in Chongqing, the PRC, on 23 February 2011 by Chongqing CAFF Automotive Braking & Steering System Co. Ltd. ("CAFF"), a wholly owned subsidiary of the Company, and Knorr-Bremse Asia Pacific (Holding) Ltd., an affiliated company of the Knorr-Bremse Group Company, a limited liability company incorporated in Germany. The registered capital of Knorr-CAFF is EUR14,609,000 (approximately RMB131,645,000), which is 34% owned by CAFF and 66% owned by Knorr-Bremse Asia Pacific (Holding) Ltd.. CAFF made this investment by injecting certain equipment with the book value of approximately RMB25,234,000(Note 6) and the fair value of approximately RMB31,120,000, software with net book value of approximately RMB54,000 (Note 9) and fair value of approximately RMB2,563,000 and the inventory with the net book value of approximately RMB999,000 and the fair value of approximately RMB8,007,000 as at the transferring date. The relevant tax incurred of transferring the assets of approximately RMB2,541,000 was recorded in the cost of the investment. The difference between the net book value of such assets transferred and the fair value of the equity interests obtained, was recorded in the profit or loss for the year ended 31 December 2011.

42. ULTIMATE HOLDING COMPANY

The Directors regard CQMEHG as being the ultimate holding company of the Company.

43. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

For the year ended 31 December 2011, the profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB797,675,000 (2010: RMB100,103,000).

44. EVENTS AFTER THE BALANCE SHEET DATE

See Note 37 for details.

CQME