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

2012 Annual Report

* For identification purposes only

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Yu Gang *(served as Acting Chairman from 25 January 2013)*
Mr. Liao Shaohua
Mr. Chen Xianzheng
Mr. Xie Huajun *(resigned as Chairman on 25 January 2013)*

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
Mr. Jin Jingyu

COMMITTEES UNDER BOARD OF DIRECTORS

Members of the Audit Committee

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

Members of the Remuneration Committee

Mr. Ren Xiaochang *(Chairman)*
Mr. Lo Wah Wai
Mr. Jin Jingyu
Mr. Wang Jiyu

Members of the Nomination Committee

Mr. Yu Gang *(served as Acting Chairman from 25 January 2013)*
Mr. Kong Weiliang
Mr. Ren Xiaochang
Mr. Jin Jingyu
Mr. Huang Yong

Members of the Strategic Committee

Mr. Yu Gang *(served as Acting Chairman from 25 January 2013)*
Mr. Liao Shaohua
Mr. Chen Xianzheng
Mr. Huang Yong
Mr. Ren Xiaochang
Mr. Kong Weiliang
Mr. Jin Jingyu

SUPERVISORS

Mr. Duan Rongsheng
Mr. Zhang Xinzhi
Ms. Wang Rongxue
Mr. Liu Xing
Mr. Wang Xuqi
Mr. Chen Qing

LEGAL REPRESENTATIVE

Mr. Xie Huajun
(Mr. Yu Gang started to temporarily exercise the rights of legal representative from 25 January 2013)

COMPANY SECRETARY

Mr. Wang Xiaojun *(Practising Lawyer)*

QUALIFIED ACCOUNTANT

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

INTERNATIONAL AUDITOR

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, 20/F, Jardine House,
No. 1 Connaught Place, Central,
Hong Kong

WEBSITE OF THE COMPANY

www.chinacqme.com

AUTHORIZED EPRESENTATIVES 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.: 852-2167 0000

ALTERNATE AUTHORIZED REPRESENTATIVE AND CONTACT INFORMATION

Mr. Lo Wah Wai
33rd Floor, Shui On Centre,
No. 6-8 Harbour Road, Wanchai,
Hong Kong
Tel.: 852-2802 2191

REGISTERED ADDRESS

No. 60 Middle Section of
Huangshan Avenue, New North Zone,
Chongqing City, the PRC

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

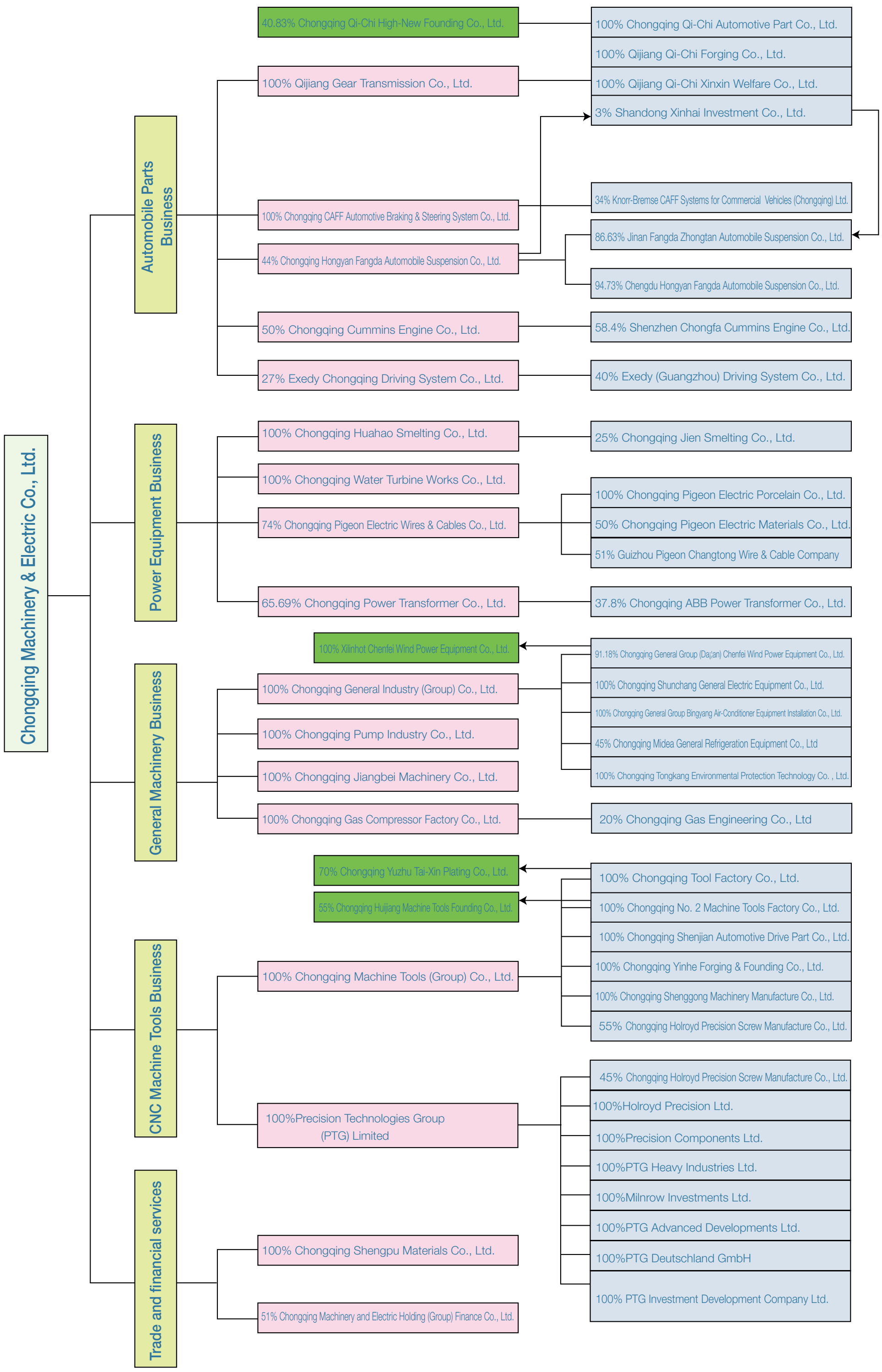
31 December

FINANCIAL HIGHLIGHTS

(RMB'000)	2008	2009	2010	2011	**2012**
Revenue and profit					
Revenue	5,949,655	6,893,290	8,883,202	10,546,001	**10,556,621**
Profit before taxation	602,557	684,470	765,058	913,658	**552,203**
Taxation	(78,676)	(59,914)	(66,298)	(168,463)	**(96,530)**
Profit for the year	523,881	624,556	698,760	745,195	**455,673**
Attributable to equity holders of the Company	503,531	594,277	687,732	737,277	**440,770**
Non-controlling interests	20,350	30,279	11,028	7,918	**14,903**
Dividends — Proposed final dividends	—	221,078	294,771	221,078	**128,962**
Earnings per share attributable to equity holders of the Company — Basic *(RMB)*	0.16	0.16	0.19	0.20	**0.12**
Assets and liabilities					
Non-current assets	2,254,156	2,554,216	2,907,784	3,299,965	**3,559,619**
Current assets	5,271,690	6,194,348	7,264,453	8,460,007	**8,955,332**
Current liabilities	3,543,477	3,951,129	4,442,554	4,669,679	**5,272,415**
Net current assets	1,728,213	2,243,219	2,821,899	3,790,328	**3,682,917**
Total assets less current liabilities	3,982,369	4,797,435	5,729,683	7,090,293	**7,242,536**
Non-current liabilities	511,530	678,163	1,155,475	2,123,434	**1,758,433**
Net assets	3,470,839	4,119,272	4,574,208	4,966,859	**5,484,103**
Equity attributable to equity holders of the Company	3,418,345	4,045,392	4,509,996	4,924,901	**5,145,304**
Non-controlling interests	52,494	73,880	64,212	41,958	**338,799**

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 2012 amounted to approximately RMB10,556.6 million, representing an increase of approximately 0.1% as compared with approximately RMB10,546.0 million for 2011.

Profit attributable to the shareholders of the Company for the year ended 31 December 2012 was approximately RMB440.8 million, representing a decrease of approximately 40% as compared with approximately RMB737.3 million for last year.

Basic earnings per share for the year ended 31 December 2012 was approximately RMB0.12 (2011: RMB0.2).

The board of directors (the "Board") proposed to declare a final dividend of RMB0.035 per share for the year ended 31 December 2012 (2011: RMB0.06).

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board, I am pleased to announce the annual results of the Group for the year ended 31 December 2012 (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 its sustainable development strategy and outlook to shareholders of the Company.

RESULTS REVIEW

Looking back into 2012, with the European debt crisis still unresolved, the American economy stalling in its recovery and growth in emerging economies slowing down, China's export decreased. China initiated macro-control in a bid to adjust economic structure, leading to a slowdown in growth over ten consecutive quarters. In response, Chinese government took a series of policy measures to "stabilize growth, expand domestic demand and adjust structure" to stimulate steady economic growth and still achieved a full-year GDP growth of 7.8% in 2012. Amid such complicated and weak economic environment, the Group sized up the situation with a focus on "optimizing structure, sustaining growth and boosting benefits", actively tackled such difficulties and adverse factors as market demand contraction, declining orders and falling prices, and increasing competition, and ultimately achieved a steady moderate growth in its operating revenue as a whole.

In face of the industry and economic downturn, the Company made great endeavors in "six aspects" in economic operation. Firstly, we increased capability of front-end services to help enterprises to solve difficulties and problems; secondly, we increased our efforts in monitoring and early warning to make regular and specific study and judgment of the inherent quality of economic operation of enterprises and worked out countermeasures; thirdly, we paid more attention to the key businesses to ensure stabilized key businesses; fourthly, we increased our efforts in control of trade receivables and inventories; fifthly, we increased centralized procurement of bulk materials which led to a noticeable cost reduction; and lastly, we took advantage of the capital pool to secure low-cost funding which effectively reduced the finance costs of enterprises.

Total revenue of the Group for the year ended 31 December 2012 was approximately RMB10,556.6 million (2011: RMB10,546.0 million), representing an increase of approximately RMB10.6 million or approximately 0.1% over last year. Gross profit was approximately RMB1,594.7 million (2011: RMB1,959.9 million), representing a decrease of approximately RMB365.2 million or approximately 18.6% over last year. Profit attributable to the shareholders of the Company amounted to approximately RMB440.8 million (2011: RMB737.3 million), representing a decrease of approximately RMB296.5 million or approximately 40% over last year.

During the Period, the Group's administrative expenses accounted for 7.7% of the revenue while distribution and selling expenses accounted for 2.7%, slightly lower than last year in general. The Group maintained a healthy financial position during the Period. As at 31 December 2012, total cash and bank deposits of the Group amounted to approximately RMB2,881.7 million, lower than last year by approximately 6.6%.

For the year ended 31 December 2012, earnings per share were approximately RMB0.12 (2011: RMB0.2). Total assets for the year ended 31 December 2012 amounted to approximately RMB12,515.0 million (for the year ended 31 December 2011: RMB11,760.0 million), while total liabilities amounted to approximately RMB7,030.8 million (for the year ended 31 December 2011: RMB6,793.1 million); total equity attributable to the shareholders was approximately RMB5,145.3 million (for the year ended 31 December 2011: RMB4,924.9 million); net asset value per share was approximately RMB1.49 (for the year ended 31 December 2011: RMB1.35).

BUSINESS REVIEW AND OUTLOOK

Automobile parts and components (engines, gear boxes, steering systems and other products)

The Chinese automobile market saw a noticeable slowdown in its growth in 2012 and has stepped into the era of "micro-growth". Impacted by the lack of market demand, intensified competition and downward price pressure, the Group's automobile parts and components business as a whole experienced a negative growth. In particular, the gear box and steering system business underwent a significant decline due to less demand in commercial vehicle market; and the diesel engine business declined in the year under the combined impact of the transformation of China's economic development pattern and lack of demand for diesel power generation equipment, engineering machinery and vessels. Automobile parts and components segment as a whole saw a negative growth in sales for the first time, with revenue for the year amounting to approximately RMB2,878.6 million, representing a decrease of approximately 18.0% from 2011.

During the Period, the Group successfully launched its 5S400, 5S500 and 5S600 series of gear box products into the new school buses market which won recognition of the market; a number of energy saving and environment friendly gear boxes including model QJ1112, which is a kind of pure electric transmission as listed in the national "863"program, achieved bulk product sales and won recognition from users; the "demonstration project on the application of CNC equipment in the gear sector of Chongqing" (重慶市齒輪行業數控裝備應用示範工程) was granted special financial subsidy by the State; the project named "optimization of key technologies in mechanical systems for medium to large passenger car AMT automatic gear boxes, and product research and development and industrialization thereof" (大中型客車AMT變速器機械系統優化關鍵技術及產品研發及產業化) was listed in the "121" Key Technological Projects of Chongqing; and the bidding and civil work are being accelerated for the 200,000 units of the phase 1 project of the production base for an annual output of 400,000 gear boxes for medium and heavy-duty vehicles.

As the macro economy is optimistic in 2013, the passenger cars and vehicles market is expected to maintain its growth momentum. As driven by urbanization and the investment peak in the "Twelfth Five-Year Plan" period, the heavy-duty trucks market is expected to recover step by step. This segment is expected to see a steady growth in 2013.

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

In 2012, benefiting from China's enhanced efforts in developing renewable clean energy and smart grid projects under the "Twelfth Five-Year Plan" and the Chinese government's move to accelerate development of power transmission and transformation, hydro power, nuclear power and wind power, the Group's power equipment business sustained its growth momentum. The hydro turbine generator business claimed a solid presence in both domestic and overseas markets. Driven by urbanization and the key development projects such as lower-rent housing construction, power grid upgrading and rail transit development, the electrical wires and cables business maintained a steady growth in sales. The segment recorded revenue of approximately RMB3,624.1 million for the year, representing an increase of approximately 4.2% from 2011.

The C601 high-efficiency wheels for new impact hydroelectric generating sets (新型衝擊式水輪發電機組C601高效轉輪) which were independently developed by the Group, won high recognition of the market; and the three technological renovation projects including the newly-developed "low smoke halogen free flame retardant fire resistant cable for urban rail transit use" (城市軌道交通用低煙無鹵阻燃耐火電纜), "the silver-coated copper wire for 1000MW supercritical turbine rotor" (1000MW超臨界汽輪發電機組轉子用銀銅線) and "the U210B, U210BP and U300B series disc-shaped suspension porcelain insulator" (U210B、U210BP、U300B系列盤形懸式瓷絕緣子) have passed relevant testing and verification and achieved mass production.

As the grid construction has been accelerated, ultra-high voltage project, wind power and nuclear power projects have been put into construction in succession and the urbanization and real estate stabilized over recent years, a huge market was created for electrical and cables, and high-voltage, especially ultra-high voltage transformers. In 2013, this segment will still see a stabilized growth.

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

In 2012, the Group sped up the upgrading of general machinery products, closely tracked new market demand and expanded into such fields as petroleum and petrochemicals, coal chemicals, mining, nuclear power and wind power based on the State's strategy for the development of new energy development. As the nuclear pump market gradually recovered, new orders were placed with the Group. The gas compressors business has entered the aviation market and batch orders were placed with the Group. Orders for new products such as wind power rotor blades and ore pulp high-pressure diaphragm pump (礦漿高壓隔膜泵) significantly increased. A total of 11 rotary kiln palletizing wind turbines (轉窑球團風機) were sold to Malaysia. However, as China continued to regulate and control the iron and steel, metallurgy, cement and chemical industries, the demand for conventional products in the market shrank. The segment recorded revenue of approximately RMB1,329.6 million for the year, representing a slight decrease of approximately 2.6% from 2011.

The steel-making dust-removing fan (OG風機), a new product developed by the Group, was accepted by clients at the highest acceptance rating, which attained the standard of imported equipment and was used as an import replacement thereof; and the research and development of high-pressure non-lubricated compressor and the helium special-purpose compressor achieved success.

The high-end pump industrialization for capacity expansion and renovation project is about to be completed and put into production, which will have an annual production capacity of 50 units/sets of high-end pumps with the majority being nuclear pumps; the industrial layout was completed in respect of the production base of wind power rotor blade in Xilinhot and the Erdos base in Inner Mongolia; and the "Tongnan sewage treatment works BOT" project commenced construction.

Over these years, the Group has been endeavoring to adjust the product mix of the general machinery segment. In 2013, we expect to achieve breakthroughs in such fields as petroleum and petrochemicals, coal chemicals, mining, nuclear power, wind power, medium-high pressure compressor and export, and gradually shift from a manufacturing enterprise into a manufacturing service one, so as to create new profit driver for the Group's development in the future. This segment is expected to perform better in 2013 as compared to 2012.

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

In 2012, the machine tools sector as a whole suffered a decrease in demand in 2012 due to the macroeconomic downturn in the PRC and abroad and especially, the decreased demand from automobile, engineering machinery and general machinery industries relating to technical upgrading for capacity expansion. However, given the Group's leading position in such sector, this business segment was able to maintain a stable market share. The segment recorded revenue of approximately RMB1,030.6 million for the year, representing a decrease of approximately 33.0% over the same period last year. During the Period, such segment recorded trading income of approximately RMB1,693.7 million which had been subdivided and recognised in trade business segment.

The YW7232CNC all-purpose grinding machine developed by Chongqing Machine Tools (Group) Co., Ltd. ("Machine Tools Group") (a subsidiary of the Company) jointly with Britain-based Precision Technologies Group Limited ("PTG"), and the "YZ4232CNC5 automatic high-efficiency gear shaving machine" and "gear-producing automatic production line for passenger car gear boxes" independently developed by Machine Tools Group won wide acclamation from the market and received bulk orders. During the Period, Chongqing Tool Factory Co., Ltd. ("Chongqing Tool Factory"), a subsidiary of Machine Tools Group, was accredited as the sole "complicated tool engineering technology research center" in Chongqing.

In 2013, the "large precise CNC machine tool production base and the environment friendly relocation" project of Machine Tools Group and the "Chongqing Holroyd Precision Screw" project will be completed and put into production and achieve bulk sales.

In 2013, as the relevant sectors of automobile industry, engineering machinery, general machinery and shipbuilding will still be subject to a prolonged impact by macro adjustment, decreased investment and decelerated growth in automobile industry, and the automobile production capacity expansion will decline, the performance of this segment is expected to stay at basically the same level as last year.

Trade business

In order to enhance the synergy among each business segment of the Group and reduce costs, the Company established Chongqing Shengpu Materials Co., Ltd. ("Shengpu Materials") as its bulk commodity procurement platform on 30 December 2011. The platform is not designed to generate profit and its principal duties are to enhance bargaining power via economies of scale and reduce the procurement costs for the production and operation of the Group through centralized procurement of bulk commodities. In 2012, it reduced approximately RMB15 million of procurement costs for the Group through the centralized procurement of steel, oil and other bulk commodities. In 2012, the turnover of this segment amounted to approximately RMB1,693.7 million, representing an increase of approximately 159.1% over the same period last year.

Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd. ("Finance Company") which is held as to 51% by the Company was incorporated in Chongqing, the PRC on 16 January 2013.

In 2013, the Group will further increase the commodity types and scope of its bulk material centralized procurement which will hopefully save more costs as compared with 2012.

DEVELOPMENT FOUNDATION AND ADVANTAGES

As the largest industrial conglomerate in Western China, the following foundations and advantages will contribute to our future development:

Firstly, the Group benefits from the preferential policies such as the Chongqing Municipal "314" overall strategic deployment and the large-scale development of China's western region, and enjoys unique geographical and taxation advantages; secondly, the four core businesses of the Group are in line with the national industrial policies, its products have relatively big market shares in the niche markets and the diversified product portfolio of the Group enhanced the ability of the Group in mitigating and preventing market risks; thirdly, the Group is equipped with the fundamentals for technological development and renovation, possesses Chinese famous brand, Chinese well-known trademark and several Chongqing famous brands, as well as national-level, municipal-level technological centers and numerous patented technologies, which, together with the industry-leading craftsmanship and technology accumulated over years as well as on-going investment in research and development, brings us a strong brand advantage and technological renovation and R&D ability; fourthly, the Group has established an efficient and standardized corporate governance structure and systems, and a monitoring and guarantee mechanism for decision-making, which has created good corporate governance with high efficiency and effective control; fifthly, the Group has a sound human resources management system and motivation mechanism, featuring the six mechanisms for talents management, i.e. "selection, cultivation, utilization, retaining, dismissal and backup", and through means of attracting talents both at home and abroad, job rotations, communications and training, the quality and ability of our staff are improved continuously, which provide talents support to the sustainable development of the Group. The Board, management and all employees of the Group have full confidence in future development of the Company.

DEVELOPMENT STRATEGY

The Group's development strategy and work priorities in 2013 are set out as follows:

I. Development Strategy

Holding to the business philosophy of "dedication, innovation, open-up and speed-up" and in line with the "Twelfth Five-Year Plans" of both the country and the Company, the Group will forge ahead with the mission of "adjusting structure driven by renovation, ensuring growth by enhancing quality and efficiency", keep opening up and pursue innovation, transform the mode of economic growth, and work hard to build an equipment manufacturing enterprise with international competitiveness.

II. Work Priorities

1. Promote innovation in project management and advance structural adjustment

The Group will aggressively press ahead with the newly-established and relocated technological upgrading projects, strictly control investment budget, focus on investment returns, implement a direct liaison mechanism with the management, strengthen "point-to-point" coordination and services, timely resolve problems arising in projects construction through coordination; step up structural adjustment; accelerate M&A projects and strengthen collaboration.

2. Step up efforts for technological innovation to promote product upgrading

The Group will put more efforts in technological R&D, increase incentives for technological innovation, vigorously develop self-innovation products; promote product upgrading; operate the technological innovation platform in a scientific way, continuously build state-level key laboratories and state-level enterprise technology center; thoroughly implement the strategy for intellectual property rights and promote application for and protection of technology patents to achieve a steady growth of patent licensing.

3. Scale up economy monitoring to improve management

The Group will strength its analysis of macro-economic situation, strengthen monitoring and early warning of economy functioning; focus on the evaluation of indicators such as sales orders, trade receivables, inventories, cash flow and operating profit to improve operating quality and efficiency; provide more support to key enterprises, expand the backbones underpinning the Company's economic development; extend the scope of bulk purchase to further enhance the synergetic and cost-reduction effects; tighten up the comprehensive management of production safety, environmental protection and employee occupational health to fully embody the "people-oriented" philosophy.

4. Improve quality of capital operation and enhance financing capability

The Group will launch a comprehensive budget management experiment and gradually put in place a comprehensive budget management system; scale up accounting, tighten management of financial information quality with focus on overseas, newly-established and key companies; make use of the finance company as a platform to monitor capital management of its subsidiaries, strengthen credit management of the Company and its subsidiaries for the purpose of resolving the problem of shortage in working capital and reducing financial cost; make estimation for project investment and financing to minimize investment and financing cost and maximize shareholders' returns; take advantage of futures and currency forward contracts to hedge risk of fluctuation in market prices and exchange rates.

5. Strengthen corporate governance management and standardize the internal control system

We will strictly implement the "Provisional Regulations on Management of the Operation of the Shareholders' General Meeting and the Board of Directors of Subsidiaries" to further standardize the corporate governance structure; consolidate achievement in risk control, promote the establishment of internal control systems in overseas investment enterprises and launch pilot projects on the evaluation of the effectiveness of our subsidiaries' internal control systems; set up warning mechanisms for seven major risks (strategy, market, financial, operational, investment, legal, human resources); prevent legal risks in M&A, investment and other significant projects to safeguard interests of the Company; bring into play the auditing function, and continue building the "5 parallel measures and 3 implementations"（五管齊下三到位）monitoring and examination mechanism.

6. Promote the implementation of talents strategy and develop talents in a scientific way

The Group will accelerate the transformation of human resources to human capital, and step up its efforts to recruit and develop high-end leading talents; explore the development of transnational business management talents through overseas companies and joint ventures; continue the exchange of talents, encourage them to grow in different environment and posts; explore and innovate the incentive and constraint mechanism for persons-in-charge of subsidiaries; keep improving employees training/development, arrange EMBA, MBA and Master of Engineering programs for employees of various fields and host high-level special training and workshops to comprehensively implement the training plan.

7. **Scale up performance of social responsibility and promote corporate culture**

   We will further advance the strategic cooperation with domestic and overseas mainstream media, promote corporate culture and core values, continuously enhance the Group's profile and reputation, attract more attention from investors; continue to conduct good investor relations management and communications, tighten up insider information management; actively perform social responsibility to contribute to the construction of a harmonious society.

AWARDS

During the Period, the Group received the following awards:

- The Company won the Award for Outstanding Enterprises at the "Glory Lighting Hong Kong" celebration of the 15th anniversary of Hong Kong's return (" 光耀香江 " 香港回歸十五周年卓越企業獎);

- The Company won the British Business Awards 2012;

- Chongqing General Industry (Group) Co., Ltd. ("Chongqing General Group"), a subsidiary of the Company, won the 2012 Award for Technological Innovation Demonstration Enterprises of Chongqing;

- Machine Tools Group, Chongqing General Group, Chongqing Cummins Engine Co., Ltd. ("Chongqing Cummins"), Chongqing Pigeon Electric Wires & Cables Co., Ltd. ("Chongqing Pigeon") and Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear Transmission"), all being subsidiaries of the Company, were ranked among "Chongqing Top 50 Industrial Enterprises";

- Three products developed by Chongqing General Group, namely semi-closed centrifugal low-temperature refrigerating unit (半封閉離心式低溫製冷機組), centrifugal super high-temperature water source heat pump unit (離心式超高溫水源熱泵機組), high-temperature wear resistant backheating fans (高溫耐磨回熱風機) won the Golden Prize at the 6th China (Shanghai) International Fluid Machinery Exhibition (第六屆中國(上海)國際流體機械展覽會);

- The BCD-series centrifugal blower developed by Chongqing General Group won the third prize of the Science & Technology Award for Chinese Mechanical Industry;

- Chongqing Pigeon won the 2011 Award for Contribution of State-owned Enterprises of Chongqing;

- Chongqing Cummins won the Second Prize of Excellent New Products of Chongqing.

SUMMARY

Around the world, the international environment remains complex and volatile, with the profound effects of international financial crisis still persisting, the US "fiscal cliff" problem unresolved, a solution to the European debt issues taking time and growth in emerging economies slowing down. Domestically, against the backdrop of external demand contracting, Chinese economy is simultaneously affected by RMB appreciation, climbing labor cost, declining export competitiveness, continued stringent real estate regulation and control, continual and rapid rise of resources, environment and other operating costs. On the other hand, stimulated by expansionary monetary policy of major economies, the global economic conditions may improve in 2013 as compared with 2012, and the Euro zone economic growth is likely to turn positive. As the international and domestic environments improve and the effects of China's policy for maintaining growth show up, favorable factors which boost economic rebound, such as huge development potential of new type urbanization, industrial transformation, broad prospects of trade upgrading, a bigger role of domestic demand in supporting economic growth, are increasing. All these will drive the growth of the Group's businesses of automobile parts and components, power equipment, general machinery, CNC machine tools and trade business etc., which are expected to continue to maintain steady growth in 2013.

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 hard work, and to our customers, suppliers and friends of all communities for their longstanding support for and trust in the Group. The Group will work together with you for a better future and greater achievements in "equipping China and going out to the world".

Yu Gang
Executive Director (As Acting Chairman)

Chongqing, the PRC
19 March 2013

OUTLOOK AND PROSPECT

Principal business to keep stable growth in 2013

In 2013, the global economic landscape will remain complex, volatile and full of variables, with the profound effects of international financial crisis still persisting, the US "fiscal cliff" problem not to be completely solved, a solution to the European debt issues taking time, Japan's growth prospects gloomy and growth in emerging economies slowing down. Meanwhile, as trade protectionism is rising and upward pressure on international commodity prices is increasing due to sufficient global liquidity and concentration, the global economic recovery is still vulnerable and unstable. In the face of adverse factors including climbing labor cost, declining export competitiveness, continued real estate regulation and control, China will be focused on accelerating the transformation of economic development patterns, center around enterprise quality and efficiency, drive growth through innovation and promote economic development underpinned by new industrialization, informatization, urbanization, agricultural modernization with Chinese characteristics. The Chinese government will continue to implement proactive fiscal policy and prudent monetary policy, and China's economy is expected to pick up as compared with 2012.

The Group will continue working hard to overcome difficulties, step up its efforts for analysis of macro and micro situations so as to timely come up with responsive measures, spare no efforts in landing orders, strengthen basic management as well as cost reduction and efficiency improvement, continuously innovate product technology, development model and human resources management, leverage our advantage in market, products, R&D, capital, labor force, brand, governance and control to seize opportunities and speed up development. The businesses of the Group are expected to grow at a steady pace in 2013.

BUSINESS REVIEW

Operating revenue stayed stable

Because of our efforts for market strategy adjustment, market expansion, operation management, technological innovation, industrial upgrading, the operating revenue of the Group remained stable and recorded a slight year-on-year growth. Production and sales became synchronized, with the sales-output ratio surpassing 100%; the value of delivered exports remained stable, registering a year-on-year increase; trade receivable and inventories were under effective control.

Projects proceeded solidly

In 2012, the Group centered on the "year of projects" in pushing forward with 19 construction projects in an orderly way.

For phase 1 of the environmental relocation project of Machine Tools Group, the construction of the centerpiece of the assembly plant has finished, ensuring that production may start in 2013 after the relocation is completed. For the environmental relocation of phase 2 of Machine Tools Group (Chongqing Tool Factory, Chongqing Yinhe Forging & Founding Co., Ltd., Chongqing Shenjian Automotive Drive Part Co., Ltd.), Chongqing Water Turbine Works Co., Ltd. ("Chongqing Water Turbine") and Chongqing Jiangbei Machinery Co., Ltd., site selection and demonstration has completed and bidding for project design and construction and equipment procurement are underway, with an aim to commence construction in the second half of 2013. Land acquisition, administrative examination and approval, project design, civil construction bidding for phase 1 of the project of Qijiang Gear Transmission for an annual output of 400,000 gear boxes for medium and heavy-duty vehicles have finished, with an aim to complete construction and commence production by the end of 2013; the precision screw project of Chongqing Holroyd has been substantially completed and bulk production and sales will begin in the first half of 2013. The main part of the large wind power rotor blades industrialization expansion project of Chongqing General Group has finished with an aim to complete the project and commence production in the first half of 2013. The construction of the BOT project of Tongnan Sewage Treatment Plant has formally begun with an aim to complete the construction of the main part and equipment installation in the third quarter of 2013 and launch a trial run.

Highlights of technological innovation

In 2012, in upholding the strategy of scientific standardization and technological innovation, the Group formulated the "Plan for Product Category" to specify the focus and direction of structural adjustment as well as transformation and upgrading. We incorporated guiding indicators involving R&D investment, talents development, patent application and brand building into the "Responsibility Statement on Annual Goals of Technological Innovation" to improve the technological innovation system and enhance technological innovation capabilities.

During the Year, the Group pressed ahead with the development of 141 new products, 39 of which passed the evaluation of key new products of Chongqing Municipality. During the Year, the Group applied for patents for 657 projects and was granted 481 patents by the State. As at 31 December 2012, the Group held a total of over 900 patents of various types. Machine Tools Group, Chongqing General Group and Chongqing Gas Compressor Factory Co., Ltd. ("Chongqing Gas Compressor") received 1 second and 3 third prizes of Chongqing Municipal Award for Progress in Science and Technology; Machine Tools Group and Chongqing General Group won the second and third prizes respectively of the Science & Technology Award of Chinese Mechanical Industry; Machine Tools Group, Chongqing General Group, Chongqing Cummins and Chongqing Pump Industry Co., Ltd. ("Chongqing Pump") totally four enterprises, won the first, second and third prizes of Premium New Products of Chongqing; Chongqing Pigeon, Chongqing General Group and Chongqing Tool Factory got the Chongqing Award for Product Standards; three brands of Chongqing Pump, Chongqing General Group and Chongqing Gas Compressor were recognised as Well-known Brands of Chongqing; 12 products of Machine Tools Group, Chongqing General Group, Chongqing Gas Compressor, Chongqing Huahao Smelting Co., Ltd., Chongqing No. 2 Machine Tools Factory Co., Ltd., Chongqing Tools Factory and Chongqing Midea General Refrigeration Equipment Co., Ltd were recognised as Well-known Products of Chongqing.

In particular, the variable frequency cables, patented products of Chongqing Pigeon including "fireproof green variable frequency cable"(「防火環保型變頻電纜」), "cold-resistant variable frequency cable"(「耐寒型變頻電纜」) and "low-smoke halogen-free flame-retardant refractory cable for urban rail transit"(「城市軌道交通用低煙無鹵阻燃耐火電纜」), have passed the examination and evaluation by the National Supervision and Testing Center for Fireproof Building Materials Quality (國家防火建築材料質量監督檢驗中心) and received the Certificate for Use of Flame-retardant Products and Components Logos in Public Places (《公共場所阻燃製品及組件標識使用證書》) and the Certificate for Authorized Use of Combustion Performance Grade Logo (《燃燒性能等級標識授權使用證書》), giving a green pass to Chongqing Pigeon's wires and cables which are sold to be used in public places.

The analog computation of the numerical value of the entire machine of MVR—12T centrifugal ventilator by the applied computing fluid mechanics software (應用計算流體力學NUMECA軟件) of Chongqing General Group improved the reliability of its theoretical analysis, effectively shortened the R&D cycle and reduced R&D cost.

Breakthroughs were made in diversified financing

In order to expand financing channels, the finance company has been authorized by the CBRC to operate. It will provide financial services to members in a bid to enhance capital flow efficiency, reduce capital cost and ease difficulties in obtaining working capital. We established the Hong Kong trade and financing platform to improve the operational model of the Company. We actively promoted the use of financial leasing instrument and successfully applied it in the wind power project of Chongqing General Group Chenfei (重通晨飛).

Management was sound and effective

During the Year, the Company further strengthened the corporate governance of the management and regulated the functioning of the shareholders' general meeting and the boards of directors of subsidiaries, with decision making procedures standardized for the 5 general meetings and 54 board meetings held in aggregate by our subsidiaries for considering 211 resolutions. In continuously tightening its internal control management, the Company amended, improved and distributed 15 systems for internal control management including the "Special Plan for Internal Control and Risk Management" and the "Guiding Standards for Internal Control of Subsidiaries". We have established a internal control system covering 14 wholly-owned subsidiaries and controlled subsidiaries; we have been focused on the formulation of 8 key business processes including purchases and sales; prepared the "Internal Control Manual", "Recommendation for Improvement of Deficiencies in Internal Control", "Compilation of Systems" for subsidiaries; 464 systems of its subsidiaries were combed and 3,210 risk control points were established; we assessed the effectiveness of the internal control system of the Company and formed the "Internal Control Assessment Handbook" and "Evaluation Report" to ensure the Company's internal control was sound and effective. In addition, in order to strengthen legal risk prevention and control, we started to implement the "Guideline for Business Legal Risks Management" with an aim to increase awareness of business laws and regulations and enhance ability to manage and control risks.

Talent team was improved

During the Year, the Group comprehensively advanced the implementation of the "Twelfth Five-Year" talent development special project; recruited 13 dual-management talents including provincial or above-level experts; set up an information library for senior management, high-end talents, and backup talents of subsidiaries; further improved the human resources management system, set up the systems including the "Rules for Management of External Training of Dual-management Talents", the "Guiding Opinions on Rewarding Employee Invention Patents", the "Guiding Opinions on Recruitment and Appraisal of Chief Employee"; completed the "Compilation Handbook for Human Resources Management Systems"; improved the performance evaluation system, and conducted appraisal of the performance and annual remuneration of senior management of its subsidiaries; reasonably set the KPI indicators for employees of the Company and introduced BSC to ensure the performance appraisal system is more scientific and rational; invited well-known domestic and international professors to give lectures in the Company; hosted 12 large-scale seminars including one entitled "Strategic Cost Management"; arranged EMBA courses in Xiamen University and MBA courses in Chongqing University for 28 managers of the Group; the Group spent almost RMB10 million providing training.

RESULTS OVERVIEW

Operation Analysis

Automobile parts and components

The Chinese automobile market saw a noticeable slowdown in growth in 2012 and has stepped into the era of "micro-growth". Impacted by lack of market demand, intensified competition and downward price pressure, the Group's automobile parts and components business as a whole experienced a negative growth. In particular, the gear box and steering system business underwent a significant decline due to less demand in commercial vehicle market; and the diesel engine business declined in the year under the combined impact of the transformation of China's economic development pattern and lack of demand for diesel power generation equipment, engineering machinery and vessels. Automobile parts and components segment as a whole saw a negative growth in sales for the first time, with revenue for the year amounting to approximately RMB2,878.6 million, representing a decrease of approximately 18.0% over the same period of 2011.

Power equipment

In 2012, benefiting from China's enhanced efforts in developing renewable clean energy and smart grid projects under the "Twelfth Five-Year Plan" and the Chinese government's move to accelerate development of power transmission and transformation, hydro power, nuclear power and wind power, the Group's power equipment business sustained its growth momentum. The hydro turbine generator business claimed a solid presence in both domestic and overseas markets. Driven by urbanization and the key development projects such as lower-rent housing construction, power grid upgrading and rail transit development, the electrical wires and cables business maintained a steady growth in sales. The segment recorded revenue of approximately RMB3,624.1 million for the year, representing an increase of approximately 4.2% over the same period of 2011.

General machinery

In 2012, the Group sped up the upgrading of general machinery products, closely tracked new market demand and expanded into such fields as petroleum and petrochemicals, coal chemicals, mining, nuclear power and wind power based on the State's strategy for the development of new energy development. As the nuclear pump market gradually recovered, new orders were placed with the Group. The gas compressors business has entered the aviation market and batch orders were placed with the Group. Orders for new products such as wind power rotor blades and ore pulp high-pressure diaphragm pump (礦漿高壓隔膜泵) significantly increased. A total of 11 rotary kiln palletizing wind turbines (轉窑球團風機) were sold to Malaysia. However, as China continued to regulate and control the iron and steel, metallurgy, cement and chemical industries, the demand for conventional products in the market shrank. The segment recorded revenue of approximately RMB1,329.6 million for the year, representing a slight decrease of approximately 2.6% over the same period of 2011.

CNC machine tools

In 2012, the machine tools sector as a whole suffered a decrease in demand in 2012 due to the macroeconomic downturn at home and abroad and especially, the decreased demand from automobile, engineering machinery and general machinery industries relating to technical upgrading for capacity expansion. However, given the Group's leading position in the sector, this business segment was able to maintain a stable market share. The segment recorded revenue of approximately RMB1,030.6 million for the year, representing a decrease of approximately 33.0% over the same period of 2011. During the Period, the segment recorded trading income of approximately RMB1,693.7 million which had been subdivided and recognised in trade business segment.

Trade business

In order to enhance the synergy among its business segments and reduce costs, the Company established Chongqing Shengpu Materials Co., Ltd. ("Shengpu Materials") as its bulk commodity procurement platform on 30 December 2011. The platform is not designed to pursue profit and its principal duties are to enhance bargaining power via economies of scale and reduce the procurement costs for the production and operation of the Group through centralized procurement of bulk commodities. In 2012, it reduced approximately RMB15 million of procurement costs for the Group through the centralized procurement of steel, oil and other bulk commodities. In 2012, the turnover of this segment amounted to approximately RMB1,693.7 million, representing an increase of approximately 159.1% over the same period of 2011.

SALES

For the year ended 31 December 2012, the Group's total revenue amounted to approximately RMB10,556.6 million, an increase of approximately RMB10.6 million or approximately 0.1% as compared with approximately RMB10,546.0 million for 2011. As compared with 2011, the revenue of automobile parts and components was approximately RMB2,878.6 million (accounting for approximately 27.3% of total revenue), a decrease of approximately 18.0%; revenue of power equipments was approximately RMB3,624.1 million (accounting for approximately 34.3% of total revenue), an increase of approximately 4.2%; revenue of general machinery was approximately RMB1,329.6 million (accounting for approximately 12.6% of total revenue), a decrease of approximately 2.6%; revenue of CNC machine tools was approximately RMB1,030.6 million (accounting for approximately 9.8% of total revenue), a decrease of approximately 33.0%; and revenue of new trade segment was approximately RMB1,693.7 million (accounting for approximately 16.0% of total revenue), an increase of approximately 159.1%.

GROSS PROFIT

The gross profit for 2012 was approximately RMB1,594.7 million, decreased by approximately RMB365.2 million or approximately 18.6%, as compared with approximately RMB1,959.9 million for the same period of 2011, accounting for approximately 15.1% of sales.

As compared with 2011, gross profit, gross profit margin and the proportion for power equipment increased. On the other hand, the gross profit and gross profit margin for automobile parts and components, general machinery and CNC machine tools relatively dropped, mainly due to the decrease in sales as a result of declined needs of the industry, while the Group's overall sales maintained slight growth.

OTHER INCOME AND GAINS

The other income and gains for 2012 were approximately RMB177.8 million, an increase of approximately RMB25.0 million or approximately 16.4%, as compared with approximately RMB152.8 million for the same period of 2011, mainly due to the government's tax refund and subsidy for the environmental relocation of plants and development of industrial technology of the Group.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for 2012 were approximately RMB1,093.7 million, a slight decrease of approximately RMB11.0 million or approximately 1.0%, as compared with approximately RMB1,104.7 million for the same period of 2011. The selling and administrative expenses accounted for approximately 10.4% of sales, a slight decrease of approximately 0.1 percentage points as compared with 10.5% for the same period of 2011. The Group controlled the overall selling and administrative expenses on a prudent and stable basis.

OPERATING PROFIT

The operating profit for 2012 was approximately RMB678.8 million, a decrease of approximately RMB329.1 million or approximately 32.7%, as compared with approximately RMB1,007.9 million for the same period of 2011. Eliminating the effect of one-off gains included in other income and gains, operating profit decreased by approximately RMB354.2 million, or approximately 41.4%, over the same period of 2011.

FINANCE COSTS

Interest expense for 2012 were approximately RMB163.4 million, an increase of approximately RMB32.1 million or approximately 24.4%, as compared with approximately RMB131.3 million for the same period of 2011, mainly due to an increase in interests incurred by 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 2012 was approximately RMB1.0 million, a substantial decrease of approximately RMB1.8 million or approximately 64.3%, as compared with approximately RMB2.8 million for the same period of 2011. The decrease was due to the operating losses of approximately RMB15.0 million recorded by Chongqing Hongyan Fangda Automobile Suspension Co., Ltd. and Knorr-Bremse CAFF Systems for Commercial Vehicles (Chongqing) Ltd. and the decrease in the profits of other associated companies, while Chongqing Midea General Refrigeration Equipment Co., Ltd. turned losses into gains and recorded profits of approximately RMB14.1 million during the Period.

INCOME TAX EXPENSES

The corporate income tax expenses for the year ended 31 December 2012 were approximately RMB96.5 million, a decrease of approximately RMB72.0 million, or approximately 42.7%, as compared with approximately RMB168.5 million for the same period of 2011, mainly due to the decrease in assessable profits and the change in deferred income tax.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the year ended 31 December 2012 was approximately RMB440.8 million, a decrease of approximately RMB296.5 million or approximately 40% as compared with approximately RMB737.3 million for the same period of 2011. Earnings per share decreased from RMB0.20 per share for 2011 to RMB0.12 per share.

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 HKFRSs and China Accounting Standards for Business Enterprises ("CAS").

The Company's reserves available for distribution as at 31 December 2012 under HKFRSs and CAS were RMB935,613,000 and RMB1,130,882,000 respectively. Thus, as at 31 December 2012, the Company's distributable reserve attributable to shareholders of the Company amounted to RMB935,613,000.

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	
	2012	2011	**2012**	2011	**2012**	2011
	(RMB in millions, except for percentage)					
Automobile parts and components						
Engines	**1,648.6**	1,898.4	**560.0**	651.8	**442.5**	527.2
Gear boxes	**829.1**	1,172.1	**161.3**	253.2	**28.2**	105.0
Other products	**400.9**	440.1	**28.0**	57.7	**(6.9)**	20.8
Total	**2,878.6**	3,510.6	**749.3**	962.7	**463.8**	653.0
% of total	**27.3%**	33.3%	**47.0%**	49.1%	**68.3%**	64.8%
Power equipment						
Hydroelectric generation equipment	**439.1**	400.9	**105.6**	130.6	**35.7**	54.0
Electrical wires and cables	**2,266.0**	2,351.1	**169.8**	123.7	**106.2**	80.3
Other products	**919.0**	727.3	**2.7**	(6.8)	**(14.9)**	(23.6)
Total	**3,624.1**	3,479.3	**278.1**	247.5	**127.0**	110.7
% of total	**34.3%**	33.0%	**17.4%**	12.6%	**18.7%**	11.0%
General machinery						
Total	**1,329.6**	1,365.2	**304.9**	345.8	**50.3**	113.0
% of total	**12.6%**	12.9%	**19.1%**	17.7%	**7.4%**	11.2%
CNC machine tools						
Total	**1,030.6**	1,537.2	**255.2**	400.9	**57.1**	124.3
% of total	**9.8%**	14.6%	**16.0%**	20.4%	**8.4%**	12.3%
Trade business						
Total	**1,693.7**	653.7	**7.2**	3.0	**2.4**	0.5
% of total	**16.0%**	6.2%	**0.5%**	0.2%	**0.4%**	0.1%
Headquarters						
Total	**—**	—	**—**	—	**(21.8)**	6.4
% of total	**—%**	—%	**—%**	—%	**(3.2%)**	0.6%
Total	**10,556.6**	10,546.0	**1,594.7**	1,959.9	**678.8**	1,007.9

AUTOMOBILE PARTS AND COMPONENTS

Revenue from the automobile parts and components segment for the year ended 31 December 2012 was approximately RMB2,878.6 million, representing a decrease of approximately RMB632.0 million or approximately 18.0%, as compared with approximately RMB3,510.6 million for the same period of 2011. Revenue from the engines and gear boxes business decreased by approximately RMB249.8 million or approximately 13.2% and approximately RMB343.0 million or approximately 29.3% respectively as compared with the same period of 2011, while revenue from other products also decreased by approximately RMB39.2 million or approximately 8.9%.

During the Period, gross profit for the automobile parts and components segment was approximately RMB749.3 million, representing a decrease of approximately RMB213.4 million or approximately 22.2%, as compared with approximately RMB962.7 million for the same period of 2011. Gross profit margin decreased to 26.0% for 2012 from 27.4% for 2011, primarily due to the decrease in sales volume, which led to the rise of unit cost, and decrease in sales price as a result of intensified market competition, which led to a decrease in gross profit margin of its business by 1.4 percentage points.

Overall, the result for the automobile parts and components segment for the year ended 31 December 2012 was approximately RMB463.8 million, representing a decrease of approximately RMB189.2 million or approximately 29.0%, as compared with approximately RMB653.0 million for the same period of 2011.

POWER EQUIPMENT

Revenue from the power equipment segment for the year ended 31 December 2012 was approximately RMB3,624.1 million, an increase of approximately RMB144.8 million or approximately 4.2%, as compared with approximately RMB3,479.3 million for the same period of 2011, primarily due to an increase in revenue of approximately RMB38.2 million, or approximately 9.5%, from hydroelectric generation equipment. Revenue from other products also increased by approximately RMB191.7 million, or approximately 26.4%.

During the Period, gross profit for the power equipment segment was approximately RMB278.1 million, an increase of approximately RMB30.6 million or approximately 12.4%, as compared with approximately RMB247.5 million for the same period of 2011. The overall gross profit margin slightly increased to 7.7% for 2012 from 7.1% for 2011, primarily due to the increase in the proportion of electrical wires, cables and other business with low gross profit, and the gross profit margin slightly increased to 7.5% for 2012 from 5.3% for 2011, while the gross profit margin decreased to 24.1% for 2012 from 32.6% for 2011 due to the changes in product sales structure of hydro turbine generators.

Overall, the result for the power equipment segment for the year ended 31 December 2012 was approximately RMB127.0 million, an increase of approximately RMB16.3 million or approximately 14.7%, as compared with approximately RMB110.7 million for the same period of 2011.

GENERAL MACHINERY

Revenue from the general machinery segment for the year ended 31 December 2012 was approximately RMB1,329.6 million, a decrease of approximately RMB35.6 million or approximately 2.6% as compared with approximately RMB1,365.2 million for the same period of 2011, primarily due to the continuous regulation and control implemented by the PRC over such industries as steel, metallurgy, cement and chemical industry and the contraction in market demand for traditional products, which led to a slight decrease in revenue.

During the Period, gross profit for the general machinery segment was approximately RMB304.9 million, a decrease of approximately RMB40.9 million or approximately 11.8% as compared with approximately RMB345.8 million for the same period of 2011. Gross profit margin decreased slightly to 22.9% for 2012 from 25.3% for 2011. The decrease in the gross profit margin of the segment was mainly due to the intensified market competition, which led to a decrease in sales price, and the changes in product sales structure.

Overall, the result for the general machinery segment for the year ended 31 December 2012 was approximately RMB50.3 million, a decrease of approximately RMB62.7 million or approximately 55.5%, as compared with approximately RMB113.0 million for the same period of 2011.

CNC MACHINE TOOLS (APART FROM TRADE BUSINESS)

Revenue from the CNC machine tools segment for the year ended 31 December 2012 was approximately RMB1,030.6 million, a decrease of approximately RMB506.6 million or approximately 33.0%, as compared with approximately RMB1,537.2 million for the same period of 2011.

During the Period, gross profit for the CNC machine tools segment was approximately RMB255.2 million, a decrease of approximately RMB145.7 million or approximately 36.3%, as compared with approximately RMB400.9 million for the same period of 2011. Gross profit margin slightly decreased to 24.8% for 2012 from 26.1% for 2011, primarily due to the decrease in sales volume.

Overall, the result for the CNC machine tools segment for the year ended 31 December 2012 was approximately RMB57.1 million, a decrease of approximately RMB67.2 million or approximately 54.1%, as compared with RMB124.3 million for the same period of 2011.

TRADE BUSINESS

For the year ended 31 December 2012, the new trade business segment recorded income of approximately RMB1,693.7 million, representing an increase of RMB1,040.0 million or approximately 159.1%, as compared with RMB653.7 million for the same period of 2011.

During the period, the gross profit for the new trade business segment amounted to approximately RMB7.2 million and the gross profit margin was approximately 0.4%.

Overall, for the year ended 31 December 2012, the results attributable to the new trade business segment amounted to approximately RMB2.4 million.

CASH FLOW

The Group's cash and bank deposits (including restricted cash) amounted to approximately RMB2,881.7 million as at 31 December 2012 (31 December 2011: RMB3,084.7 million), representing a decrease of approximately RMB203.0 million or approximately 6.6% as compared with last year, mainly due to the increase in capital expenditure.

During the Period, the Group had a net cash inflow from operating activities of approximately RMB141.0 million (as at 31 December 2011: RMB166.7 million), a net cash outflow from investing activities of approximately RMB331.4 million (as at 31 December 2011: RMB295.9 million), and a net cash inflow from financing activities of approximately RMB27.8 million (as at 31 December 2011: RMB804.7 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 2012, the Group had total assets of approximately RMB12,515.0 million, representing an increase of approximately RMB755.0 million as compared with approximately RMB11,760.0 million as at 31 December 2011. Total current assets amounted to approximately RMB8,955.3 million, increased by approximately RMB495.3 million as compared with approximately RMB8,460.0 million as at 31 December 2011, accounting for approximately 71.6% of total assets. However, total non-current assets was approximately RMB3,559.6 million, representing an increase of approximately RMB259.6 million as compared with approximately RMB3,300.0 million as at 31 December 2011, and accounting for approximately 28.4% of total assets.

As at 31 December 2012, total liabilities of the Group amounted to approximately RMB7,030.8 million, representing an increase of approximately RMB237.7 million as compared with approximately RMB6,793.1 million as at 31 December 2011. Total current liabilities were approximately RMB5,272.4 million, an increase of approximately RMB602.7 million as compared with approximately RMB4,669.7 million as at 31 December 2011, accounting for approximately 75% of total liabilities. However, total non-current liabilities were approximately RMB1,758.4 million, representing a decrease of approximately RMB365.0 million as compared with approximately RMB2,123.4 million as at 31 December 2011, and accounting for approximately 25% of total liabilities.

As at 31 December 2012, net current assets of the Group were approximately RMB3,682.9 million, representing a decrease of approximately RMB107.4 million as compared with approximately RMB3,790.3 million as at 31 December 2011.

CURRENT RATIO

As at 31 December 2012, current ratio (the ratio of current assets to current liabilities) of the Group slightly decreased from 1.81:1 for 2011 to 1.70:1 for 2012.

GEARING RATIO

As at 31 December 2012, by dividing the borrowing by the total capital, the Group's gearing ratio was 32.7% (31 December 2011: 35.0%).

INDEBTEDNESS

As at 31 December 2012, the Group had an aggregate bank and other borrowings of approximately RMB2,660.4 million, representing a decrease of approximately RMB9.3 million as compared with approximately RMB2,669.7 million as at 31 December 2011.

Borrowings repayable by the Group within one year were approximately RMB1,491.3 million, representing an increase of approximately RMB280.1 million as compared with approximately RMB1,211.2 million as at 31 December 2011. Borrowings repayable after one year were approximately RMB1,169.1 million, representing a decrease of approximately RMB289.4 million as compared with approximately RMB1,458.5 million as at 31 December 2011.

SECURED ASSETS

As at 31 December 2012, approximately RMB252.9 million of the Group was deposited with the banks with pledge or restricted for use (31 December 2011: RMB295.1 million). In addition, certain bank borrowings of the Group were secured by certain properties, plants and equipment, investment properties and inventories of the Group, and pledged by trade receivables of the Group, which had a net book value of approximately RMB546.7 million as at 31 December 2012 (31 December 2011: RMB405.9 million).

CONTINGENT LIABILITIES

As at 31 December 2012, the Group had no significant contingent liabilities.

SIGNIFICANT EVENTS

(1) On 20 March 2012, the Board resolved to approve the establishment of Precision Technologies Group Investment Development Company Limited as a wholly-owned subsidiary of Precision Technologies Group Limited, a wholly-owned subsidiary of the Company. The company was established in Hong Kong on 27 April 2012, with a registered capital of HK$10,000.

(2) On 14 May 2012, the Board resolved to approve the establishment of Chongqing Tongkang Environmental Technologies Co., Ltd. (重慶潼康環保科技有限公司) as a wholly-owned subsidiary of Chongqing General Industry (Group) Co., Ltd., a wholly-owned subsidiary of the Company. The company was established in August 2012, with a registered capital of RMB10 million.

(3) At the general meeting of the Company held on 18 June 2012, it was resolved to approve the appointment of Mr. Jin Jingyu as an independent non-executive Director of the second Board for a term of office till expiration of the current Board. Until then, the number of Board members was twelve, including four executive Directors, four non-executive Directors and four independent non-executive Directors.

(4) As approved by the Board, on 25 June 2012, the Company entered into the amended land and buildings lease agreement with the Parent Company, and revised the annual caps for the connected transactions in relation to land and buildings lease for 2012 and 2013 to RMB35 million and RMB38 million respectively. For details, please refer to the announcement of the Board published on the websites of the Hong Kong Stock Exchange and the Company on 25 June 2012.

(5) Four subsidiaries of the Company (namely, Chongqing Water Turbine Works Co. Ltd., Chongqing Tool Factory Co., Ltd., Chongqing Shenjian Automotive Drive Part Co., Ltd. and Chongqing Yinhe Forging & Founding Co., Ltd.) entered into an investment agreement with the Luohuang Industrial Park in Jiangjin District, Chongqing (中國重慶市江津區珞璜工業園), under which a land with a total area of 1,169 mu was proposed for environmental relocation of the four enterprises. For details, please refer to the announcement of the Board published on the websites of the Hong Kong Stock Exchange and the Company on 11 July 2012.

(6) The Company and some of its subsidiaries entered into a joint venture agreement with the Parent Company and some of its subsidiaries to establish a microlending company. The registered capital of the microlending company was RMB200 million to which the Company and its subsidiaries contributed RMB90 million in total, representing 45% of all contributions. For details, please refer to the announcement of the Board published on the websites of the Hong Kong Stock Exchange and the Company on 25 July 2012.

(7) Chongqing Jiangbei Machinery Co., Ltd., a subsidiary of the Company, entered into an investment agreement with the Management Committee of Liangjiang New Area of Chongqing (重慶市兩江新區管委會), under which a land with a total area of 165 mu was proposed for environmental relocation of this enterprise. For details, please refer to the announcement of the Board published on the websites of the Hong Kong Stock Exchange and the Company on 12 October 2012.

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

SUBSEQUENT EVENTS

(1) As resolved at the general meeting of the Company on 9 December 2011, it was approved to establish Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd. (the "Finance Company", 重慶機電控股集團財務有限公司). The registered capital of the Finance Company is RMB600 million, of which RMB306 million, RMB180 million and RMB114 million were contributed by the Company, the Parent Company and China Industrial International Trust Limited, respectively, representing 51%, 30% and 19% of its registered capital. As approved by the China Banking Regulatory Commission, the Finance Company obtained its business license on 16 January 2013. Please refer to the announcement of the Board published on the websites of the Hong Kong Stock Exchange and the Company on 16 January 2013 for details.

(2) On 25 January 2013, the Board of the Company resolved to approve the resignation of Mr. Xie Huajun as an executive Director, the Chairman, the Chairman of the Nomination Committee, and the Chairman of the Strategic Committee. Mr. Yu Gang, an executive Director, will temporarily perform the duties of the Chairman of the Company until the new chairman of the Company is elected. Please refer to the announcement of the Board published at the websites of the Hong Kong Stock Exchange and the Company on 25 January 2013 for details.

(3) The Company will hold the first extraordinary general meeting for 2013 on 10 April 2013 for the purpose of considering and passing the following matters:

1. To approve the transactions in respect of the deposit services under the financial services framework agreement entered into between the Company and the Finance Company on 17 February 2013 (as amended by the financial services framework supplemental agreement entered into between the Company and Finance Company on 13 March 2013) (the "Group Financial Services Framework Agreement") and the proposed annual caps for such transactions for the year ended 31 December 2013 was set at RMB1,250 million (including the corresponding accrued interests);

2. To approve the transactions in respect of the loan services under the Group Financial Services Framework Agreement entered into between the Company and the Finance Company on 17 February 2013 (as amended by the financial services framework supplemental agreement entered into between the Company and Finance Company on 13 March 2013) (the "Group Financial Services Framework Agreement") and the proposed annual caps for such transactions for the year ended 31 December 2013 was set at RMB960 million (including the corresponding accrued interests);

3. To approve the transactions in respect of the loan services under the financial services framework agreement entered into between Chongqing Machinery and Electric Holding (Group) Co., Ltd. ("Parent Company") and the Finance Company on 17 February 2013 (as amended by the financial services framework supplemental agreement entered into between the Parent Company and the Finance Company on 13 March 2013) (the "Parent Group Financial Services Framework Agreement") and the proposed annual caps for such transactions for the year ended 31 December 2013 was set at RMB1,170 million (including the corresponding accrued interests);

4. To approve the transactions in respect of the guarantee services under the Parent Group Financial Services Framework Agreement entered into between the Parent Company and the Finance Company on 17 February 2013 (as amended by the financial services framework supplemental agreement entered into between the Parent Company and the Finance Company on 13 March 2013) (the "Parent Group Financial Services Framework Agreement") and the proposed annual caps for such transactions for the year ended 31 December 2013 was set at RMB618 million (including the corresponding handling fees);

5. To authorize the directors of the Company to do all such acts and things and execute all such documents and take all such steps, in their absolute discretion, in relation to the financial services framework agreements;

6. To approve the resignation of Mr. Liao Shaohua as an executive Director, and the appointment of Mr. Ren Yong as an executive Director and his remuneration to be determined in accordance with the remuneration programs as approved at the 2009 annual general meeting;

7. To approve the resignation of Mr. Liu Liangcai as a non-executive Director, and the appointment of Mr. Deng Yong as a non-executive Director and his remuneration to be determined in accordance with the remuneration programs as approved at the 2009 annual general meeting;

8. To approve resignation of Mr. Duan Rongsheng as a Supervisor, and the appointment of Mr. Yang Mingquan as a Supervisor and his remuneration to be determined in accordance with the remuneration programs as approved at the 2009 annual general meeting;

9. To approve the resignation of Mr. Zhang Xinzhi as a Supervisor, and the appointment of Mr. Wang Pengcheng as a Supervisor and his remuneration to be determined in accordance with the remuneration programs as approved at the 2009 annual general meeting;

10. To approve the amendments to the Articles of Association of the Company.

CAPITAL EXPENDITURE

As at 31 December 2012, the total capital expenditure of the Group was approximately RMB532.9 million, which was principally used for establishment by way of capital contribution of Chongqing Tongkang Environment Protection Technology Co., Ltd. (重慶潼康環保科技有限公司), plant expansion, production technology improvement and equipment upgrade (31 December 2011: RMB522.7 million).

CAPITAL COMMITMENT

As at 31 December 2012, the Group had capital commitments of approximately RMB149.3 million (31 December 2011: RMB147.4 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.

As at 31 December 2012, the bank deposits of the Group included HK dollar valued at approximately RMB0.1 million, US dollar valued at approximately RMB14.1 million, BP valued at approximately RMB17.8 million and EUR valued at approximately RMB5.2 million (31 December 2011: HK dollar valued at approximately RMB76.7 million, US dollar valued at approximately RMB8.6 million, BP valued at approximately RMB39.5 million, and EUR valued at approximately RMB3.8 million). Save as the aforesaid, the Group was not exposed to any significant risk of foreign exchange.

EMPLOYEES

As at 31 December 2012, the Group had a total of 17,782 employees (31 December 2011: 18,082 employees). The Group will continue the upgrade of its technical talent base, foster and recruit technical and management personnel possessed with extensive professional experiences, optimize the 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.

The following table sets out information regarding our Directors:

Name	Age	Position
Yu Gang	48	Executive Director *(served as Acting Chairman from 25 January 2013)*
Xie Huajun	59	Executive Director *(resigned as Chairman from 25 January 2013)*
Liao Shaohua	49	Executive Director
Chen Xianzheng	58	Executive Director
Huang Yong	50	Non-executive Director
Wang Jiyu	55	Non-executive Director
Liu Liangcai	61	Non-executive Director
Yang Jingpu	57	Non-executive Director
Lo Wah Wai	49	Independent Non-executive Director
Ren Xiaochang	56	Independent Non-executive Director
Kong Weiliang	66	Independent Non-executive Director
Jin Jingyu	47	Independent Non-executive Director *(appointed on 18 June 2012)*

EXECUTIVE DIRECTORS

Mr. Yu Gang, aged 48, joined the Parent Group in September 2003, joined the Group in July 2007 and served as a non-executive Director of the Company. Since October 2010, he has been the general manager of the Company, responsible for the overall management of the Company. He serves as the Acting Chairman from 25 January 2013 till the election of the new Chairman of the Company (please refer to the related announcement on the Hong Kong Stock Exchange for details). 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 New Energy Co., Ltd., (stock code: 600847.SH). In addition, Mr. Yu has concurrently been a director of Kunlun Financial Leasing Company Limited since August 2010. 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, and from the college of online education (網絡學院) of Xiamen University with a college degree in business administration in July 2012..

Mr. Xie Huajun, aged 59, joined the Parent Group in June 2009 and served as the Chairman of Parent Company from June 2009 to January 2013. He has been an Executive Director and the Chairman of the Parent Company since 31 August 2009 and resigned as the Chairman of the Company on 25 January 2013. He 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 from June 2011 to January 2013. 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.SZ) 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. Liao Shaohua, aged 49, joined the Parent Group and the Group in May 1988. He has served an executive Director of the Company since July 2007 and a vice general manager from July 2007 to September 2012. Mr. Liao is responsible for supervising the planning and technology of the Company. Mr. Liao served as a director of Qijiang Gear Transmission Co., Ltd. from October 2011 to October 2012 and a director of Chongqing Water Turbine Works Co., Ltd. and Chongqing Jiangbei Machinery Co., Ltd. from December 2011 to October 2012. 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 has studied for EMBA in Xiamen University since November 2011, and 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 58, joined the Parent Group in August 1976 and joined the Group in December 2001. Since July 2007, he has been an executive Director of our Company and the secretary to the Board responsible for handling all matters of the Board. Mr. Chen has 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 Company, 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 50, joined the Parent Group in July 1984 and the Group in 2004. Since July 2007, he has been a non-executive Director of the 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 Company 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 Company 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 Company 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 61, 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 Auto Finance Co., Ltd. (重慶汽車金融有限公司) in charge of the supervision of operation and management of corporate assets 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. 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. 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 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.) from November 2007 to July 2012. 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 postgraduation study in "Regional economic development and technology innovation" from the Southwest Normal University in June 2000.

Mr. Yang Jingpu, aged 57, joined the Company in August 2007 and has been a non executive Director of the 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 May 2010 and chairman of Chongqing Construction Engineering Group Co., Ltd. (重慶建工集團股份有限公司), 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 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 49, joined our Company in January 2008 and has been an independent non-executive Director of the Company and the chairman of our Company's audit committee since January 2008. He had more than eight years of experience in auditing and business consulting services in an international accounting firm, two years of which were spent in the U.S. Mr. Lo was an independent non-executive director of Far East Pharmaceutical Technology Limited (stock code: 399.HK) 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.HK), 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 56, is currently the vice chairman, legal representative and general manager of China Automotive Engineering Research Institute Co., Ltd. (stock code: 601965.SH). He joined the 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 66, joined the Company in July 2007 and has been an independent non-executive Director of our Company since July 2007 and was the chairman of our nomination committee from July 2007 to July 2012. 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.

Mr. Jin Jingyu, aged 47, joined the Company in June 2012. He has been serving at Chongqing Technology and Business University as the Chairman of the Academic Council of the School of Finance, director of the Investment and Insurance Department and professor of finance and tutor of PhD student & postgraduate since March 2009. Mr. Jin joined the university (known as Chongqing Business School before 2003) in May 1997 and served as the deputy director of the Finance and Investment Department from March 2000 to March 2001 and an associate professor and professor of finance from November 2000 to November 2005. He studied in the Mathematics Department of Henan University from September 1988 to July 1992 as an undergraduate student; studied in the University of Science and Technology of China majored in management science from September 1992 to July 1995 and received a master's degree in engineering; studied in the Southwest Jiaotong University majored in management science and engineering from March 2003 to January 2007 and received a doctor's degree in management. Mr. Jin held several concurrent posts as follows: from September 1997 to September 2002, a business director of the Financing Service Company (融資服務公司) and general manager of the 1st Business Department of Dapeng Securities Company Limited (大鵬證券有限責任公司); from July 2002 to June 2003, a director and secretary to the board of directors of Southwest Synthetic Pharmaceutical Co., Ltd. (西南合成制藥股份公司) (Stock code: 000788.SZ); from January 2006 to March 2010, a director and secretary to the board of directors of Chongqing Wanli New Energy Co., Ltd. with stock code 600847.SH (formerly known as Chongqing Wanli Storage Batteries Co., Ltd. (重慶萬里蓄電池股份有限公司)); from June 2005 to February 2010 , the chairman of Chongqing Tiandi Pharmaceutical Co., Ltd. (重慶天地藥業有限公司).

Mr. Jin Jingyu is now a member of the Enterprises Operations Branch of the Operations Research Society of China, adjunct researcher of the Research Center of the Economy of the Upper Reaches of Yangtze River (a major research center of the Ministry of Education), a member of the Evaluation Committee of Professional Titles, the Teaching Steering Committee and the School of Economics of Chongqing Technology and Business University.

SUPERVISORS

The following table sets out information regarding our Supervisory Committee:

Name	Age	Position
Duan Rongsheng	61	Supervisor and Chairman of Supervisory Committee
Wang Rongxue	67	Independent Supervisor
Liu Xing	56	Independent Supervisor
Wang Xuqi	60	Supervisor
Chen Qing	57	Supervisor
Zhang Xinzhi	41	Supervisor

Mr. Duan Rongsheng, aged 61, joined the Parent Group in June 1984 and the Company in July 2007. Since then, he has been a Supervisor of the Company and the chairman of the Supervisory Committee. Mr. Duan served as a director and deputy party committee secretary of the Parent Company in charge of the Parent Group's party matters, disciplinary supervision and corporate culture from June 2006 to May 2011. Mr. Duan has been the chairman of the supervisory committee of the Parent Company since September 2010. From September 2000 to March 2010, he served as a deputy chairman in Chongqing Wanli New Energy Co., Ltd. with stock code 600847.SH (formerly known as Chongqing Wanli Storage Batteries Co., Ltd. (重慶萬里蓄電池股份有限公司)). 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 college 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 67, 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 is a senior political scientist and graduated from Chongqing University with a bachelor's degree in metallurgy in 1970.

Mr. Liu Xing, aged 56, has been an independent supervisor of the Company since June 2010 and is currently 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. Mr. Liu 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 managing director of the Accounting Society of Chongqing (重慶市會計學副會長), and a non-practicing certified public accountant in the PRC. Mr. Liu is also currently an independent director of Chongqing Three Gorges Water Conservancy and Electric Power Co. Ltd. (stock code: 600116.SH), Chongqing Gangjiu Co., Ltd. (stock code: 600729.SH) and Chongqing Huapont Pharm Co., Ltd. (stock code: 002004.SZ).

Mr. Wang Xuqi, aged 60, 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 smelting. 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 had served at Chongqing Smelter Factory since 1984 and had been the deputy general manager of Chongqing Smelter Factory since 1993. Mr. Wang is a senior political scientist and 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 57, 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 Chongqing Pump Industry Co., Ltd. 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 41, 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 Co., Ltd. (formerly named China Huarong Asset Corporation) in April 2011, and is currently the vice secretary of party committee and deputy general manager (presiding over relevant work) of the Yunnan branch of China Huarong Asset Management Co., Ltd.. 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 Agricultural 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	48	General Manager
Liao Shaohua	49	Vice General Manager (resigned as Vice General Manager from 28 September 2012)
Ren Yong	55	Vice General Manager
Gong Wei	51	Vice General Manager
Duan Caijun	48	Vice General Manager
Yang Quan	48	Vice General Manager (appointed as Vice General Manager from 10 May 2012)
Xiang Hu	48	Vice General Manager (appointed as Vice General Manager from 28 September 2012)
Kam Chun Ying	46	Qualified Accountant

Mr. Yu Gang, aged 48, 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 49, is an executive Director of our Company. For details regarding Mr. Liao's experience, please refer to the subsection entitled "Executive Directors" above.

Mr. Ren Yong, aged 55, 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 a director of Parent Group 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 a 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 Machinery and Electronics Holding Group Foundry Co., Ltd. (重慶機電控股集團鑄造有限公司) from November 2010 up to now, a director of Chongqing Cummins Engine Co., Ltd. (重慶康明斯發動機有限公司) from October 2011, a director of Chongqing Power Transformer Co., Ltd. (重慶變壓器有限責任公司) from October 2011, a director of Chongqing Pigeon Electric Wire & Cable Co., Ltd. from December 2011 up to now, a director of Chongqing Pump Industry Co., Ltd. from December 2011 to November 2012, a director of ABB Chongqing Transformer Co. Ltd., from March 2012 up to now, and the chairman of Chongqing Power Transformer Co., Ltd. from August 2012 up to now. 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, labour, education and security. Mr. Ren is a senior engineer who graduated from Taiyuan Heavy Machinery Institute with a bachelor's degree in equipment and technology 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 51, 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 a technician, 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 48, 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 a 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, a director of Chongqing Machine Tool (Group) Co., Ltd. (重慶機床（集團）有限責任公司) since December 2011, and a director of Qijiang Gear Transmission Co., Ltd. from December 2012 up to now. 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, and studied from EMBA in Xiamen University from November 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, winner of the sixth contest for 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 recognised 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. Yang Quan, aged 48, Vice General Manager of the Company, joined the Group in July 1987, and has served as a Vice General Manager of the Company since May 2012 up to now. He concurrently serves as a director of Precision Technology Investment and Development Co., Ltd. (精密技術投資發展有限公司) from April 2012 up to now, a director of Chongqing Huahao Smelting Co., Ltd. and Chongqing Gas Compressor Factory Co., Ltd. from December 2011 up to now, and an executive director and general manager of Chongqing Shengpu Materials Co., Ltd. from December 2011 up to now. Mr. Yang has over 20 years of experience in enterprise management, once served as the manager and assistant to general manager of the business management department of the Company from August 2007 to May 2012, the head of the economic operation department and head of the business management department of the securities work steering team of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. from March 2004 to August 2007, the party branch secretary of the foundry workshop, deputy director of the ""five-initiative" reform office, secretary and deputy director of the hot plate workshop, chief of the equipment division, managing factory director, and chief economist of Chongqing No. 2 Machine Tools Factory (重慶第二機床廠) from July 1987 to March 2004. Mr. Yang is an engineer; he graduated from the College of Mechanical Engineering of Sichuan University with a bachelor's degree in foundry, and studied for EMBA in Xiamen University from November 2011.

Mr. Xiang Hu, aged 48, Vice General Manager of the Company, joined the Company in September 2012, and has served as a Vice General Manager of the Company since September 2012 up to now. He concurrently serves as a director of Chongqing Water Turbine Works Co., Ltd. and Chongqing Jiangbei Machinery Co., Ltd. from October 2012 up to now. Mr. Xiang has over 20 years of experience in government service and news media. He once served as the deputy director of the Chongqing Intellectual Property Rights Bureau from November 2004 to September 2012, the president of the Modern Workers newspaper office (現代工人報報社) from January 2003 to November 2004, the deputy party secretary of Nanchuan, Chongqing from May 1998 to January 2003, the general manager of Chongqing News Development Company (重慶新聞發展公司) under Xinhua News Agency from July 1993 to May 1998, and a journalist with the Sichuan branch office of Xinhua News Agency from July 1986 to July 1993. Mr. Xiang graduated from the Department of Law of Southwest University of Political Science and Law in July 1986, from the Graduate School of Southwest University of Political Science and Law majoring in law of economy in June 1997, and from Nanyang Technological University, Singapore, majoring in managerial economics in July 2002.

Mr. Kam Chun Ying, Francis, aged 46, joined the Company in February 2008. Since then, he has been the qualified accountant of our Company. Prior to joining the 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 is pleased to present the annual report and the audited financial statements of the Group for the year ended 31 December 2012.

PRINCIPAL BUSINESS

The Group is principally engaged in designing, manufacturing and sales of automobile parts and components, power equipment, general machinery, CNC machine tools and trade business. 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 2012 are set out in the consolidated income statements in this annual report on pages 102 to 104.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of RMB0.035 per share (tax inclusive) (for the year ended 31 December 2011: RMB0.06 per share) for the year ended 31 December 2012, which is calculated based on the total share capital of 3,684,640,154 shares for the year ended 31 December 2012, totalling RMB128,962,405.39 (totalling RMB221,078,409.24 for the year ended 31 December 2011). Subject to approval by shareholders at the annual general meeting to be convened on Wednesday, 18 June 2013, the proposed final dividend will be paid on or about 31 July 2013 to shareholders whose names appear on the Register of Members of the Company on 27 June 2013 ("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, 22 June 2013 to Thursday, 27 June 2013 (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, 21 June 2013.

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 21 June 2013. 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 21 June 2013. 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 Sunday, 19 May 2013 to Tuesday, 18 June 2013 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for 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 Thursday, 16 May 2013.

FINANCIAL REVIEW

Liquidity and financial resources

As at 31 December 2012, equity attributable to the shareholders of the Group amounted to approximately RMB5,145.3 million (31 December 2011: approximately RMB4,924.9 million), representing an increase of approximately RMB220.4 million or approximately 4.5%. During this Period, the Group's working capital was mainly internal working capital flow. As at 31 December 2012, 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 32.7% (31 December 2011: 35.0%). The Group's current ratio (being the current assets as a percentage of current liabilities) slightly decreased to1.70:1 as at 31 December 2012 from 1.81:1 as at 31 December 2011.

As at 31 December 2012, cash, bank balances and time deposits (including restricted cash) were approximately RMB2,881.7 million, indicating a healthy financial position (31 December 2011: approximately RMB3,084.7 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 RMB364.0 million in acquisition of property, plant and equipment for business expansion (as at 31 December 2011: approximately RMB518.0 million). Details of the changes in investment properties, property, plant and equipment of the Group and the Company are set out in Note 16 and Note 15 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 2012. Details of the share capital of the Company are set out in Note 26 to the consolidated financial statements.

BONDS

Details of the changes in bonds of the Company during the year under review are set out in Note 30 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 27 to the consolidated financial statements.

CHARITY DONATIONS

During the period, the Group's charity donation amounted to approximately RMB0.7 million (as at 31 December 2011: approximately RMB3.9 million).

MAJOR CUSTOMERS AND SUPPLIERS

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

Chongqing Second Light Industry Supply and Marketing Corporation	3.9%
Shenzhen Chongfa Cummins Engine Co., Ltd.	2.9%
Chongqing Zhuoyue Industrial Development Co , Ltd. (重慶卓越實業發展有限公司)	2.8%
Chongqing Port Logistics Economic and Trade Co , Ltd. (重慶港務物流經貿有限公司)	2.7%
Chongqing Wangsheng Wire & Cable Co., Ltd. (重慶網盛線纜有限公司)	2.6%
Total amount of the top five customers	14.9%

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

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 Zhuoyue Industrial Development Co , Ltd.	6.5%
Chongqing Dongjie Materials Co., Ltd. (重慶東杰物資有限公司)	4.6%
Chongqing Port Logistics Economic and Trade Co , Ltd.	3.8%
China Ordins Corporation Southwest Co., Ltd. (中國兵工物資西南有限公司)	3.5%
Yunnan Copper Co., Ltd. (雲南銅業股份有限公司)	3.5%
Total amount of the top five suppliers	21.9%

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 2012, the non-competition agreement entered into between Chongqing Machinery and Electronic Holding (Group) Co., Ltd., the Parent Company, and the Company remained effective. Please refer to the Prospectus for details of such undertakings.

DIRECTORS AND SUPERVISORS

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

Executive Directors	**Appointment Date**
Yu Gang *(As Acting Chairman)*	30 December 2010
Xie Huajun	31 August 2009 (resigned as the Chairman on 25 January 2013)
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
Jin Jingyu	18 June 2012

Supervisors

Duan Rongsheng	27 July 2007
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 NON-EXECUTIVE DIRECTORS

Independent non-executive Directors have submitted to the Company the annual written confirmation of their independency as required by Rule 3.13 of the Listing Rules. The Company is of the opinion that all four 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 61 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 12 to the Consolidated Financial Statements set out on pages 158 to 165 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 2012, 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 2012, 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 38 of this annual report.

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

As at 31 December 2012, 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. (formerly known as China Huarong Asset Management Corporation)	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 *(%)*	
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)*	Interest of corporation controlled by substantial shareholder	(4)	7.93	(L)	2.37	(L)
	87,276,000	*(P)*			7.93	(P)	2.37	(P)
National Council for Social Security Fund	76,811,470	*(L)*	Beneficial owner		6.98	(L)	2.08	(L)
GE Asset Management Incorporated	75,973,334	*(L)*	Investment manager		6.91	(L)	2.06	(L)
Templeton Asset Management Limited	71,682,000	*(L)*	Investment manager		6.52	(L)	1.95	(L)

(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 Co., Ltd. *(中國華融資產管理股份有限公司), 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. *(中國華融資產管理股份有限公司) is held as to 98.06% directly by the Ministry of Finance of the People's Republic of China and as to 1.94% indirectly by the Ministry of Finance of the People's Republic of China through China Life Insurance (Group) Company, a wholly-owned subsidiary of the Ministry. Therefore, the Ministry of Finance of the People's Republic of China is deemed to be interested in 195,962,467 domestic shares of the Company held by China Huarong Asset Management Co., Ltd.

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.

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 required to be recorded in the register pursuant to section 336 of the SFO as at 31 December 2012.

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 13 April 2011, a master sales agreement was renewed by and between the Company and Chongqing Machinery and Electronic Holding (Group) Co., Ltd. (the "Parent Company") (the "Master Sales Agreement"). Pursuant to the Master Sales Agreement, the Group has agreed to sell certain products such as control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables (the "Products") to the Parent Company and its associates.

Additionally, in case where there is a material fluctuation in the prices of any or all of the Products, the parties will re-negotiate the terms of the Master Sales Agreement in good faith by way of entering into a supplemental agreement or a new master sales agreement. The Master Sales Agreement is valid for a period of three years from the date of the agreement and renewable for another three years by the Company giving at least three months' notice prior to the expiry of the initial term. Accordingly, as approved at the annual general meeting held on 6 June 2011, the approved annual caps of sales for 2012 and 2013 were set at RMB185 million and RMB210 million respectively.

The 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 2012, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB119.2 million.

Master Supplies Agreement

On 13 April 2011, 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. Accordingly, as approved at the annual general meeting held on 6 June 2011, the approved annual caps of sales for 2012 and 2013 were set at 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 2012, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB310.0 million.

Master Leasing Agreement

On 25 June 2012, the Company revised 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.

The Parent Group leased a total area of 176,183.047 sq.m. and 1,860.255 sq.m. of land and buildings respectively to the Company. Accordingly, the annual caps of leasing amounts for 2012 and 2013 as approved by the Board were revised to be RMB35 million and RMB38 million respectively.

For the year ended 31 December 2012, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB27.5 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 2012, the services fee paid by the Company to the Parent Company and its associates under the Master Integrated Service Agreement was approximately RMB3.8 million.

Details of the said transactions are set out in Note 41 to the consolidated financial statements as prepared in accordance with the HKFRS.

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

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

(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 the 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 87 to 99 of this annual report.

EMPLOYEE AND REMUNERATION POLICY

As at 31 December 2012, the Group had a total of approximately 17,782 employees (31 December 2011: 18,082 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 on pages 62 to 83 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 on pages 38 to 41 of this annual report.

PUBLIC FLOAT

During the year ended 31 December 2012, 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 2012 under HKFRS and CAS were RMB935,613,000 and RMB1,130,882,000 respectively. Thus, as at 31 December 2012, the Company's distributable reserve attributable to shareholders of the Company amounted to RMB935,613,000.

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 2012. PricewaterhouseCoopers has performed audit on the Group's consolidated financial statements prepared in accordance with HKFRS. 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 28 March 2013 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 (As Acting Chairman)
Yu Gang

Chongqing, the PRC, 19 March 2013

REPORT OF THE SUPERVISORY COMMITTEE

Dear Shareholders,

During the reporting period, the Supervisory Committee of Chongqing Machinery & Electric Co., Ltd. diligently performed its duties in the interest of shareholders and the Company 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 conducted supervision closely centring on the annual business objectives and development strategy of the Company in accordance with the Rules of Procedures of the Supervisory Committee of the Company. In order to improve the effectiveness of supervision, the supervision conducted by the Supervisory Committee was based on the actual conditions of the Company, and the comprehensive and three-dimensional supervision was effectively implemented through strengthening the collaboration with the internal audit department and organizing interaction with the supervisory committees of subsidiaries. During the year, the Supervisory Committee focused on the performance of concentrated inspection, special inspection of equity investment and equity acquisition projects, special inspection of two significant matters, i.e. guarantees and changes in property, supervision of effectiveness evaluation of internal control, analysis of financial statements for a half year, comprehensive investigation of joint ventures and major project tracking supervision. 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 two meetings, attending one general meeting, sitting in ten Board meetings, audit supervision and conducting on-site inspections for relevant matters. The work of the Supervisory Committee has achieved "scientific and standardized operation, comprehensive and in-place supervision, and prominent inspection results", thus better promoting the stable operation and enhancement of management level of the Company.

With respect to annual progress of the Company in 2012, the Supervisory Committee has the following views:

- The Supervisory Committee has supervised the operating activities of the Company and conducted supervision throughout the Company's first effectiveness evaluation of internal control. 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 2012, the Company established and revised 26 rules and regulations. These systems have been effectively implemented, which prevented operational 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 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 2012, 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 2012 annual general meeting of the Company.

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

Chongqing, the PRC, 19 March 2013

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

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 2012 in compliance with the code provisions under the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted procedures governing Directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Specific confirmation has been obtained from all Directors to confirm compliance with the Model Code during the year ended 31 December 2012.

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.

The Board of the Company approved the resignation of Mr. Xie Huajun as the Chairman on 25 January 2013. Mr. Yu Gang, an executive Director, serves as the Acting Chairman and will continue to hold the position until the election of a new Chairman of the Company.

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 12 Directors, including 4 executive Directors, 4 non-executive Directors and 4 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 2012 to 31 December 2012, the Board held 10 meetings.

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

Name of Director	Position	Meetings attended/ total meetings held
Yu Gang *(As Acting Chairman)*	Executive Director	10/10
Xie Huajun	Executive Director *(resigned as the Chairman on 25 January 2013)*	10/10
Liao Shaohua	Executive Director	10/10
Chen Xianzheng	Executive Director	10/10
Huang Yong	Non-executive Director	10/10
Wang Jiyu	Non-executive Director	10/10
Liu Liangcai	Non-executive Director	10/10
Yang Jingpu	Non-executive Director	10/10
Lo Wah Wai	Independent Non-executive Director	10/10
Ren Xiaochang	Independent Non-executive Director	10/10
Kong Weiliang	Independent Non-executive Director	10/10
Jin Jingyu	Independent Non-executive Director *(appointed on 18 June 2012)*	6/10

Biographical details of Directors are set out on pages 44 to 53 of this annual report.

THE TERM OF OFFICE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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 of the Company consists of 3 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
Jin Jingyu	Independent Non-executive Director *(appointed on 11 July 2012)*	0/1
Wang Jiyu	Non-executive Director	1/1

NOMINATION COMMITTEE

The Nomination 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 Nomination Committee of the Company consists of 1 executive Director (Chairman), 3 independent non-executive Directors and 1 non-executive Director, and shall be chaired by the Chairman. 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 4 meetings during the year, attendance of which is as follows:

Name of Director	Position	Meetings attended/ total meetings held
Yu Gang *(Chairman)*	Executive Director *(As the Acting Chairman starting from 25 January 2013)*	0/4
Kong Weiliang	Independent Non-executive Director *(resigned as the Chairman on 11 July 2012)*	4/4
Ren Xiaochang	Independent Non-executive Director	4/4
Jin Jingyu	Independent Non-executive Director *(appointed on 11 July 2012)*	2/4
Huang Yong	Non-executive Director	4/4
Xie Huajun	Executive Director *(appointed as the Chairman on 11 July 2012 and resigned as the Chairman on 25 January 2013)*	2/4

AUDIT COMMITTEE

The Audit 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 Audit Committee of the Company consists of 3 independent non-executive Directors and 1 non-executive Director. The chairman shall be an independent non-executive Director. The major responsibilities of the 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 Audit Committee convened 5 meetings during the year, attendance of which is as follows:

Name of Director	Position	Meetings attended/ total meetings held
Lo Wah Wai *(Chairman)*	Independent Non-executive Director	5/5
Kong Weiliang	Independent Non-executive Director	5/5
Jin Jingyu	Independent Non-executive Director *(appointed on 11 July 2012)*	2/5
Liu Liangcai	Non-executive Director	5/5

During the year, the Audit Committee approved the 2011 Condensed Consolidated Financial Information and the 2012 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 has established a Strategic Committee. The articles of association of the Strategic Committee has written terms of reference, which are available on the websites of the Hong Kong Stock Exchange and the Company. The Nomination Committee of the Company consists of 4 executive Directors, 3 independent non-executive Directors and 1 non-executive Director, and shall be chaired by the Chairman. The major responsibilities of the Strategic Committee are to study and propose suggestions on the Company's long-term development strategies and material investment decisions and providing decision-making references to the Board.

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

Name of Director	Position	Meetings attended/ total meetings held
Yu Gang *(As Acting Chairman)*	Executive Director	1/1
Xie Huajun	Executive Director *(resigned as the Chairman on 25 January 2013)*	1/1
Liao Shaohua	Executive Director	1/1
Chen Xianzheng	Executive Director	1/1
Huang Yong	Non-executive Director	1/1
Ren Xiaochang	Independent Non-executive Director	1/1
Kong Weiliang	Independent Non-executive Director	1/1
Jin Jingyu	Independent Non-executive Director *(appointed on 11 July 2012)*	1/1

SUPERVISORY COMMITTEE

The Supervisory Committee of the Company comprises 6 members, 2 of whom are independent Supervisors. The Supervisory Committee of the Company is responsible for supervising the financial activities of the Company and the performance of the Board and its members as well as the senior management of their duties, so as to safeguard the interests of the shareholders. In 2012, 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, general meetings of the Company and other important meetings, establishing duty performance files, etc. The Supervisory Committee undertakes its duties in a proactive and diligent manner under the principles of prudence.

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, evaluates the efficiency of economic operation, continuously inspects business activities and management behaviours, identifies business risks and defects in internal control, formulates regular audit plans to determine the focus and frequency of inspections and makes advice and suggestions for improvement.

INTERNAL AUDIT

The internal audit department of the Company has reviewed, in an independent, objective, scientific and effective manner, the Company's systems of internal control under the direct leadership of the Board and 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 seriously performed its functions of supervision, evaluation and authentication, conducted audit and supervision according to law in a pragmatic manner, and implemented comprehensive and three-dimensional supervision centring on the supervision of effectiveness, formed the supervision "brands" of "to manage personnel through accountability audit", "to manage matters through construction project audit", "to manage assets through financial audit", "to manage subsidiaries through comprehensive investigation" and "to manage risks through internal control evaluation", and achieved "in-place service, in-place supervision and in-place compliance". During the year, the internal audit department organized and implemented 44 accountability audits, 146 construction project audits, 24 financial audits and 2 comprehensive investigations, and for the first time evaluated the effectiveness of the internal control system of the Company's head office, thus effectively enhancing the audit work.

ENHANCEMENT OF INTERNAL CONTROL

During the Period, the Company strengthened the construction of internal monitoring system, organized 39 accountability audits and 113 construction project audits in the year. It formulated the "Method for Management of Bid Inviting and Negotiation" to strengthen the management of bid inviting and negotiation and standardise the procedures of bid inviting and negotiation. They were authorized to organize, assess, coordinate, supervise each department, truthfully reflect and disclose the problems and possible risks in business operation and development, focus on the inspection and supervision of plants relocation, engineering construction and equipment procurement, and improve internal control procedures and system and enhance implementation, operation and coordination of internal control measures in respect of the weakness found during the inspection.

RISK MANAGEMENT

During the Period, the Company was in strict compliance with requirements of the Listing Rules of the Hong Kong Stock Exchange and five ministries including the Ministry of Finance of the PRC, to strengthen and implement risk control over the Company. It strengthened the improvement of 13 internal control management systems and planning including the "Guidance on Internal Control of Subsidiaries" and completed the improvement of defects; the construction of internal control system covers all fourteen subsidiaries. It strengthened the inspection of the execution of corporate internal control construction and submitted the "Annual Report on Risk Management and Internal Control" to the Board.

In accordance with the construction planning of internal control system and the actual conditions of the Company, the Company innovated its way this year to collaborate with intermediaries for the first time to evaluate the effectiveness of internal control, and test and evaluate nine major important businesses and management procedures including 359 control points. The conclusion was that the internal control of the Company was effective during the evaluation. The evaluation resulted in three outcomes including "Report on Internal Control Evaluation", "Manual of Internal Control Evaluation" and "Overall Plan of Internal Control Evaluation", laying a solid foundation for the subsequent evaluation of effectiveness of internal control system by 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 2012 amounted to approximately RMB4.7 million (2011: approximately RMB5 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 of, and to vote at general meetings.

INFORMATION DISCLOSURE AND INVESTOR RELATIONS

In respect of any discloseable 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 227 institutional investors or investors in 90 meetings such as roadshows, investor presentations, site meetings, enterprise visits, and telephone interviews. The full communication with investors enhanced the Group's relationship with investors and allowed them to better understand and enhance confidence 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 55 Directors, supervisors and senior management of the Company for 7 times through the Hong Kong Institute of Chartered Secretaries, securities regulatory institutions and special trainings, etc. In the year, the Company has received the written training records of all Directors.

CORPORATE SOCIAL RESPONSIBILITY

While the business is developing rapidly, the Group keeps in mind to contribute to the society and is enthusiastic in public welfare. The Group's subsidiaries participate in local social services based on the actual conditions of their places of business to establish a good corporate image and contribute to the local social development. In 2012, the Company strengthened communication and propaganda with the mainstream media including China Industry News, Hong Kong Wen Wei Po, Chongqing Daily, etc., and conducted image propaganda activities including "Hong Kong Media to Walk into CQME". To promote good relations between the Company and investors, and improve the transparency of corporate operation, the Company recommended its development strategy and bright future through propaganda by means of website, publicity pamphlet, image film, etc., to guide the continuous attention of the public and investors on the growth of the Company. During the Period, the Group made charitable donations of approximately RMB0.7 million. The Company will continue to support and participate in diversified social and public benefit activities.

pwc

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 102 to 256, which comprise the consolidated and company balance sheets as at 31 December 2012, 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 information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

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

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, 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, 19 March 2013

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2012	2011
	Note	***RMB '000***	*RMB '000*
Revenue	5	**10,556,621**	10,546,001
Cost of sales	8	**(8,961,886)**	(8,586,096)
Gross profit		**1,594,735**	1,959,905
Distribution costs	8	**(284,788)**	(304,379)
Administrative expenses	8	**(808,934)**	(800,342)
Other gains, net	6	**45,923**	116,255
Other income	7	**131,890**	36,508
Operating profit		**678,826**	1,007,947
Finance income		**35,783**	34,187
Finance costs		**(163,369)**	(131,324)
Finance costs, net	10	**(127,586)**	(97,137)
Share of profit of associates	19	**963**	2,848
Profit before income tax		**552,203**	913,658
Income tax expense	11	**(96,530)**	(168,463)
Profit for the year		**455,673**	745,195

		Year ended 31 December	
		2012	2011
	Note	***RMB '000***	*RMB '000*
Other comprehensive income:			
Changes in fair value of available-for-sale financial assets		**124**	(788)
Income tax relating to changes in fair value of available-for-sale financial assets		**(19)**	517
Currency translation differences		**606**	528
Other comprehensive income for the year, net of tax		**711**	257
Total comprehensive income for the year		**456,384**	745,452
Profit attributable to:			
Equity holders of the Company		**440,770**	737,277
Non-controlling interests		**14,903**	7,918
		455,673	745,195

		Year ended 31 December	
		2012	2011
	Note	***RMB '000***	*RMB '000*
Total comprehensive income attributable to:			
Equity holders of the Company		**441,481**	737,534
Non-controlling interests		**14,903**	7,918
		456,384	745,452
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic and diluted	13	**0.12**	0.20
Dividends proposed after the balance sheet date to all shareholders	34	**128,962**	221,078

The notes on pages 112 to 256 are an integral part of these financial statements.

	Note	Group As at 31 December 2012 RMB '000	Group As at 31 December 2011 RMB '000	Company As at 31 December 2012 RMB '000	Company As at 31 December 2011 RMB '000
ASSETS					
Non-current assets					
Property, plant and equipment	15	**2,295,176**	2,194,838	**7,644**	4,873
Investment properties	16	**33,006**	36,007	**—**	—
Lease prepayments	14	**462,078**	301,674	**—**	—
Intangible assets	17	**280,061**	268,520	**—**	—
Investments in associates	19	**384,734**	397,655	**209,206**	209,206
Investments in subsidiaries	18	**—**	—	**2,332,189**	2,145,489
Investments in jointly controlled entities	20	**—**	—	**200,929**	200,929
Trade and other receivables	21	**—**	—	**581,000**	363,958
Deferred income tax assets	32	**87,370**	83,482	**—**	—
Available-for-sale financial assets		**3,653**	3,529	**—**	—
Other non-current assets		**13,541**	14,260	**306,000**	—
		3,559,619	3,299,965	**3,636,968**	2,924,455
Current assets					
Inventories	24	**1,770,753**	1,788,669	**—**	—
Trade and other receivables	21	**3,950,059**	3,302,678	**216,254**	400,185
Dividend receivable		**—**	—	**60,838**	255,315
Amount due from customers for contract work	22	**352,777**	283,991	**—**	—
Restricted cash	23	**252,859**	295,099	**5,056**	5,945
Cash and cash equivalents	25	**2,628,884**	2,789,570	**1,137,728**	1,515,485
		8,955,332	8,460,007	**1,419,876**	2,176,930
Total assets		**12,514,951**	11,759,972	**5,056,844**	5,101,385

	Note	Group As at 31 December 2012 RMB '000	Group As at 31 December 2011 RMB '000	Company As at 31 December 2012 RMB '000	Company As at 31 December 2011 RMB '000
EQUITY					
Capital and reserves attributable to equity holders of the Company					
Share capital	26	**3,684,640**	3,684,640	**3,684,640**	3,684,640
Reserves	27	**(784,909)**	(827,006)	**(769,513)**	(810,899)
Retained earnings					
— Proposed final dividend	34	**128,962**	221,078	**128,962**	221,078
— Others	27	**2,116,611**	1,846,189	**806,651**	629,057
		5,145,304	4,924,901	**3,850,740**	3,723,876
Non-controlling interests		**338,799**	41,958	**—**	—
Total equity		**5,484,103**	4,966,859	**3,850,740**	3,723,876
LIABILITIES					
Non-current liabilities					
Borrowings	30	**1,169,058**	1,458,533	**1,046,417**	1,185,277
Deferred income	31	**520,808**	556,000	**—**	—
Deferred income tax liabilities	32	**24,526**	32,120	**—**	—
Long-term employee benefit obligations	33	**44,041**	76,781	**—**	—
		1,758,433	2,123,434	**1,046,417**	1,185,277

	Note	Group As at 31 December 2012 RMB '000	Group As at 31 December 2011 RMB '000	Company As at 31 December 2012 RMB '000	Company As at 31 December 2011 RMB '000
Current liabilities					
Trade and other payables	28	**3,623,350**	3,281,339	**133,791**	110,595
Dividends payable		**23,228**	40,184	**—**	15,677
Amount due to customers for contract work	22	**10,589**	7,852	**—**	—
Current income tax liabilities		**58,335**	63,976	**—**	—
Borrowings	30	**1,491,318**	1,211,158	**25,896**	65,960
Current portion of long-term employee benefit obligations	33	**10,417**	12,554	**—**	—
Provisions for warranty	29	**55,178**	52,616	**—**	—
		5,272,415	4,669,679	**159,687**	192,232
Total liabilities		**7,030,848**	6,793,113	**1,206,104**	1,377,509
Total equity and liabilities		**12,514,951**	11,759,972	**5,056,844**	5,101,385
Net current assets		**3,682,917**	3,790,328	**1,260,189**	1,984,698
Total assets less current liabilities		**7,242,536**	7,090,293	**4,897,157**	4,909,153

The financial statements on pages 102 to 256 were approved by the Board of Directors on 19 March 2013 and were signed on its behalf

Director *Director*

The notes on pages 112 to 256 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(All amounts in RMB unless otherwise stated)

	Note	Attributable to equity holders of the Company				Non-controlling interests	Total equity
		Share capital	Other reserves	Retained earnings	Total		
		RMB '000	*RMB '000* *Note 27*	*RMB '000* *Note 27*	*RMB '000*	*RMB '000*	*RMB '000*
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-sales 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		—	(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

	Note	Attributable to equity holders of the Company				Non-controlling interests	Total equity
		Share capital	Other reserves	Retained earnings	Total		
		RMB '000	RMB '000 Note 27	RMB '000 Note 27	RMB '000	RMB '000	RMB '000
Balance at 1 January 2012		3,684,640	(827,006)	2,067,267	4,924,901	41,958	4,966,859
Comprehensive income							
Profit for the year		—	—	440,770	440,770	14,903	455,673
Other comprehensive income							
Changes in fair value of available-for-sale financial assets, net of tax		—	105	—	105	—	105
Currency translation differences		—	606	—	606	—	606
Total other comprehensive income		—	711	—	711	—	711
Total comprehensive income		—	711	440,770	441,481	14,903	456,384
Total contributions by and distributions to equity holders of the Company recognised directly in equity							
Dividends relating to 2011		—	—	(221,078)	(221,078)	—	(221,078)
Dividends to non-controlling interests		—	—	—	—	(12,062)	(12,062)
Capital contribution of cash from non-controlling interest	37	—	—	—	—	294,000	294,000
Total contributions by and distributions to equity holders of the Company		—	—	(221,078)	(221,078)	281,938	60,860
Transfer to reserves		—	41,386	(41,386)	—	—	—
Total transactions with equity holders		—	41,386	(262,464)	(221,078)	281,938	60,860
Balance at 31 December 2012		3,684,640	(784,909)	2,245,573	5,145,304	338,799	5,484,103

The notes on pages 112 to 256 are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(All amounts in RMB unless otherwise stated)

		Year ended 31 December	
		2012	2011
	Note	***RMB '000***	*RMB '000*
Cash flows from operating activities			
Cash generated from operations	35	**423,081**	409,447
Interest paid		**(168,364)**	(106,910)
Income tax paid		**(113,672)**	(134,084)
Transaction costs in relation to acquisition of subsidiaries		**—**	(1,722)
Net cash generated from operating activities		**141,045**	166,731
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss		**(5,066,000)**	(5,370,000)
Proceeds from return of financial assets at fair value through profit or loss		**5,095,082**	5,392,971
Proceeds from government grants related to assets		**38,792**	77,234
Purchase of property, plant and equipment and investment properties		**(305,654)**	(428,002)
Increase in lease prepayments		**(171,322)**	(1,147)
Purchase of intangible assets		**(27,157)**	(3,540)
Acquisition of subsidiaries, net of cash acquired	40	**—**	(64,133)
Proceeds from disposal of property, plant and equipment	35	**53,159**	24,768
Disposal of lease prepayments		**2,003**	—
Interest received		**35,783**	34,187
Dividends received		**13,885**	41,723
Net cash used in investing activities		**(331,429)**	(295,939)

		Year ended 31 December	
		2012	2011
	Note	***RMB '000***	*RMB '000*
Cash flows from financing activities			
Proceeds from borrowings		**1,564,288**	2,252,146
Repayments of borrowings		**(1,578,782)**	(1,074,941)
Finance lease paid		**(1,604)**	(44,170)
Contribution from non-controlling interests		**294,000**	20,000
Dividends paid to Company's shareholders		**(236,755)**	(271,043)
Dividends paid to non-controlling interests		**(13,341)**	(14,642)
Transactions with non-controlling interests		**—**	(62,612)
Net cash generated from financing activities		**27,806**	804,738
Net (decrease)/increase in cash and cash equivalents		**(162,578)**	675,530
Cash and cash equivalents at beginning of the year		**2,789,570**	2,118,810
Exchange gains/(losses) on cash and cash equivalents		**1,892**	(4,770)
Cash and cash equivalents at end of the year	25	**2,628,884**	2,789,570

The notes on pages 112 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 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. 60, Huangshan Road Central, Northern New District, Chongqing 401123, 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 19 March 2013.

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

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 number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Group, except the following set out below:

- Amendment to HKAS 1, 'Financial statement presentation' regarding other comprehensive income. The main change resulting from these amendments is a requirement for entities to group items presented in 'other comprehensive income' (OCI) on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in OCI.

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

2.1 Basis of preparation *(Continued)*

2.1.1 Changes in accounting policy and disclosures *(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, which are largely aligned between HKFRSs and US GAAP, 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 or US GAAP.

- HKAS 19, 'Employee benefits', was amended in June 2011. The impact on the group will be as follows: to immediately recognise all past service costs; and to replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). The Group is yet to assess the full impact of the amendments.

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

2.1 Basis of preparation *(Continued)*

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

- 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 HKFRS 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 no later than the accounting period beginning on or after 1 January 2015. The Group will also consider the impact of the remaining phases of HKFRS 9 when completed by the Board.

- 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 intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013, and it is not expected to have a significant impact on the consolidated financial statements.

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

2.1 Basis of preparation *(Continued)*

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

- 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.

- HKFRS 11 "Joint arrangements" is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangements: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The Group will adopt relevant standards for annual periods beginning after 1 January 2013.

Except for HKFRS 9 'Financial instruments', all the standards and amendment to standards stated above comes to effective on 1 January 2013. HKFRS 9 'Financial instruments' will be effective on 1 January 2015. The Group will adopt relevant standards and amendment to standards in the required period.

Except for the HKFRS 11 "Joint arrangements", the other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would not 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 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.

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 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. 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 recognised amounts of acquiree's identifiable net assets.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

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

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(a) Business combinations (Continued)

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.

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 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 the 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 other comprehensive income..

(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.

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

2.7 Property, plant and equipment

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.

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	300–500	0.1%–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 property

Investment property, comprising buildings, is held for long-term rental yields and are not occupied by the Group. Investment property is 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 value and useful life of investment property 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 Company'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 lives 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)*

2.10 Intangible assets *(Continued)*

(e) Concession assets

The Group engages in certain service concession arrangements in which the Group carries out construction work for the granting authority and receive in exchange a right to operate the assets concerned in accordance with the pre-established conditions set by the granting authority. In accordance with IFRIC 12, "Service concession arrangements", the assets under the concession arrangements may be classified as intangible assets or financial assets. The assets are classified as intangible assets if the operator receives a right (a licence) to charge user of the public service, or as financial assets if paid by the granting authority. If intangible assets model is applicable, the Group classifies the non-current assets linked to the long-term investment in these concession arrangements as "concession assets" within intangible assets classification on the consolidated balance sheets. Once the underlying infrastructure of the concession arrangements has been completed, the concession assets will be amortised over the term of the concession period on the straight-line basis under the intangible assets model. If financial assets model is applicable, the Group classifies the assets in relation to these concession arrangements within financial assets classification on the consolidated balance sheet. Once the underlying infrastructure of the concession arrangements have been completed, the interest of financial assets will be calculated using effective interest rate method and related gain/(loss) will be charged to the profit or loss accordingly over the concession period.

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 the amounts that are settled or expected to be settled more 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 profit or loss 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.

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

2.12 Financial assets *(Continued)*

2.12.2 Recognition and measurement *(Continued)*

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

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 profit or loss. 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.

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

2.14 Impairment of financial assets *(Continued)*

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

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

(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 profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through profit or loss.

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

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.

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

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.

2.19 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

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.

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

2.21 Borrowings *(Continued)*

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.

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 reporting period.

2.22 Borrowings costs

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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

2.23 Current and deferred income tax

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

(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.

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

2.23 Current and deferred income tax *(Continued)*

(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, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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.

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.

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

2.23 Current and deferred income tax *(Continued)*

(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.

2.24 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.

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

2.24 Employee benefits *(Continued)*

(a) Pension obligations *(Continued)*

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

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

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 group companies 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)*

2.24 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)*

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

2.25 Provisions

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

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

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

2.26 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)*

2.27 Construction contracts

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

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

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

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

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

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

2.27 Construction contracts *(Continued)*

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

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

2.28 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)*

2.28 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) Rental income

Rental income is recognised in the income statement on a straight-line basis over the term of the lease.

2.29 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.

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

2.30 Dividend income

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

2.31 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)*

2.32 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)*

2.33 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.

2.34 Exceptional items

Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

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.

3. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

3.1 Financial risk factors *(Continued)*

(a) Market risk

(i) Foreign exchange risk

The Group is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar ("USD") (Note 25). 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 the Group companies to manage their foreign exchange risk against their functional currency.

As at 31 December 2012, if RMB had weakened /strengthened by 1% (2011: 1%) against USD with all other variables held constant, the Group's net profit for the year then ended would have been approximately RMB430,000 (2011: RMB912,000) 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 2012 and 2011, the Group's bank deposits and borrowings at variable rates were denominated in RMB/UK pound. 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 2012, if the interest rate of the Group's bank deposits had been increased/decreased by 10% (2011: 10%) and all other variables were held constant, the Group's post-tax profit for the year then ended would have been increased/decreased by approximately RMB1,740,000 (2011: RMB1,300,000).

As at 31 December 2012, if the interest rate of the Group's bank borrowings at variable rates had been increased/decreased by 10% (2011: 10%) and all other variables were held constant, the Group's net profit for the year then ended would have been decreased/increased by approximately RMB5,768,000 (2011: RMB6,963,000).

(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 2012 and 2011, 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 2012 and 2011 were as follows:

	As at 31 December	
	2012	2011
	RMB '000	*RMB '000*
Big four commercial banks (i)	**833,681**	1,072,548
Other listed banks	**1,631,069**	1,986,150
Other non-listed banks	**414,872**	23,995
	2,879,622	3,082,693

(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, ageing 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 21.

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 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 *RMB '000*	Between 1 and 2 years *RMB '000*	Between 2 and 5 years *RMB '000*	Over 5 years *RMB '000*
At 31 December 2012				
Bank borrowings	**1,493,365**	**123,728**	**53,991**	**—**
Other borrowings	**31,115**	**5,103**	**—**	**—**
Corporate bonds	**65,900**	**65,900**	**1,131,800**	**—**
Finance lease liabilities	**24,002**	**2,305**	**762**	**—**
Trade and other payables	**2,528,348**	**—**	**—**	**—**
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	—	—	—

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 2012				
Bank borrowings	**28,189**	**27,505**	**26,554**	**—**
Corporate bonds	**65,900**	**65,900**	**1,131,800**	**—**
Trade and other payables	**108,257**	**—**	**—**	**—**
Financial guarantee contracts	**364,440**	**—**	**—**	**—**
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	—	—	—

3.2 Capital 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 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 2012 and 2011 were as follows:

	31 December 2012 RMB '000	31 December 2011 *RMB '000*
Total borrowings	**2,660,376**	2,669,691
Total equity	**5,484,103**	4,966,859
Total capital	**8,144,479**	7,636,550
Gearing ratio	**33%**	35%

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 2012.

	Level 1 *RMB '000*	Level 2 *RMB '000*	Level 3 *RMB '000*	Total *RMB '000*
Assets				
Available-for-sale financial assets				
— Equity securities	3,653	—	—	3,653
Total assets	3,653	—	—	3,653

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 2011.

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

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)*

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3.

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 30.

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 2012, the Group has deferred tax assets in the amount of approximately RMB87,370,000. 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 provision for impairment of assets, 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 RMB5,818,800 .

(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 33.

(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, high-voltage transformers and materials sales. 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 2012 is as follows:

	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wires and cables	General machinery	Machinery tools	High-voltage transformers	Materials sales	All other segments	Total Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	1,648,589	829,071	439,085	2,635,391	565,606	1,519,168	–	2,780,963	2,084,854	12,502,727
Inter-segment revenue	–	–	(17)	(369,354)	(453)	(488,520)	–	(1,087,246)	(516)	(1,946,106)
Revenue from external customers	1,648,589	829,071	439,068	2,266,037	565,153	1,030,648	–	1,693,717	2,084,338	10,556,621
Operating profit (loss)	442,466	28,289	35,786	106,202	31,267	57,062	–	2,409	(24,655)	678,826
Finance income	5,993	1,296	2,884	1,989	4,403	7,775	–	118	11,325	35,783
Finance costs	(335)	(8,434)	(7,280)	(40,918)	(2,584)	(38,043)	–	(1,942)	(63,833)	(163,369)
Share of profit from associates	–	59	–	–	8,940	–	1,584	–	(9,620)	963
Profit before income tax										552,203
Income tax expense	(66,842)	(6,661)	(5,316)	(13,195)	809	(8,933)	–	(355)	3,963	(96,530)
Profit for the year										455,673
Depreciation on property, plant and equipment and investment properties	10,007	29,812	9,959	18,726	20,204	39,751	–	37	39,324	167,820
Amortisation of lease prepayments and intangible assets	3,079	3,303	1,002	1,358	4,195	10,395	–	–	3,064	26,396
Write down/(write-back) of inventories	1,844	279	–	1,353	(4,535)	(3,741)	–	–	3,717	(1,083)
(Reversal of)/provision for impairment on trade and other receivables	(688)	65	2,854	7,369	(65)	(4,175)	–	316	11,030	16,706
Impairment loss of property, plant and equipment	1,749	–	–	–	–	–	–	–	–	1,749
Total assets	756,048	1,339,388	974,369	1,037,407	1,412,199	2,438,206	153,024	347,441	4,056,869	12,514,951
Total assets include:										
Investments in associates	–	1,129	–	–	79,368	–	153,024	–	151,213	384,734
Additions to non-current assets (other than financial instruments and deferred tax assets)	14,958	52,948	44,256	9,053	84,987	264,126	–	148	62,404	532,880

5. SEGMENT INFORMATION *(CONTINUED)*

The segment information 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*	Materials sales *RMB'000*	All other segments *RMB'000*	Total Group *RMB'000*
Segment revenue	1,898,383	1,172,147	400,876	2,352,305	544,491	1,541,213	—	653,714	1,988,041	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	544,491	1,537,208	—	653,714	1,988,041	10,546,001
Operating profit	527,180	105,006	53,972	80,316	68,375	124,256	—	497	48,345	1,007,947
Finance income	7,138	206	2,579	4,897	2,736	5,569	—	8	11,054	34,187
Finance costs	958	(6,117)	(4,652)	(31,775)	(2,672)	(22,492)	—	—	(64,574)	(131,324)
Share of profit from associates	—	(189)	—	—	(4,948)	—	10,335	—	(2,350)	2,848
Profit before income tax										913,658
Income tax expense	(89,233)	(14,628)	(5,574)	(10,257)	(11,675)	(22,981)	—	(126)	(13,989)	(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	18,425	36,854	—	29	34,059	154,172
Amortisation of lease prepayments and intangible assets	3,041	3,207	944	1,305	3,341	6,699	—	—	3,147	21,684
Write down/(write-back) of inventories	86	(491)	—	2,137	(78)	4,817	—	—	(3,531)	2,940
(Reversal of)/provision for impairment on trade and other receivables	(315)	(136)	1,103	1,706	(9,861)	9,589	—	108	3,287	5,481
Total assets	984,520	1,325,898	802,320	970,819	1,243,815	2,309,199	161,215	139,581	3,822,605	11,759,972
Total assets include:										
Investments in associates	—	1,070	—	—	70,428	—	161,215	—	164,942	397,655
Additions to non-current assets (other than financial instruments and deferred tax assets)	21,772	47,591	18,633	11,971	96,256	230,949	—	527	94,965	522,664

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"), Precision Technologies Group Investment Development Company Limited ("PTGHK") 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 2012 is approximately RMB10,230,832,000 (2011: RMB10,203,233,000), and the total of its revenue from external customers from other countries is approximately RMB325,789,000 (2011: RMB342,768,000).

The total of non-current assets other than financial instruments and deferred income tax assets located in the PRC were RMB3,226,656,000 (2011: RMB2,948,166,000), and the total of non-current assets located in other countries were RMB241,940,000 (2011: RMB264,788,000).

6. OTHER GAINS, NET

	Year ended 31 December	
	2012	2011
	RMB '000	*RMB '000*
Gain on disposals of property, plant and equipment	**3,867**	19,247
Gain on disposals of financial assets at fair value through profit or loss	**29,082**	22,971
Gain on disposals of lease prepayment	**1,865**	—
Gain on bargain purchase	**—**	25,205
Adjustment to consideration of prior year's business combination	**—**	20,069
Others	**11,109**	28,763
	45,923	116,255

7. OTHER INCOME

	Year ended 31 December	
	2012	2011
	RMB '000	*RMB '000*
Government grants in relation to		
— Tax refunds (a)	**25,253**	3,641
— Further development of manufacturing technology (b)	**44,266**	20,513
— Relocation for environmental protection (b)	**45,028**	930
— Others	**17,343**	11,424
	131,890	36,508

(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 2012 and 2011, the Group received certain grants from local government in compensation of the Group's expenditures on further development of manufacturing technology and relocation for environmental protection. Such amounts were considered as government grant relating to expenses and credited to 'other income' in profit or loss.

8. EXPENSES BY NATURE

	Year ended 31 December	
	2012	2011
	RMB '000	*RMB '000*
Depreciation on property, plant and equipment *(Note 15)*	**164,819**	151,194
Depreciation on investment properties *(Note 16)*	**3,001**	2,978
Amortisation of lease prepayments *(Note 14)*	**10,780**	6,706
Amortisation of intangible assets *(Note 17)*	**15,616**	14,978
Amortisation of deferred income *(Note 31)*	**(72,748)**	(40,176)
Employee benefit expense *(Note 9)*	**1,005,694**	989,389
Changes in inventories of finished goods and work in progress	**(1,255)**	(127,350)
Raw materials and consumables used	**8,050,115**	7,861,879
Transportation	**104,939**	113,453
Research and development costs	**108,885**	111,772
Technology usage fee	**16,111**	18,371
Utilities	**218,836**	193,480
Repairs and maintenance expenditure on property, plant and equipment	**46,768**	60,080
Operating lease rentals *(Note 15)*	**28,019**	18,872
Write-back/down of inventories *(Note 24)*	**(1,083)**	2,940
Provision for impairment of receivables *(Note 21)*	**16,706**	5,481
Provision for impairment of property, plant and equipment *(Note 15)*	**1,749**	—
Provision for warranty *(Note 29)*	**61,977**	60,598
Auditors' remuneration	**5,400**	5,800
Other expenses	**271,279**	240,372
Total cost of sales, distribution costs and administrative expenses	**10,055,608**	9,690,817

9. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2012	2011
	RMB '000	*RMB '000*
Salaries, wages and bonuses	**743,943**	751,167
Contributions to pension plans (a)	**108,370**	123,570
Supplemental pension benefits to qualified employees(b) *(Note 33)*		
— Interest cost	**2,725**	2,725
— Actuarial loss	**2,964**	395
— Additions on termination benefit obligations	**827**	1,486
— Deductions	**(28,610)**	(47,864)
Housing benefits (c)	**50,624**	44,315
Welfare, medical and other expenses	**124,851**	113,595
	1,005,694	989,389

(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 2012 and 2011.

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.

9. EMPLOYEE BENEFIT EXPENSE *(CONTINUED)*

(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 33.

(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.

10. FINANCE COSTS, NET

	Year ended 31 December	
	2012	2011
	RMB '000	*RMB '000*
Finance income		
— Interest income on short-term bank deposits	**35,783**	34,187
Finance cost:		
— Bank borrowings wholly repayable within five years	**(100,908)**	(108,104)
— Corporate bonds	**(67,200)**	(25,191)
— Finance lease liabilities	**(1,664)**	(504)
Less: amounts capitalized on qualifying assets	**5,117**	1,452
	(164,655)	(132,347)
Net exchange gain	**1,286**	1,023
Net finance costs	**(127,586)**	(97,137)

11. TAXATION

(a) Income tax expense

(i) On 6 April 2012, State Taxation Administration issued Notice 12(2012) ("the Notice") in respect of favorable 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 2011, will continue to be qualified under the new policy for the 15% preferential income tax rate from 2012 to 2020.

(ii) Pursuant to the certificated issued by the Department of Science and Technology in Jilin province on 25 July 2012, Chong Tong Group Chenfei (Da'an) Wind-Power Equipment Co., Ltd. ("Chongtong Chenfei") is qualified as high technology company and can enjoy the 15% preferential income tax rate from 2012 to 2014 (2011: 25%).

(iii) Other than the abovementioned group entities, the following group entities are not entitled to the benefit of abovementioned favourable corporate income tax policy and subject to Corporate Income Tax ("CIT") rate of 25% for the years ended 31 December 2011 and 2012:

- the Company;
- Chongqing Huijiang Machine Tools Founding Co., Ltd.;
- Chongqing General Group Bingyang Air Conditioner Equipment Installation Co., Ltd.;
- Chongqing Shengpu Materials Co., Ltd;
- Chongqing Yinhe Forging & Founding Co., Ltd;
- Tong Kang Water Affairs Co., Ltd; and
- Chongqing Holroyd Precision Rotors Manufacturing Co., Ltd.

11. TAXATION *(CONTINUED)*

(a) Income tax expense *(Continued)*

(iv) For the year ended 31 December 2012, 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% (2011: 15%).

(v) 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 2012, the applicable corporate income tax rate for this entity is 25% (2011: 24%).

(vi) 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 24.5% (2011: 26.49%). The income tax rate of Precision Components Limited is 24.5% (2011: 20.25%). The income tax rate of PTG Deutschland GmbH is 31% (2011: 31%). The income tax rate of Precision Technologies Group Investment Development Company Limited ("PTGHK") is 16.5% (2011: not applicable)

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

	Year ended 31 December	
	2012	2011
	RMB '000	*RMB '000*
Current income tax:	**(108,031)**	(142,606)
Deferred tax *(Note 32)*	**11,501**	(25,857)
Income tax expense	**(96,530)**	(168,463)

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 RMB559,000 was charged in profit or loss for the year 31 December 2012 (2011: RMB40,746,000).

11. 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	
	2012	2011
	RMB '000	*RMB '000*
Profit before income tax	**552,203**	913,658
Tax calculated at statuory tax rates applicable to each group entities	**(77,903)**	(124,335)
Income not subject to tax -share of profit of associates	**624**	1,775
Expenses not deductible for tax purposes	**(9,778)**	(3,809)
Utilisation of previously unrecognised tax assets	**757**	2,095
Re-measurement of deferred tax	**(559)**	(40,746)
Tax losses with no deferred tax asset recognised	**(9,671)**	(3,443)
Tax expense	**(96,530)**	(168,463)

The weighted average applicable tax rate for the year ended 31 December 2012 is 15% (2011: 15%).

11. 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 2012 (Note 34).

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

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

	Year ended 31 December	
	2012	2011
	RMB '000	*RMB '000*
Directors and supervisors		
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,327**	1,334
— Contributions to pension plans	**349**	295
— Discretionary bonuses	**2,608**	1,257
	4,284	2,886
Senior management		
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**522**	330
— Contributions to pension plans	**334**	198
— Discretionary bonuses	**1,646**	813
	2,502	1,341
	6,786	4,227

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

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

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

(i) For the year ended 31 December 2012:

Name	Basic salaries, housing allowances, other allowances and benefits-in-kind *RMB '000*	Contributions to pension plans *RMB '000*	Discretionary bonuses *RMB '000*	Total *RMB '000*
Directors and supervisors				
Mr. Xie Huajun	120	—	635	755
Mr. Liao Shaohua	86	64	472	622
Mr. Chen Xianzheng	114	83	508	705
Mr. Yu Gang	138	83	635	856
Mr. Huang Yong	48	—	—	48
Mr. Wang Jiyu	48	—	—	48
Mr. Yang Jingpu	48	—	—	48
Mr. Liu Liangcai	48	—	—	48
Mr. Lu Huawei	117	—	—	117
Mr. Ren Xiaochang	68	—	—	68
Mr. Kong Weiliang	68	—	—	68
Mr. Duan Rongsheng	48	—	—	48
Mr. Zhang Xinzhi	24	—	—	24
Ms. Wang Rongxue	36	—	—	36
Mr. Liu Xing	36	—	—	36
Mr. Wang Xuqi	109	43	60	212
Mr. Chen Qing	137	76	298	511
Mr. Jin Jingyu	34	—	—	34
	1,327	349	2,608	4,284
Senior management				
Mr. Ren Yong	114	83	508	705
Mr. Gong Wei	114	83	508	705
Mr. Duan Caijun	114	83	508	705
Mr. Yang Quan	142	66	122	330
Mr. Xiang Hu	38	19	—	57
	522	334	1,646	2,502
	1,849	683	4,254	6,786

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

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

(ii) For the year ended 31 December 2011:

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

12. 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 fell within the following bands:

	Number of individuals Year ended 31 December	
	2012	2011
Directors and supervisors		
— Nil to HKD1,000,000 (equivalent to approximately RMB810,800)	**17**	17
— HKD1,000,001–HKD1,500,000 (equivalent to approximately RMB810,800–RMB1,216,200)	**1**	—
	18	17
Senior management		
— Nil to HKD1,000,000 (equivalent to approximately RMB810,800)	**5**	3
— HKD1,000,001–HKD1,500,000 (equivalent to approximately RMB810,800–RMB1,216,200)	**—**	—
	23	20

For the years ended 31 December 2012 and 2011, 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.

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

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include two (2011: nil) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining three (2011: five) individuals during the year are as follows:

	Year ended 31 December	
	2012	2011
	RMB '000	*RMB '000*
— Basic salaries, housing allowances, other allowances and benefits-in-kind	**371**	3,149
— Contributions to pension plans	**252**	403
— Discretionary bonuses	**2,196**	2,132
	2,819	5,684

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

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

The emoluments fell within the following bands:

	Number of individuals Year ended 31 December	
	2012	2011
Nil to HKD1,000,000 (equivalent to approximately RMB810,800)	**1**	—
HKD1,000,001–HKD1,500,000 (equivalent to approximately RMB810,800–RMB1,216,200)	**2**	5
	3	5

13. EARNINGS PER SHARE

	Year ended 31 December	
	2012	2011
Profit attributable to equity holders of the Company *(RMB '000)*	**440,770**	737,277
Weighted average number of ordinary shares in issue *(thousands)*	**3,684,640**	3,684,640
Basic and diluted earnings per share *(RMB per share)*	**0.12**	0.20

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

14. 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	
	2012	2011
	RMB '000	*RMB '000*
At beginning of the year		
Cost	**355,613**	317,749
Accumulated amortisation	**(53,939)**	(47,233)
Net book amount	**301,674**	270,516
For the year		
Opening net book amount	**301,674**	270,516
Additions	**171,322**	1,147
Acquisition of a subsidiary *(Note 40)*	**—**	25,987
Transfer from assets under construction *(Note 15)*	**—**	10,730
Disposals	**(138)**	—
Amortisation charge	**(10,780)**	(6,706)
Closing net book amount	**462,078**	301,674
At end of the year		
Cost	**526,797**	355,613
Accumulated amortisation	**(64,719)**	(53,939)
Net book amount	**462,078**	301,674

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

(b) As at 31 December 2012, none of the Group's land use rights was used to secure bank borrowings (2011: RMB75,067,000) (Note 30).

15. 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 2011					
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
Year ended 31 December 2011					
Opening net book amount	664,172	989,733	48,315	110,493	1,812,713
Acquisition of Subsidiaries	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	—	59,660	—	—	59,660
Transfers to investment properties	(17,267)	—	—	—	(17,267)
Transfers to lease prepayment	—	—	—	(10,730)	(10,730)
Transfers to intangible assets *(Note 17)*	—	—	—	(715)	(715)
Investment in an associate	—	(25,234)	—	—	(25,234)
Disposals	(271)	(3,541)	(1,709)	—	(5,521)
Deductions - sale and leaseback transaction	—	(54,260)	—	—	(54,260)
Other deductions	(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

15. 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 2012					
Opening net book amount	725,214	1,039,722	41,540	388,362	2,194,838
Transfers	8,573	148,650	4,046	(161,269)	—
Additions	45	44,426	2,913	287,521	334,905
Additions - sale and leaseback transaction *(Note 31)*	—	2,866	—	—	2,866
Transfers to intangible assets *(Note 17)*	—	—	—	(504)	(504)
Disposals *(Note 35)*	(40,277)	(8,372)	(459)	(184)	(49,292)
Deductions - sale and leaseback transaction *(Note 31)*	—	(4,036)	—	—	(4,036)
Other deductions	(11,185)	(1,532)	(485)	(3,831)	(17,033)
Depreciation charge	(27,616)	(126,569)	(10,634)	—	(164,819)
Impairment charge	—	(1,749)	—	—	(1,749)
Closing net book amount	654,754	1,093,406	36,921	510,095	2,295,176
At 31 December 2012					
Cost	911,679	2,167,471	97,745	512,653	3,689,548
Accumulated depreciation and impairment	(256,925)	(1,074,065)	(60,824)	(2,558)	(1,394,372)
Net book amount	654,754	1,093,406	36,921	510,095	2,295,176

15. 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 2011				
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
Year ended 31 December 2012				
Opening net book amount	**333**	**1,487**	**3,053**	**4,873**
Additions	**1,034**	**1,297**	**1,102**	**3,433**
Disposals	**(60)**	**—**	**—**	**(60)**
Depreciation charge	**(224)**	**(378)**	**—**	**(602)**
Closing net book amount	**1,083**	**2,406**	**4,155**	**7,644**
At 31 December 2012				
Cost	**2,237**	**3,767**	**4,155**	**10,159**
Accumulated depreciation	**(1,154)**	**(1,361)**	**—**	**(2,515)**
Net book amount	**1,083**	**2,406**	**4,155**	**7,644**

15. 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	
	2012	2011	**2012**	2011
	RMB '000	*RMB '000*	***RMB '000***	*RMB '000*
Cost of sales	**130,502**	122,253	**—**	—
Administrative expenses	**33,013**	28,941	**602**	520
Selling expenses	**1,304**	—	**—**	—
	164,819	151,194	**602**	520

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 RMB207,876,000 as at 31 December 2012 (2011: RMB203,081,000) (Note 30).

(c) Lease rental expenses amounting to approximately RMB28,019,000 (2011: RMB18,872,000) relating to the lease of property were included in profit or loss (Note 8).

15. 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	
	2012	2011
	RMB '000	*RMB '000*
Cost — capitalised finance leases	**69,315**	60,811
Accumulated depreciation	**(6,542)**	(1,734)
Net book amount	**62,773**	59,077

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 2012, interest expense of approximately RMB5,117,000 (2011: RMB1,452,000) 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 4.95% (2011: 6.40%) per annum.

16. INVESTMENT PROPERTIES

Group

	Year ended 31 December	
	2012	2011
	RMB '000	*RMB '000*
At beginning of year		
Cost	**58,344**	38,252
Accumulated depreciation	**(22,337)**	(16,534)
Net book amount	**36,007**	21,718
For the year		
Opening net book amount	**36,007**	21,718
Transfers from owner-occupied property	**—**	17,267
Depreciation charge	**(3,001)**	(2,978)
Closing net book amount	**33,006**	36,007
At end of year		
Cost	**58,344**	58,344
Accumulated depreciation	**(25,338)**	(22,337)
Net book amount	**33,006**	36,007
Fair value at end of the year	**224,950**	224,950

As at 31 December 2012 and 2011, 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.

16. INVESTMENT PROPERTIES *(CONTINUED)*

Bank borrowings were secured by the investment properties with an aggregate carrying value of approximately RMB33,320,000 as at 31 December 2012 (2011: RMB19,327,000) (Note 30).

The following amounts were recognised in profit or loss:

Group

	Year ended 31 December	
	2012	2011
	RMB '000	*RMB '000*
Rental income	**12,965**	10,971
Direct operating expenses arising from investment properties that generate rental income	**(3,001)**	(2,978)

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

16. INVESTMENT PROPERTIES (CONTINUED)

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

Group

	Year ended 31 December	
	2012	2011
	RMB '000	*RMB '000*
In the PRC, held on land use rights with lease term of 45 years	**33,006**	36,007

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

Group

	As at 31 December	
	2012	2011
	RMB '000	*RMB '000*
Not later than 1 year	**11,753**	7,572
Later than 1 year and not later than 5 years	**22,521**	24,122
	34,274	31,694

17. INTANGIBLE ASSETS

Group

	Goodwill	Technical know-how	Computer software	Brand	Customer relationships	Concession assets	Others	Total
	RMB '000	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*
At 1 January 2011								
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 subsidiaries	—	4,830	—	—	—	—	—	4,830
Investment in an associate	—	(25)	(29)	—	—	—	—	(54)
Transfer from assets under construction *(Note 15)*	—	—	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

17. INTANGIBLE ASSETS *(CONTINUED)*

Group *(continued)*

	Goodwill	Technical know-how	Computer software	Brand	Customer relationships	Concession assets	Others	Total
	RMB '000	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*	*RMB '000*
Year ended 31 December 2012								
Opening net book amount	143,018	25,388	7,544	28,556	61,288	—	2,726	268,520
Transfer from assets under construction *(Note 15)*	—	—	504	—	—	—	—	504
Additions	—	7,571	2,069	—	—	16,926	87	26,653
Amortisation charge	—	(5,114)	(2,627)	—	(6,377)	—	(1,498)	(15,616)
Closing net book amount	143,018	27,845	7,490	28,556	54,911	16,926	1,315	280,061
At 31 December 2012								
Cost	143,018	89,077	20,697	28,556	73,345	16,926	12,664	384,283
Accumulated amortisation	—	(61,232)	(13,207)	—	(18,434)	—	(11,349)	(104,222)
Net book amount	143,018	27,845	7,490	28,556	54,911	16,926	1,315	280,061

17. INTANGIBLE ASSETS *(CONTINUED)*

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

(b) The development costs capitalized by the Group during the years ended 31 December 2012 was RMB1,260,000 (2011: Nil)

(c) Brand is treated as having an indefinite useful life because it is expected to contribute to net cash inflows indefinitely.

(d) Impairment for goodwill and brand

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.

Brand is allocated to the Group's CGU, Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear"), 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.

17. INTANGIBLE ASSETS *(CONTINUED)*

(d) Impairment for goodwill and brand *(continued)*

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

	CAFF	**Qijiang Gear**	**PTG six entities**
Gross margin as budgeted	11%	22%	36%
Growth rate	0%	0%	0%
Pre-tax discount rate	18%	17%	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.

18. INVESTMENTS IN SUBSIDIARIES - COMPANY

	2012 **RMB'000**	2011 *RMB'000*
Investments, at cost:		
Unlisted shares	**2,332,189**	2,145,489

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 42.

19. INVESTMENTS IN ASSOCIATES

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
At beginning of the year	397,655	397,943	209,206	209,206
Additions *(Note 42)*	506	44,231	—	—
Share of profit	963	2,848	—	—
Dividend declared	(14,390)	(41,723)	—	—
Other deduction	—	(5,644)	—	—
At end of the year	384,734	397,655	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	
	2012	2011
	RMB'000	RMB'000
Total assets	864,709	852,504
Total liabilities	(479,975)	(454,849)
Net assets	384,734	397,655

19. 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	
	2012	2011
	RMB'000	*RMB'000*
Revenue	**820,779**	923,362
Share of profit for the year	**963**	2,848

(b) As at the date of this report, the particulars of the Group's principal associates are set out in Note 42.

(c) For the year ended 31 December 2012, the Group has not recognised losses amounting to approximately RMB1,967,000 (2011: RMB3,858,000) for Chongqing Ji'en Smelting Co., Ltd. The total accumulated losses not recognised were approximately RMB 5,825,000 (2011: RMB3,858,000).

20. 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 42. 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.

Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Assets		
Non-current assets	**140,972**	147,410
Current assets	**615,881**	837,110
	756,853	984,520
Liabilities		
Non-current liabilities	**(19)**	(170)
Current liabilities	**(389,340)**	(709,337)
	(389,359)	(709,507)
Net assets	**367,494**	275,013

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

	Year ended 31 December	
	2012	2011
	RMB '000	*RMB '000*
Income	**1,649,825**	1,902,466
Expenses	**(1,201,302)**	(1,351,945)
Profit before income tax	**448,523**	550,521
Income tax expense	**(66,842)**	(89,233)
Profit for the year	**381,681**	461,288

Company

	2012	2011
	RMB'000	*RMB'000*
Investments, at cost:		
Unlisted shares	**200,929**	200,929

All the jointly controlled entities are unlisted.

As at the date of this report, the particulars of the Group's principal subsidiaries are set out in Note 42.

21. TRADE AND OTHER RECEIVABLES

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills receivables *(a)*	3,630,180	3,197,968	21,621	105,714
Less: provision for impairment of trade receivables	(250,526)	(247,554)	—	—
	3,379,654	2,950,414	21,621	105,714
Deposits paid	90,725	76,918	—	—
Less: provision for impairment of deposits paid	(10,639)	(10,341)	—	—
Deposits paid — net	80,086	66,577	—	—
Prepayments	409,752	198,087	—	—
Staff advances	35,979	33,873	321	598
Others	69,044	73,157	775,312	657,831
Less: provision for impairment of receivables other than trade receivables and deposits paid	(24,456)	(19,430)	—	—
	3,950,059	3,302,678	797,254	764,143
Less: long-term other receivables	—	—	(581,000)	(363,958)
Current portion	3,950,059	3,302,678	216,254	400,185

21. 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	
	2012	2011
	RMB'000	*RMB'000*
Less than 30 days	**884,846**	787,037
31 days to 90 days	**879,726**	920,947
91 days to 1 year	**1,287,175**	1,023,290
1 year to 2 years	**287,290**	234,619
2 years to 3 years	**99,019**	62,563
Over 3 years	**192,124**	169,512
	3,630,180	3,197,968

As at 31 December 2012, trade and bills receivables of approximately RMB1,596,739,000 (2011: RMB1,238,317,000) 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	
	2012	2011
	RMB'000	*RMB'000*
91 days to 1 year	**1,279,372**	1,008,848
1 year to 2 years	**263,533**	202,726
2 years to 3 years	**53,834**	26,743
	1,596,739	1,238,317

21. 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 2012, trade receivables of RMB268,869,000 (2011: RMB251,667,000) were individually impaired and provided for. The amount of provision was RMB250,526,000 as at 31 December 2012 (2011: RMB247,554,000). 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	
	2012	2011
	RMB'000	*RMB'000*
91 days to 1 year	**7,803**	14,442
1 year to 2 years	**23,757**	31,893
2 years to 3 years	**45,185**	35,820
Over 3 years	**192,124**	169,512
	268,869	251,667

(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.

21. 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	
	2012	2011
	RMB'000	*RMB'000*
RMB	**3,716,760**	3,197,294
UK pound ("UKP")	**188,495**	70,583
USD	**33,020**	22,900
Other currencies	**11,784**	11,901
	3,950,059	3,302,678

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

Group

Trade receivables

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
At beginning of the year	**247,554**	249,038
Provision for impairment of receivables	**11,382**	4,549
Receivables written off during the year as uncollectible	**(8,410)**	(6,033)
At end of the year	**250,526**	247,554

21. 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	
	2012	2011
	RMB'000	*RMB'000*
At beginning of the year	**10,341**	10,341
Provision for impairment of receivables	**298**	—
At end of the year	**10,639**	10,341

Others

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
At beginning of the year	**19,430**	18,498
Provision for impairment of receivables	**5,026**	932
At end of the year	**24,456**	19,430

The creation and release of provision for impaired receivables have been included in 'administrative expenses' in profit or loss (Note 8).

21. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

(g) Refer to Note 41 for Group's trade and other receivables due from related parties.

(h) As at 31 December 2012, the Group's trade and bills receivables with carrying value of approximately RMB180,459,000 (2011: RMB108,442,000) were secured for the Group's borrowings (Note 30).

22. CONTRACT WORK-IN-PROGRESS

Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Contract cost incurred plus recognised profit less recognised losses	**1,422,399**	1,229,006
Less: progress billings	**(1,080,211)**	(952,867)
Contract work-in-progress	**342,188**	276,139
Representing:		
Amount due from customers for contract work	**352,777**	283,991
Amount due to customers for contract work	**(10,589)**	(7,852)
	342,188	276,139

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

Group

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Contract revenue recognised as revenue in the year	**381,596**	332,530

23. RESTRICTED CASH

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Restricted cash denominated in RMB	**252,859**	295,099	**5,056**	5,945

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

24. INVENTORIES

Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Raw materials	**427,485**	436,971
Work in progress	**593,204**	637,010
Finished goods	**710,830**	668,241
Consumables	**39,234**	46,447
	1,770,753	1,788,669

For the year ended 31 December 2012, the cost of inventories recognised as the Group's expense and included in 'cost of sales' amounted to approximately RMB8,048,860,000 (2011: RMB7,734,529,000).

For the year ended 31 December 2012, write-back of inventories recognised in cost of sales in profit or loss amounted to approximately RMB1,083,000 (2011: write-down of RMB2,940,000).

As at 31 December 2012, RMB125,000,000 inventories were pledged for the Group's borrowings (2011: Nil)(Note 30).

25. CASH AND CASH EQUIVALENTS

	Group As at 31 December		Company As at 31 December	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Cash on hand	**2,121**	1,976	**75**	42
Cash at bank	**83,811**	743,679	**—**	436,166
Short-term bank deposits *(a)*	**2,542,952**	2,043,915	**1,137,653**	1,079,277
Cash and cash equivalents	**2,628,884**	2,789,570	**1,137,728**	1,515,485
Cash and cash equivalents denominated in:				
— RMB	**2,591,731**	2,660,895	**1,137,657**	1,438,710
— HKD	**71**	76,735	**71**	76,735
— USD	**14,137**	8,588	**—**	—
— UKP	**17,775**	39,532	**—**	40
— European dollar ("EUR")	**5,170**	3,820	**—**	—
	2,628,884	2,789,570	**1,137,728**	1,515,485

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

26. SHARE CAPITAL

	Number of Shares *In thousand*	Domestic shares *In thousand*	H shares *In thousand*	Total shares *In thousand*
Registered, issued and fully paid				
At 1 January 2011 (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
At 31 December 2012 (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.

27. RESERVES

Group

	Other Reserves						
	Capital reserve	Investment revaluation reserve	Statutory reserve fund	Currency translation	Total	Retained earnings	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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	(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
At 1 January 2012	(999,909)	2,068	170,313	522	(827,006)	2,067,267	1,240,261
Profit for the year	—	—	—	—	—	440,770	440,770
Dividend	—	—	—	—	—	(221,078)	(221,078)
Changes in fair value of available-for-sales financial assets, net of tax	—	105	—	—	105	—	105
Currency translation differences	—	—	—	606	606	—	606
Transfer to reserves	—	—	41,386	—	41,386	(41,386)	—
At 31 December 2012	(999,909)	2,173	211,699	1,128	(784,909)	2,245,573	1,460,664

27. RESERVES *(CONTINUED)*

Statement of changes in equity of the Company for the year ended 31 December 2012.

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 2011	(981,212)	122,520	(858,692)	395,024	(463,668)
Profit for the year *(Note 44)*	—	—	—	797,675	797,675
Dividends *(Note 34)*	—	—	—	(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
At 1 January 2012	(981,212)	170,313	(810,899)	850,135	39,236
Profit for the year *(Note 44)*	—	—	—	347,942	347,942
Dividends *(Note 34)*	—	—	—	(221,078)	(221,078)
Transfer to reserves	—	41,386	41,386	(41,386)	—
At 31 December 2012	(981,212)	211,699	(769,513)	935,613	166,100

27. 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 RMB41,386,000 was appropriated to the statutory surplus reserve fund from the net profit for the year ended 31 December 2012 (2011: RMB47,793,000).

28. TRADE AND OTHER PAYABLES

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Trade and bills payables *(a)*	2,135,355	1,867,930	—	—
Other taxes payables	124,501	107,219	65	27
Other payables	392,993	328,005	108,257	85,518
Interest payables	24,795	24,740	24,740	24,740
Accrued payroll and welfare	106,493	206,986	729	310
Advances from customers	839,213	746,459	—	—
	3,623,350	3,281,339	133,791	110,595

(a) As at 31 December 2012 and 2011, the ageing analysis of the trade and bills payables of the Group was as follows:

	As at 31 December	
	2012	2011
	RMB'000	RMB'000
Less than 30 days	820,050	659,123
31 days than 90 days	637,551	662,431
91 days to 1 year	548,366	473,773
1 year to 2 years	81,593	37,343
2 years to 3 years	17,853	13,461
Over 3 years	29,942	21,799
	2,135,355	1,867,930

(b) Refer to Note 41 for payables due to related parties.

29. 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 2011	59,799
Acquisition of subsidiaries	69
Charged to cost of sales *(Note 8)*	60,598
Utilised during the year	(67,850)
At 31 December 2011	52,616
Charged to cost of sales *(Note 8)*	61,977
Utilised during the year	(59,415)
At 31 December 2012	55,178

30. BORROWINGS

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current				
Borrowings *(1)*	**1,166,316**	1,438,538	**1,046,417**	1,185,277
Finance lease liabilities *(2)*	**2,742**	19,995	**—**	—
	1,169,058	1,458,533	**1,046,417**	1,185,277
Current				
Borrowings *(1)*	**1,468,634**	1,210,906	**25,896**	65,960
Finance lease liabilities *(2)*	**22,684**	252	**—**	—
	1,491,318	1,211,158	**25,896**	65,960
Total borrowings	**2,660,376**	2,669,691	**1,072,313**	1,251,237

30. BORROWINGS *(CONTINUED)*

(1) Borrowings

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Non-current				
Long-term bank borrowings — unsecured *(b)*	**166,738**	445,087	**51,739**	191,826
Corporate bonds *(d)*	**994,678**	993,451	**994,678**	993,451
	1,161,416	1,438,538	**1,046,417**	1,185,277
Other unsecured borrowings — due to non-controlling interests *(c)*	**4,900**	—	**—**	—
	4,900	—	**—**	—
Total non-current borrowings	**1,166,316**	1,438,538	**1,046,417**	1,185,277

30. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	2012	2011
	RMB'000	RMB'000	RMB'000	RMB'000
Current				
Bank borrowings				
— secured *(a)*	386,756	373,442	—	—
— unsecured *(b)*	1,051,077	792,118	25,896	65,960
	1,437,833	1,165,560	25,896	65,960
Other unsecured borrowings				
— due to independent third parties *(c)*	30,801	45,346	—	—
	30,801	45,346	—	—
Total current borrowings	1,468,634	1,210,906	25,896	65,960
	2,634,950	2,649,444	1,072,313	1,251,237

30. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(a) As at 31 December 2012, all these bank borrowings were secured by certain of the Group's property, plant and equipment, investment properties, trade receivables and inventories within net book value of RMB207,876,000, RMB33,320,000, RMB180,459,000 and RMB125,000,000 respectively (Notes 15, 16, 21 and 24).

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 15, 16, 14 and 21).

(b) As at 31 December 2012 and 2011, a portion of the bank borrowings of approximately RMB77,635,000 and RMB257,785,000 were guaranteed by the following parties respectively:

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Chongqing Sanxia Credit Guarantee Co., Ltd.	**—**	154,000	**—**	154,000
CQMEHG	**77,635**	103,785	**77,635**	103,785
	77,635	257,785	**77,635**	257,785

30. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

(c) As at 31 December 2012 and 2011, borrowings due to independent third parties (RMB30,802,000) and non-controlling interests were to support the Group's construction of certain production facilities.

(d) The Company issued RMB1 billion corporate bonds in August 2011, with annual interest rate of 6.59% and maturity of 5 years. As at 31 December 2012, the bond is measured at RMB994,678,000 at the amortised cost.

(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	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Total borrowings				
— Within 1 year	**1,468,634**	1,210,906	**25,896**	65,960
— Between 1 and 2 years	**94,900**	153,163	**—**	70,961
— Between 2 and 5 years	**1,071,416**	1,285,375	**1,046,417**	1,114,316
	2,634,950	2,649,444	**1,072,313**	1,251,237

30. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

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

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
RMB	**2,477,042**	2,468,937	**994,678**	1,147,452
UKP	**80,273**	76,722	**—**	—
USD	**77,635**	103,785	**77,635**	103,785
	2,634,950	2,649,444	**1,072,313**	1,251,237

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

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Bank borrowings	**5.90%**	5.92%	**3.05%**	5.04%
Corporate bonds	**6.59%**	6.59%	**6.59%**	6.59%

30. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

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

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

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Carrying amount				
Bank borrowings	**166,738**	445,087	**51,739**	191,826
Other loans	**4,900**	—	**—**	—
Corporate bonds	**994,678**	993,451	**994,678**	993,451
	1,166,316	1,438,538	**1,046,417**	1,185,277
Fair value				
Bank borrowings	**167,923**	447,127	**51,740**	192,614
Other loans	**4,943**	—	**—**	—
Corporate bonds	**1,012,113**	1,030,000	**1,012,113**	1,030,000
	1,184,979	1,477,127	**1,063,853**	1,222,614

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 3.05% to 8.55% (2011: 3.11% to 8.55%).

30. BORROWINGS *(CONTINUED)*

(1) Borrowings *(continued)*

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Fixed rate		
— Expiring within 1 year	**497,246**	152,982
— Expiring beyond 1 year	**60,000**	122,683
	557,246	275,665

30. 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	
	2012	2011
	RMB'000	*RMB'000*
Gross finance lease liabilities — minimum lease payments		
No later than 1 year	**24,002**	1,587
Later than 1 year and no later than 5 years	**3,066**	21,050
	27,068	22,637
Unrecognised future finance charges on finance leases	**(1,642)**	(2,390)
Present value of finance lease liabilities	**25,426**	20,247

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
— Within 1 year	**22,684**	252
— Later than 1 year and no later than 5 years	**2,742**	19,995
	25,426	20,247

31. DEFERRED INCOME

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Government grants and acquisition of a subsidiary *(a)*	**517,831**	551,393
Deferred income on sell and leaseback transaction *(b)*	**2,977**	4,607
	520,808	556,000

(a) Government grants

Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
At beginning of the year	**551,393**	513,017
Additions		
— Acquisition of a subsidiary *(Note 40)*	**—**	1,186
— government grants related to assets	**38,792**	77,234
Amortisation *(Note 8)*	**(72,354)**	(40,044)
At end of the year	**517,831**	551,393

31. 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 recognised 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 2012, the Group obtained grants from local government of approximately RMB38,792,000 (2011: RMB77,234,000), 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.

31. DEFERRED INCOME *(CONTINUED)*

(b) Deferred income on sale and leaseback transaction

Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
At beginning of the year	**4,607**	—
Additions/(deduction)	**(1,236)**	4,739
Amortisation *(Note 8)*	**(394)**	(132)
At end of the year	**2,977**	4,607

During the year ended 31 December 2012, the Group sold machineries with carrying amount of RMB4,036,000 at the consideration of RMB2,800,000 and then lease back all of them at the fair value of RMB2,866,000, which resulted in a financial lease. As a result, the loss of sales proceeds of RMB1,236,000 would be deferred over the lease term of 3 years.

During the year ended 31 December 2011, the Group sold machineries with 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.

32. 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	
	2012	2011
	RMB'000	*RMB'000*
Deferred tax assets		
— Deferred tax assets to be recovered after more than 12 months	**28,788**	22,002
— Deferred tax assets to be recovered within 12 months	**58,582**	61,480
	87,370	83,482
Deferred tax liabilities		
— Deferred tax liabilities to be recovered more than 12 months	**(17,428)**	(26,673)
— Deferred tax liabilities to be recovered within 12 months	**(7,098)**	(5,447)
	(24,526)	(32,120)
Deferred tax assets (net)	**62,844**	51,362

32. 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	
	2012	2011
	RMB'000	*RMB'000*
At beginning of the year	**51,362**	86,587
Recognised in profit or loss *(Note 11)*	**11,501**	(25,857)
Acquisition of a subsidiary *(Note 40)*	**—**	(9,885)
Recognised in other comprehensive income	**(19)**	517
At end of the year	**62,844**	51,362

32. 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 2011	70,793	9,443	14,560	21,102	115,898
Acquisition of subsidiaries	—	—	—	1,077	1,077
Recognised in profit or loss	(28,234)	(976)	(7,856)	3,573	(33,493)
At 31 December 2011	42,559	8,467	6,704	25,752	83,482
Recognised in profit or loss	1,033	1,112	(1,646)	3,389	3,888
At 31 December 2012	43,592	9,579	5,058	29,141	87,370

32. 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 2011	(28,428)	(883)	(29,311)
Recognised in equity	—	517	517
Acquisition of subsidiaries	(10,962)	—	(10,962)
Recognised in profit or loss	7,636	—	7,636
At 31 December 2011	(31,754)	(366)	(32,120)
Recognised in equity	—	(19)	(19)
Recognised in profit or loss	7,613	—	7,613
At 31 December 2012	(24,141)	(385)	(24,526)

32. 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 2012, the Group did not recognise deferred tax assets of approximately RMB24,589,000 (2011: RMB18,505,000) in respect of losses amounting to approximately RMB156,254,000 (2011:RMB121,665,000), as management believes it is more than likely that such tax losses would not be utilised before they expire. As at 31 December 2012 and 2011, the tax losses carried forward are as follows:

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Year of expiry of tax losses		
— 2012	**—**	29,883
— 2013	**29,619**	29,619
— 2014	**28,540**	28,540
— 2015	**10,672**	10,672
— 2016	**22,951**	22,951
— 2017	**64,472**	—
	156,254	121,665

33. 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	
	2012	2011
	RMB'000	*RMB'000*
Non-current		
Retirement benefit obligations	**19,510**	46,329
Termination benefit obligations	**24,531**	30,452
	44,041	76,781
Current		
Retirement benefit obligations	**2,135**	2,853
Termination benefit obligations	**8,282**	9,701
	10,417	12,554
	54,458	89,335

Group

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
Present value of defined benefits obligations	**55,874**	90,974
Unrecognised actuarial loss	**(1,416)**	(1,639)
Liability on the balance sheet	**54,458**	89,335
Less: current portion	**(10,417)**	(12,554)
	44,041	76,781

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

The movements of retirement and termination benefit obligations for the years ended 31 December 2012 and 2011 are as follows:

Group

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
At beginning of the year	**89,335**	145,866
For the year		
— Interest cost	**2,726**	2,725
— Actuarial loss	**2,964**	395
— Additions on termination benefit obligations	**827**	1,486
— Payments	**(12,784)**	(13,273)
— Deductions *(a)*	**(28,610)**	(47,864)
At end of the year	**54,458**	89,335

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 [2012] No. 226), part of the Group's obligations arising from certain defined benefit plan has been reduced effective from 1 September 2012, which resulted in a decrease of long-term employee benefit obligations of approximately RMB28,610,000. Such decrease was credited into profit or loss during the year ended 31 December 2012.

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

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

(b) Discount rates adopted (per annum):

	As at 31 December	
	2012	2011
Discount rates	**3.75%**	3.75%

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% - 9% (2011: 5% - 10%);

(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 2.8%/3.0%

34. DIVIDENDS

The dividends paid in 2012 and 2011 were RMB221,078,000 (RMB0.06 per share) and RMB294,771,000 (RMB0.08 per share) respectively. A dividend in respect of the year ended 31 December 2012 of RMB0.035 per share, amounting to a total dividend of RMB128,962,000, is to be proposed at the annual general meeting on 18 June 2013. These financial statements do not reflect this dividend payable.

	2012 ***RMB'000***	2011 *RMB'000*
Interim dividend	**—**	—
Proposed final dividend of RMB0.035 (2011: RMB0.06) per share	**128,962**	221,078
	128,962	221,078

The aggregate amounts of the dividends paid and proposed during 2012 and 2013 have been disclosed in the consolidated financial statements in accordance with the Hong Kong Companies Ordinance.

35. CASH GENERATED FROM OPERATIONS

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

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Profit before income tax	**552,203**	913,658
Adjustments for:		
— Depreciation of property, plant and equipment and investment properties	**167,820**	154,172
— Amortisation of intangible assets and lease prepayments	**26,396**	21,684
— Amortisation of deferred income	**(72,748)**	(40,176)
— Amortisation of non-current assets	**719**	5,404
— Write-down of inventories	**(1,083)**	2,940
— Provision for impairment of trade and other receivables	**16,706**	5,481
— Provision for impairment in property, plant and equipment	**1,749**	—
— Interest income	**(35,783)**	(34,187)
— Interest expense	**163,369**	131,324
— Share of profit from associates	**(963)**	(2,848)
— Net gain on disposal of property, plant and equipment *(Note 6)*	**(3,867)**	(19,247)
— Net gain on disposal of lease prepayments	**(1,865)**	—
— Net gain on investment and acquiring subsidiaries	**—**	(35,963)
— Gain on disposal of financial assets at fair value through profit and loss *(Note 6)*	**(29,082)**	(22,971)
	783,571	1,079,271

35. CASH GENERATED FROM OPERATIONS *(CONTINUED)*

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

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Changes in working capital:		
— Inventories	**18,999**	(118,618)
— Trade and other receivables	**(664,087)**	(513,364)
— Contract work-in-progress	**(66,049)**	(142,403)
— Restricted cash	**42,240**	177,917
— Retirement and termination benefit obligations	**(34,877)**	(56,531)
— Trade and other payables	**343,285**	(16,825)
	(360,489)	(669,824)
Cash generated from operations	**423,081**	409,447

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	
	2012	2011
	RMB'000	*RMB'000*
Net book amount	**49,292**	5,521
Gain on disposal of property, plant and equipment	**3,867**	19,247
Proceeds from disposal of property, plant and equipment	**53,159**	24,768

36. CONTINGENCIES

As at 31 December 2012 and 2011, the Group and the Company had no material contingencies.

37. NON-CONTROLLING INTERESTS

As at 31 December 2012, the Company invested RMB306,000,000 to establish a subsidiary known as Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd. ("the Finance company") in Chongqing with CQMEHG and China Industrial International Trust Limited. The Company owns 51% equity interests of the Finance company. The non-controlling interests injected cash of RMB294,000,000 into the Finance company as capital. As at 31 December 2012, the approval reply of the Finance company has not been approved and issued by China Banking Regulatory Commission (the "CBRC").

The Company received the "Approval Reply of CBRC concerning the Commencement of Business of Chongqing Machinery and Electric Holding (Group) Finance Co., Ltd." (YinJian Fu [2013] No. 19) issued by the CBRC on 9 January 2013. As obtained its business license from the Chongqing Administration Bureau of Industry, the Finance company was officially incorporated on 16 January 2013.

38. 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	
	2012	2011
	RMB'000	*RMB'000*
Property, plant and equipment	**135,898**	145,919
Intangible assets	**13,402**	1,493
	149,300	147,412

38. COMMITMENTS *(CONTINUED)*

(b) Operating lease commitments

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

	As at 31 December	
	2012	2011
	RMB'000	*RMB'000*
No later than 1 year	**26,512**	17,028
Later than 1 year and no later than 5 years	**30,657**	26,185
Later than 5 years	**27,200**	42,304
	84,369	85,517

(c) Investment commitments

The Group intends to contribute RMB90,000,000 to establish a joint venture owning 45% shares, which is proposed to be engaged in microlending but excluding taking public deposits, in Chongqing with other companies, i.e. CQMEHG, Chongqing Puhui Electromechanical Industrial, Chongqing Crane Works, Chongqing Jian'an Instruments. As at 31 December 2012, the establishment of this joint venture has not been approved by local government.

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

For the year ended 31 December 2011, the Company acquired additional share capital of its subsidiaries. The Group recognised a decrease in non-controlling interest of RMB29,192,000 and a decrease in equity attributable to equity holders of the Company of RMB33,420,000. Details of these changes in ownership interest in subsidiaries without change of control were disclosed in Note 38 of the Group's annual financial statements for the year ended 31 December 2011.

40. BUSINESS COMBINATIONS

For the year ended 31 December 2012, there was no business combination.

For the year ended 31 December 2011, one of the Group's subsidiaries, Chongqing General Industry (Group) Co., Ltd., acquired the entire share capital of Chongtong 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. Chongtong 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 this business combination were disclosed in Note 39 of the Group's annual financial statements for the year ended 31 December 2011.

41. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence on making financial and operating decisions. Parties are also considered to be related if they are subject to common control. 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.

41. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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 2012 and 2011 and balances arising from related party transactions as at 31 December 2012 and 2011.

(a) Significant related party transactions

For the years ended 31 December 2012 and 2011, the Group had the following significant transactions with related parties.

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Transactions with the Parent Company, fellow subsidiaries and associates		
Revenue		
— Revenue from sales of goods	**188,941**	137,242
— Revenue from provision of services	**327**	286
Expenses		
— Purchase of materials	**329,836**	268,577
— Services	**3,779**	209
— Other expenses	**27,536**	16,103

41. RELATED PARTY TRANSACTIONS *(CONTINUED)*

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

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Transactions with jointly controlled entities *(i)*		
Revenue		
— Revenue from sales of goods	**303,842**	377,641
Transactions with associates		
Revenue		
— Revenue from sales of goods	**16,604**	33,686
Expenses		
— Purchase of materials	**28,611**	28,377
Transactions with shareholders of jointly controlled entities		
Revenue		
— Revenue from sales of goods	**50,855**	54,889
Expenses		
— Purchase of materials	**4,742**	8,896
— Management fees and technical fees	**4,375**	3,518

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

41. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and other receivables				
Trade receivables due from				
— Fellow subsidiaries and associates	**82,212**	24,285	**—**	—
— Jointly controlled entities	**22,922**	3,574	**—**	—
— Associates	**—**	598	**—**	—
— Shareholders of jointly controlled entities	**2,994**	3,988	**—**	—
Other receivables due from				
— CQMEHG	**282**	177	**—**	—
— Fellow subsidiaries	**1,508**	2,411	**835,851**	507,637
— Jointly controlled entities	**—**	106	**278**	211
— Associates	**3,325**	5,534	**—**	1,937
Prepayments due from				
— CQMEHG	**222**	—	**—**	—
— Fellow subsidiaries	**21,322**	30,946	**—**	—
	134,787	71,619	**836,129**	509,785
Less: long-term other receivables	**—**	—	**(581,000)**	(363,958)
Current portion	**134,787**	71,619	**255,129**	145,827

41. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties

	Group		Company	
	As at 31 December		As at 31 December	
	2012	2011	**2012**	2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Trade and other payables				
Trade payables due to				
— Fellow subsidiaries and associates	**24,398**	38,337	**—**	—
— Associates	**—**	2,415	**—**	—
— Shareholders of jointly controlled entities	**675**	—	**—**	—
Other payables due to				
— CQMEHG	**9,314**	9,331	**—**	—
— Associates	**31,644**	31,036	**31,644**	—
— Fellow subsidiaries	**9,987**	28,180	**65,437**	37,441
— Shareholders of jointly controlled entities	**—**	825	**—**	—
	76,018	110,124	**97,081**	37,441

41. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) Key management compensation

	Year ended 31 December	
	2012	2011
	RMB'000	*RMB'000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,849**	1,665
Contributions to pension plans	**683**	492
Discretionary bonuses	**4,254**	2,070
	6,786	4,227

(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.

42. 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	Indirectly held	Principal activities
Chongqing CAFF Automotive Braking & Steering System Co. Ltd (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 Transmission Co.,Ltd (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 Qi-ChiForging Co.,Ltd (綦江綦齒鍛造有限公司)	PRC / 7 November 2003	Limited liability company	21,000	–	100%	Manufacturing of forge products
Chongqing General Industry (Group) Co., Ltd. (重慶通用工業(集團)有限責任公司) *(i)*	PRC / 6 April 1997	Limited liability company	756,986	100%	–	Manufacturing of general machinery

42. 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 Pump Industry Co., Ltd. (重慶水泵廠有限責任公司) *(i)*	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) *(i)*	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) *(i)*	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
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
ChongTong Group Chenfei (Da'an) Wind-Power Equipment Co., Ltd (Former known as Da'an Chenfei Wind-Power Equipment Co., Ltd.) (重通集團成飛(大安)風電設備有限公司)	PRC / 17 September 2009	Limited liability company	152,656	–	91.18%	Manufacturing of wind-power equipment
Xilinhaote Chenfei Wind-Power Equipment Co., Ltd (錫林浩特晨飛風電設備有限公司)	PRC / 16 November 2011	Limited liability company	5,000		91.18%	Manufacturing of wind-power equipment

42. 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
Tong Kang Water Affairs Co., Ltd (潼康水務有限公司) *(ii)*	PRC / 16 July 2012	Limited liability company	1,000		100%	Sewerage treatment and Environmental engineering construction
Chongqing Machine Tools (Group) Co., Ltd. (重慶機床(集團)有限責任公司)	PRC / 31 December 2005	Limited liability company	329,541	100%	—	Manufacturing of gear-cutting machines
Chongqing No. 2 Machine Tools Factory Co., Ltd. (重慶第二機床廠有限責任公司)	PRC / 12 June 2007	Limited liability company	80,000	—	100%	Manufacturing of machinery tools
Chongqing Shenjian Automotive Drive Part Co., Ltd. (重慶神箭汽車傳動件有限責任公司)	PRC / 19 July 1999	Limited liability company	23,011	—	100%	Manufacturing of transmission systems for vehicles
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

42. 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 Shengpu Materials Co., Ltd. (重慶盛普物資有限公司)	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
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)	PRC / 16 April 2002	Limited liability company	61,335	100%	—	Metallurgical production

42. 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 Wire & Cable Co., Ltd. (重慶鴿牌電線電纜有限公司)	PRC / 20 January 2001	Limited liability company	52,000	74%	—	Manufacture electric wires and cables
Chongqing Pigeon Electric Materials Co., Ltd. (重慶鴿牌電工材料有限公司) *(iii)*	PRC / 19 October 2006	Limited liability company	6,800	—	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) *(iv)*	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)	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

42. 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
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)	PRC/ 15 December 2011	Limited liability company	40,000	–	100%	Design, manufacture and selling screw
Precision Technologies Group Investment Development Company Limited (精密技術集團投資發展有限公司) *(v)*	Hong Kong/ 27 April 2012	Limited liability company	HKD10*		100%	Import and export materials and equipments

(i) In 2012, Chongqing General Industry (Group) Co., Ltd. transferred all its equity in Chongqing Pump Industry Co., Ltd , Chongqing Jiangbei Machinery Co., Ltd. , Chongqing Gas Compressor Factory Co., Ltd to the Company with no consideration. As a result, the companies mentioned became the subsidiaries directly held by the Company.

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

(a) Subsidiaries *(continued)*

(ii) On 16 July 2012, Chongqing General Industry (Group) Co., Ltd. established Tong Kang Water Affairs Co., Ltd (Tong Kang), Since Chongqing General Industry (Group) Co., Ltd is a wholly owned subsidiary of the Company, Tong Kang is a subsidiary indirectly held by the Company.

(iii) The Group has 54.69% interests in Chongqing Pigeon Electric Wire & Cable Co., Ltd. which owns 50% interests in Chongqing Pigeon Electric Materials Co., Ltd. Chongqing Pigeon Electric Materials Co., Ltd. is considered as the Group's subsidiary because the Group has majority voting rights on the Board of Directors and its strategic, operating, investing and financing activities are controlled by the Group.

(iv) The 51% equity interests of Guizhou Changtong Pigeon Electrical Porcelain Co., Ltd. is owned by Chongqing Pigeon Electric Wire & Cable Co., Ltd. Guizhou Changtong Pigeon Electrical Porcelain Co., Ltd. is considered as the Group's subsidiary because the Group has majority voting rights on the Board of Directors and its strategic, operating, investing and financing activities are controlled by the Group.

(v) On 27 April 2012, the Precision Technologies Group Limited ("PTG") established Precision Technologies Group Investment Development Company Limited ("PTGHK"). Since PTG is a wholly owned subsidiary of the Company, PTGHK is a subsidiary indirectly held by the Company.

* The issued capital of Holroyd Precision Limited is UKP99 (equivalent to approximately RMB1,011).

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

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

The issued capital of Milnrow Investments Limited is UKP98 (equivalent to approximately RMB1,001).

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

(a) Subsidiaries *(continued)*

(v) *(continued)*

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

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

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

The issued capital of Precision Technologies Group Investment Development Company Limited is HKD10,000 (equivalent to approximately RMB8,000).

(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.

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

(c) Associates

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

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

42. 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	Indirectly held	Principal activities
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.	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.

43. ULTIMATE HOLDING COMPANY

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

44. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

For the year ended 31 December 2012, the profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of approximately RMB347,942,000 (2011: RMB797,675,000).

CQME