Chongqing Machinery & Electric Co., Ltd.*
重慶機電股份有限公司

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

(Stock Code: 02722)

ANNOUNCEMENT OF GROUP RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately RMB10,546,001,000
- Gross profit increased by approximately 15.9%
- Profit attributable to shareholders increased by approximately 7.2% to approximately RMB737,277,000
- Earnings per share achieved approximately RMB0.20

ANNUAL RESULTS

The board of directors (the "Board") of Chongqing Machinery & Electric Co., Ltd.* (the "Company") is pleased to announce the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2011 and the comparative figures for the corresponding period of 2010 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2011

	Note	Year ended 31 December 2011 RMB'000	2010 RMB'000
Revenue	3	**10,546,001**	8,883,202
Cost of sales		**(8,586,096)**	(7,191,584)
Gross profit		**1,959,905**	1,691,618
Distribution costs		**(304,379)**	(300,931)
Administrative expenses		**(800,342)**	(743,581)
Other gains, net		**116,255**	49,026
Other income	4	**36,508**	52,632
Operating profit		**1,007,947**	748,764
Finance income		**34,187**	29,617
Finance costs		**(131,324)**	(79,124)
Finance costs, net	5	**(97,137)**	(49,507)
Share of profit of associates		**2,848**	65,801
Profit before income tax		**913,658**	765,058
Income tax expense	6	**(168,463)**	(66,298)
Profit for the year		**745,195**	698,760
Other comprehensive income:			
Changes in fair value of available-for-sale financial assets		**(788)**	(2,623)
Income tax relating to changes in fair value of available-for-sale financial assets		**517**	579
Currency translation differences		**528**	(6)
Other comprehensive income for the year, net of tax		**257**	(2,050)
Total comprehensive income for the year		**745,452**	696,710

Profit attributable to:			
Equity holders of the Company		**737,277**	687,732
Non-controlling interests		**7,918**	11,028
		745,195	698,760
Total comprehensive income attributable to:			
Equity holders of the Company		**737,534**	685,682
Non-controlling interests		**7,918**	11,028
		745,452	696,710
Earnings per share for profit attributable to the equity holders of the Company during the year *(expressed in RMB per share)*			
— Basic and diluted	7	**0.20**	0.19
Dividends proposed after the balance sheet date to all shareholders	8	**221,078**	294,771

BALANCE SHEET
As at 31 December 2011

		Group	
		As at 31 December	
		2011	2010
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**2,194,838**	1,812,713
Investment properties		**36,007**	21,718
Lease prepayments		**301,674**	270,516
Intangible assets		**268,520**	274,467
Investments in associates		**397,655**	397,943
Deferred income tax assets		**83,482**	115,898
Available-for-sale financial assets		**3,529**	4,317
Other non-current assets		**14,260**	10,212
		3,299,965	2,907,784
Current assets			
Inventories		**1,788,669**	1,612,628
Trade and other receivables	9	**3,302,678**	2,901,478
Amount due from customers for contract work		**283,991**	158,521
Restricted cash		**295,099**	473,016
Cash and cash equivalents		**2,789,570**	2,118,810
		8,460,007	7,264,453
Total assets		**11,759,972**	10,172,237
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**3,684,640**	3,684,640
Reserves		**(827,006)**	(847,198)
Retained earnings			
— Proposed final dividend		**221,078**	294,771
— Others		**1,846,189**	1,377,783
		4,924,901	4,509,996
Non-controlling interests		**41,958**	64,212
Total equity		**4,966,859**	4,574,208

LIABILITIES			
Non-current liabilities			
Borrowings		**1,458,533**	481,359
Deferred income		**556,000**	513,017
Deferred income tax liabilities		**32,120**	29,311
Long-term employee benefit obligations		**76,781**	131,788
		2,123,434	1,155,475
Current liabilities			
Trade and other payables	10	**3,281,339**	3,226,915
Dividends payable		**40,184**	—
Amount due to customers for contract work		**7,852**	24,785
Current income tax liabilities		**63,976**	55,385
Borrowings		**1,211,158**	1,061,592
Current portion of long-term employee benefit obligations		**12,554**	14,078
Provisions for warranty		**52,616**	59,799
		4,669,679	4,442,554
Total liabilities		**6,793,113**	5,598,029
Total equity and liabilities		**11,759,972**	10,172,237
Net current assets		**3,790,328**	2,821,899
Total assets less current liabilities		**7,090,293**	5,729,683

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2011

	Attributable to equity holders of the Company					
	Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2010	3,684,640	(882,299)	1,243,051	4,045,392	73,880	4,119,272
Comprehensive income						
Profit for the year	—	—	687,732	687,732	11,028	698,760
Other comprehensive income						
Changes in fair value of available-for-sales financial assets, net of tax	—	(2,044)	—	(2,044)	—	(2,044)
Currency translation differences	—	(6)	—	(6)	—	(6)
Total other comprehensive income	—	(2,050)	—	(2,050)	—	(2,050)
Total comprehensive income	—	(2,050)	687,732	685,682	11,028	696,710
Total contributions by and distributions to equity holders of the Company recognised directly in equity						
Dividends relating to 2009	—	—	(221,078)	(221,078)	—	(221,078)
Dividends to non-controlling interests	—	—	—	—	(25,596)	(25,596)
Capital contribution of cash from non-controlling interests	—	—	—	—	4,900	4,900
Total contributions by and distributions to equity holders of the Company	—	—	(221,078)	(221,078)	(20,696)	(241,774)
Transfer to reserves	—	37,151	(37,151)	—	—	—
Total transactions with equity holders	—	37,151	(258,229)	(221,078)	(20,696)	(241,774)
Balance at 31 December 2010	3,684,640	(847,198)	1,672,554	4,509,996	64,212	4,574,208
Balance at 1 January 2011	3,684,640	(847,198)	1,672,554	4,509,996	64,212	4,574,208
Comprehensive income						
Profit for the year	—	—	737,277	737,277	7,918	745,195
Other comprehensive income						
Changes in fair value of available-for-sale financial assets, net of tax	—	(271)	—	(271)	—	(271)
Currency translation differences	—	528	—	528	—	528
Total other comprehensive income	—	257	—	257	—	257
Total comprehensive income	—	257	737,277	737,534	7,918	745,452

Total contributions by and distributions to equity holders of the Company recognised directly in equity						
Dividends relating to 2010	—	—	(294,771)	(294,771)	—	(294,771)
Dividends to non-controlling interests	—	—	—	—	(15,418)	(15,418)
Total contributions by and distributions to equity holders of the Company	—	—	(294,771)	(294,771)	(15,418)	(310,189)
Changes in ownership interests in subsidiaries without change of control	—	(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

NOTES:

1. General information

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

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

The H shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited on 13 June 2008.

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 20 March 2012.

2. Basis of preparation

The consolidated financial statements of the Company 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.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2011.

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

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

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

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

(b) New standards, amendments and interpretations have been issued but are not effective for the financial year beginning 1 January 2011 and the Group has not been early adopted

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

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

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

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

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

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

3. Revenue and Segment information

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

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

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

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

The segment information provided to the operating management committee for the reportable segments for the year ended 31 December 2011 is as follows:

	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wires and cables	General machinery	Machinery tools	High-voltage transformers	All other segments	Total Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	1,898,383	1,172,147	400,876	2,352,305	1,365,169	2,194,927	–	1,167,363	10,551,170
Inter-segment revenue	–	–	–	(1,164)	–	(4,005)	–	–	(5,169)
Revenue from external customers	1,898,383	1,172,147	400,876	2,351,141	1,365,169	2,190,922	–	1,167,363	10,546,001
Operating profit	527,180	105,006	53,972	80,316	113,043	124,753	–	3,677	1,007,947
Finance income	7,138	206	2,579	4,897	4,144	5,577	–	9,646	34,187
Finance costs	958	(6,117)	(4,652)	(31,775)	(10,618)	(22,492)	–	(56,628)	(131,324)
Share of profit from associates	–	(189)	–	–	(4,602)	–	10,335	(2,696)	2,848
Profit before income tax									913,658
Income tax expense	(89,233)	(14,628)	(5,574)	(10,257)	(24,168)	(23,107)	–	(1,496)	(168,463)
Profit for the year									745,195

Depreciation on property, plant and equipment and investment properties	**10,559**	**28,891**	**8,416**	**16,939**	**34,757**	**36,883**	**—**	**17,727**	**154,172**
Amortisation of lease prepayments and intangible assets	**3,041**	**3,207**	**944**	**1,305**	**6,089**	**6,699**	**—**	**399**	**21,684**
Write down/(write-back) of inventories	**86**	**(491)**	**—**	**2,137**	**(2,802)**	**4,817**	**—**	**(807)**	**2,940**
(Reversal of)/provision for impairment on trade and other receivables	**(315)**	**(136)**	**1,103**	**1,706**	**(6,658)**	**9,697**	**—**	**84**	**5,481**
Total assets	**984,520**	**1,325,898**	**802,320**	**970,819**	**2,721,436**	**2,448,780**	**161,215**	**2,344,984**	**11,759,972**
Total assets include:									
Investments in associates	**—**	**1,070**	**—**	**—**	**74,902**	**—**	**161,215**	**160,468**	**397,655**
Additions to non-current assets (other than financial instruments and deferred tax assets)	**21,772**	**47,591**	**18,633**	**11,971**	**132,122**	**231,476**	**—**	**59,099**	**522,664**

The segment information for the year ended 31 December 2010 is as follows:

	Engines	**Gear boxes**	**Hydroelectric generation equipment**	**Electrical wires and cables**	**General machinery**	**Machinery tools**	**High-voltage transformers**	**All other segments**	**Total Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	1,417,886	920,653	313,391	2,123,018	1,229,297	1,762,103	—	1,122,673	8,889,021
Inter-segment revenue	—	—	—	(2,584)	(30)	(3,205)	—	—	(5,819)
Revenue from external customers	1,417,886	920,653	313,391	2,120,434	1,229,267	1,758,898	—	1,122,673	8,883,202
Operating profit	370,193	126,845	46,846	41,219	75,070	91,290	—	(2,699)	748,764
Finance income	4,468	540	3,068	3,787	4,088	1,667	—	11,999	29,617
Finance costs	751	(5,803)	(4,160)	(21,949)	(11,242)	(15,538)	—	(21,183)	(79,124)
Share of profit from associates	—	—	—	—	8,291	—	38,549	18,961	65,801
Profit before income tax									765,058
Income tax expense	(52,958)	(17,934)	(7,524)	(2,853)	9,053	4	—	5,914	(66,298)
Profit for the year									698,760

Depreciation on property, plant and equipment and investment properties	10,418	25,269	3,385	15,163	27,579	31,990	—	21,305	135,109
Amortisation of lease prepayments and intangible assets	3,063	3,207	894	1,341	4,411	4,449	—	444	17,809
Write down/(write-back) of inventories	3,111	389	—	1,201	(455)	4,334	—	1,478	10,058
(Reversal of)/provision for impairment on trade and other receivables	(722)	2,188	1,561	1,236	10,873	10,528	—	710	26,374
Impairment loss of property, plant and equipment	512	—	—	—	116	—	—	—	628
Total assets	967,157	1,067,857	724,642	1,076,233	2,319,720	1,921,871	185,650	1,909,107	10,172,237
Total assets include:									
Investments in associates	—	—	—	—	79,769	—	185,650	132,524	397,943
Additions to non-current assets (other than financial instruments and deferred tax assets)	15,873	8,911	20,346	35,318	97,227	301,955	—	26,732	506,362

Except Holroyd Precision Limited, Precision Components Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited, PTG Deutschland GmbH("PTG six entities") and Precision Technologies Group (PTG) Limited, the other entities of the Group are domiciled in the PRC. The result of the Group's revenue from external customers in the PRC for the year ended 31 December 2011 is approximately RMB10,203,233,000 (for the year ended 31 December 2010: RMB8,659,295,000), and the total of its revenue from external customers from other countries is approximately RMB342,768,000 (for the year ended 31 December 2010: RMB223,907,000).

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

4. Other income

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

5. Finance costs, net

	Year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Finance income		
— Interest income on short-term bank deposits	**34,187**	29,617
Finance cost:		
— Bank borrowings wholly repayable within five years	**(108,104)**	(77,721)
— Corporate bond	**(25,191)**	—
— Finance lease liabilities	**(504)**	(484)
Less: amounts capitalized on qualifying assets	**1,452**	2,445
	(132,347)	(75,760)
Net exchange gain/(loss)	**1,023**	(3,364)
Net finance costs	**(97,137)**	(49,507)

6. Income tax expense

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

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

7. Earnings per share

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

8. Dividends

	For the year ended 31 December	
	2011	2010
	RMB'000	*RMB'000*
Dividends proposed after the balance sheet date:		
— final dividend for 2011	**221,078**	294,771

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

9. Trade and other receivables

	Group As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
Trade and bills receivables *(a)*	**3,197,968**	2,701,706
Less: provision for impairment of trade receivables	**(247,554)**	(249,038)
Trade and bills receivables - net	**2,950,414**	2,452,668
Deposits paid	**76,918**	59,821
Less: provision for impairment of deposits paid	**(10,341)**	(10,341)
Deposits paid - net	**66,577**	49,480
Prepayments	**198,087**	296,194
Staff advances	**33,873**	36,118
Others	**73,157**	85,516
Less: provision for impairment of receivables other than trade receivables and deposits paid	**(19,430)**	(18,498)
	3,302,678	2,901,478
Current portion	**3,302,678**	2,901,478

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

Group

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

As at 31 December 2011 and 2010, full provision has been made by the Group for trade receivables aged over 3 years.

As at 31 December 2011, trade and bills receivables of approximately RMB1,238,317,000 (2010: RMB953,661,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The analysis of ageing, which were counted from the day of recognition of trade receivables, is as follows:

Group

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
91 days to 1 year	**1,008,848**	747,868
1 year to 2 years	**202,726**	163,719
2 years to 3 years	**26,743**	42,074
	1,238,317	953,661

As at 31 December 2011, trade receivables of RMB251,667,000(2010: RMB252,874,000) were individually impaired and provided for. The amount of the provision was RMB247,554,000 as at 31 December 2011 (2010: RMB249,038,000). The individually impaired receivables mainly relate to certain customers, which are in difficult financial situations. It was assessed that a portion of the receivables is expected to be recovered based on the past collection history under similar circumstances. The ageing of these receivables is as follows:

Group

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
91 days to 1 year	**14,442**	22,701
1 year to 2 years	**31,893**	23,673
2 years to 3 years	**35,820**	49,383
Over 3 years	**169,512**	157,117
	251,667	252,874

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

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

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

	As at 31 December	
	2011	2010
	RMB'000	*RMB'000*
RMB	**3,197,294**	2,612,049
UK pound ("UKP")	**70,583**	127,306
USD	**22,900**	94,250
Other currencies	**11,901**	67,873
	3,302,678	2,901,478

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

Group

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

Deposits paid	**Year ended 31 December**	
	2011	2010
	RMB'000	*RMB'000*
At beginning of the year	**10,341**	10,031
Provision for impairment of receivables	**—**	310
At end of the year	**10,341**	10,341

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

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

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

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

10. Trade and other payables

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

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

Group

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

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

CHAIRMAN'S STATEMENT

On behalf of the Board of the Company, I am pleased to present the audited consolidated financial results of the Group for the year ended 31 December 2011 to all shareholders.

RESULTS REVIEW

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

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

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

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

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

BUSINESS REVIEW AND OUTLOOK

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

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

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

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

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

On 19 January 2011, Chongqing CAFF Automotive Braking & Steering Systems Co. Ltd. ("Chongqing CAFF"), a wholly owned subsidiary of the Company, entered into a joint venture agreement with Knorr-Bremse Asia Pacific (Holding) Ltd ("Knorr-Bremse") a company affiliated to the Germany-based Knorr-Bremse Group, pursuant to which a joint venture company, Knorr-Bremse CAFF Systems for Commercial Vehicles Chongqing Ltd., (克諾爾卡福商用車系統(重慶)有限公司) was incorporated on 23 February 2011 with a registered capital of EUR14,609,000. The joint venture company, which is owned as to 34% and 66% by Chongqing CAFF and Knorr-Bremse respectively, is engaged principally in the assembly, parts manufacturing, sale, application engineering and after-sale service of valve products (brakes, chassis, gear box and air treatment valves), air dryers and clutch servo system for the commercial vehicles (for details, please refer to the announcement of the Company dated 18 January 2011). This joint venture, which has commenced production, will help drive the upgrading of the Group's technology and products in commercial vehicle parts and components business to achieve sustainable development.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On 18 January 2011, the Board of the Company approved the construction of a large precise CNC machine tool production base and the environmental-friendly relocation in Chongqing Nanan District. The estimated investment for Phase I is approximately RMB942.0 million (please refer to the Company's announcement dated 18 January 2011 for details). This program was not completed as scheduled due to reasons related to the administrative examination and approval procedure with regard to planning, fire protection, security, environment protection and afforestation. The main part of the project is expected to be finished in 2012.

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

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

DEVELOPMENT STRATEGY

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

I. Development Strategy

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

II. Work Priorities

1. Promote the project construction

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

2. Press on with efforts for financing and funding

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

3. Promote technology innovation

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

4. Press ahead with market expansion

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

5. Enhance synergy within the Group

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

6. Promote human resources development

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

7. Enhance scientific management and control

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

MANAGEMENT DISCUSSION AND ANALYSIS

Results Overview

Operation Analysis

Commercial vehicle parts and components

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

During the Period, gross profit for the commercial vehicle parts and components segment was approximately RMB962.7 million, an increase of approximately RMB115.4 million or approximately 13.6%, as compared with approximately RMB847.3 million for the year ended 31 December 2010. Gross profit margin decreased by 1.2 percentage points to 27.4% for 2011 from 28.6% for 2010, primarily due to the significant rebound of raw material prices and the increase of labour cost, which led to the rise of unit cost.

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

Power equipment

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

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

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

General machinery

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

During the Period, gross profit for the general machinery segment was approximately RMB345.8 million, an increase of approximately RMB23.8 million or approximately 7.4% as compared with approximately 322.0 million for the year ended 31 December 2010. Gross profit margin decreased slightly to 25.3% for 2011 from 26.2% for 2010. The decrease in the gross profit margin of the segment was mainly due to the increase in unit cost as a result of the rebound of raw material prices.

Overall, the result for the general machinery segment for the year ended 31 December 2011 was approximately RMB113.0 million, an increase of approximately RMB37.9 million or approximately 50.5%, as compared with approximately RMB75.1 million for 2010.

CNC machine tools

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

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

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

Sales

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

Gross Profit

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

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

Other Income and Gains

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

Selling and Administrative Expenses

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

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

Operating Profit

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

Finance Costs

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

Share of Profits of Associated Companies

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

Income Tax Expenses

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

Profit Attributable to Shareholders

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

Distributable Reserves

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

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

Dividends

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

Withholding of Enterprise Income Tax for Nonresident Corporate Shareholders

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

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

If any resident enterprise (as defined in the EIT Law) whose name appears on the H Share Register of Members which is duly incorporated in the PRC or under the laws of a foreign country (or a territory) but with a PRC-based de facto management body does not wish to have the 10% enterprise income tax to be withheld by the Company, it should lodge all transfers with and submit a legal opinion issued by a PRC certified lawyer (with affixation of common seal of the law firm thereto) that establishes its resident enterprise status to the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 18 May 2012. Any natural person investor whose H shares are registered in the name of any such non-individual shareholders and who does not wish to have any enterprise income tax to be withheld by the Company, may consider transferring the legal title of the relevant H shares into his or her own name and lodging all relevant transfer instruments accompanied by the H share certificates with the Company's H Share Registrars for registration no later than 4:30 p.m. on 18 May 2012. Shareholders are recommended to consult their tax advisors regarding tax issues in respect of the ownership and disposal of H shares in the PRC and Hong Kong and other tax effects.

Closure of Register of Members

The register of members of the Company will be closed from Saturday, 19 May 2012 to Monday, 18 June 2012 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and attending and voting at the annual general meeting, all transfers accompanied by the relevant shares certificates must be lodged with the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 18 May 2012.

Cash Flow

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

During the Period, the Group had a net cash inflow from operating activities of approximately RMB166.7 million (31 December 2010: RMB55.8 million), a net cash outflow from investing activities of approximately RMB295.9 million (31 December 2010: RMB186.4 million), and a net cash inflow from financing activities of approximately RMB804.7 million (31 December 2010: RMB65.4 million). Directors believe that the Group is financially sound and has sufficient resources to meet its operating capital needs and fund any predictable capital expenditure.

Capital Structure

Since 13 June 2008, the shares of the Company have been listed on the Stock Exchange, there was no change in the capital structure of the Company. The capital of the Company comprises only ordinary shares.

Assets and Liabilities

As at 31 December 2011, the Group had total assets of approximately RMB11,760.0 million, representing an increase of approximately RMB1,587.8 million as compared with approximately RMB10,172.2 million as at 31 December 2010. Total current assets amounted to approximately RMB8,460.0 million, increased by approximately RMB1,195.5 million as compared with approximately RMB7,264.5 million as at 31 December 2010, accounting for approximately 71.9% of total assets. However, total non-current assets was approximately RMB3,300.0 million, representing an increase of approximately RMB392.2 million as compared with approximately RMB2,907.8 million as at 31 December 2010, and accounting for approximately 28.1% of total assets.

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

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

Current Ratio

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

Gearing Ratio

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

Indebtedness

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

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

Pledges of Assets

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

Contingent Liabilities

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

Significant Events

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

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

   (1) Qijiang Gear Transmission, Qi-Chi Automotive Part, Qi-Chi Forging and Xinxin Welfare, the wholly-owned subsidiaries of the Company, transferred all the interests in 29,492.37 m^2 of 28 properties to Qijiang Gear Factory, a wholly-owned subsidiary of the Parent Company, at the consideration of RMB25,298,286.21.

   (2) Qijiang Gear Transmission, Qi-Chi Automotive Part and Qi-Chi Forging, the wholly-owned subsidiaries of the Company, transferred all the interests in 16,945.3 m^2 of 11 properties to Qijiang Gear Factory, a wholly-owned subsidiary of the Parent Company, at the consideration of RMB21,042,807.

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

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

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

5. On 6 September 2011, the Board resolved to approve the acquisition of 100% equity interests in Da'an Chenfei Wind Power Equipment Co., Ltd. by General Group at the consideration of RMB75 million. Details are set out in the announcement made by the Board on the websites of the Hong Kong Stock Exchange and the Company on 8 September 2011.

6. On 6 September 2011, the Board resolved to approve the acquisition of 1.65% equity interests held by the Parent Company in General Group by the Company at the consideration of RMB22.30 million. Details are set out in the announcement made by the Board on the websites of the Hong Kong Stock Exchange and the Company on 3 November 2011.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

14. As for mergers and acquisitions, the Group particularly sought to merge and acquire enterprises with potentials and advanced technology which could complement the Group's core industry chain and stay in line with the long term development of the Group. The Group seized opportunity for development and integration, and achieved the following goals during the Period:

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

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

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

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

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

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

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

Capital Expenditure

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

Capital Commitment

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

Risk of Foreign Exchange

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

Employees

As at 31 December 2011, the Group had a total of 18,082 employees (31 December 2010: 17,910 employees). The Group will continue the upgrade of its technical talent base, foster and recruit technical and management personnel possessed with extensive professional experiences, establish differentiated distribution system that links with the remunerations and performance reviews of our management and employees, improve training on safety so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

USE OF PROCEEDS

After deducting related expenses, the net proceeds from the Company's Global Offering on the Stock Exchange on 13 June 2008 amounted to approximately RMB1,008.8 million. From 2008 to 29 February 2012, approximately RMB1,008.77 million of net proceeds raised from the issue of new shares had been applied in accordance with the proposed applications set out in the Company's prospectus, which was approved and adjusted at the 2008 annual general meeting held on 25 June 2009 (Details are set out in the announcement of general meeting dated 25 June 2009).

OTHER CORPORATE INFORMATION

Competition and Conflict of Interests

As at 31 December 2010, the Company's substantial shareholder Chongqing Machinery and Electronic Holding (Group) Co., Ltd. has signed non-competition undertakings with the Company in favor of the Company. Please refer to the Prospectus for details of such undertakings. Save as the aforesaid, none of the Directors, management shareholders, substantial shareholders of the Company nor their respective associates have interests in business that compete or may compete with the business of the Group and any other conflicts of interests with the Group.

Continuing Connected Transactions

Master Sales Agreement

On 16 June 2010, a master sales agreement was renewed by and between the Company and the Parent Company (the "Master Sales Agreement"). Pursuant to the Master Sales Agreement, the Group has agreed to sell certain products such as control valves and parts for steering systems, gears and clutch assemblies and the BV series of electric cables (the "Products") to the Parent Company and its associates.

Additionally, in case where there is a material fluctuation in the prices of any or all of the Products, the parties will re-negotiate the terms of the Master Sales Agreement in good faith by way of entering into a supplemental agreement or a new master sales agreement. The Master Sales Agreement is valid for a period of three years from the date of the agreement and renewable for another three years by the Company giving at least three months' notice prior to the expiry of the initial term. As approved at the 2010 annual general meeting, the annual caps for 2011, 2012 and 2013 were adjusted on 6 June 2011, pursuant to which the annual caps for 2011, 2012 and 2013 were set at RMB155 million, RMB185 million and RMB210 million respectively.

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

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

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

Master Supplies Agreement

On 16 June 2010, a master supplies agreement was renewed by and between the Company and the Parent Company (the "Master Supplies Agreement"). Pursuant to the Master Supplies Agreement, the Parent Company and its associates have agreed to supply the Company with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper (the "Supplies").

Additionally, in case where there is a material fluctuation in the price of any or all of the Supplies, the parties will re-negotiate the terms of the Master Supplies Agreement in good faith by way of entering into a supplemental agreement or a new master supplies agreement. The Master Supplies Agreement is valid for a period of three years from the date of the agreement and renewable for another three years by the Company giving at least three months' notice prior to the expiry of the initial term. As approved at the 2010 annual general meeting, the annual caps for 2011, 2012 and 2013 were adjusted on 6 June 2011, pursuant to which the annual caps for 2011, 2012 and 2013 were set at RMB410 million, RMB480 million and RMB550 million respectively.

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

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

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

Master Leasing Agreement

On 16 June 2010, the Company renewed the master leasing agreement (the "Master Leasing Agreement") with the Parent Company for the leasing of land and buildings from the Parent Company and its associates to the Company as offices, production facilities, workshops and staff quarters.

According to the agreement, the Parent Group leased a total area of 176,274 sq.m. and 18,236 sq.m. of land and buildings respectively to the Company. The Master Leasing Agreement is valid for a period of three years and renewable for another three years by the Company giving three months' notice prior to the expiry of the initial term. Pursuant to this agreement, the annual caps of leasing amounts for 2011, 2012 and 2013 were set at RMB22 million.

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

Master Integrated Service Agreement

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

1. Property management services which include (but are not limited to) the provision of security, greenery and cleaning services;
2. Welfare and facility support services which include (but are not limited to) medical facilities, staff canteens and nurseries;
3. Vehicle maintenance, logistics and transportation services and waste management;

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

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

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

For the year ended 31 December 2011, the services fee paid by the Company to the Parent Company and its associates under the Master Integrated Service Agreement was approximately RMB0.2 million.

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

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

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

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

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

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

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

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

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

Compliance with code on Corporate Governance Practice

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

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2011 in compliance with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

Audit Committee

The Company has established an audit committee with terms of reference, which clearly defined the powers and duties of the committee. The major duties of the audit committee are to review and supervise the financial reporting process and internal control systems of the Company, as well as providing opinion and recommendation to the Directors of the Company.

The audit committee comprises two independent non-executive Directors, namely Mr. Lo Wah Wai and Mr. Kong Weiliang, and one non-executive Director, Mr. Liu Liangcai. Mr. Lo Wah Wai is the chairman of the audit committee. The audit committee has reviewed the Company's results for the period and respective recommendation and opinion have been made.

Remuneration Committee

The remuneration committee of the Company comprises of two independent non-executive Directors, Mr. Ren Xiaochang and Mr. Lo Wah Wai, and one non-executive Director, Mr. Wang Jiyu. The committee determines the policies in relation to human resources management, review the compensation strategies, determines the compensation packages of the senior executives and managers, recommends and establishes annual and long-term performance criteria and targets as well as to review and supervise the implementation of all executive compensation packages and employee benefit plans.

Nomination Committee

The nomination committee under the Board of the Company comprises of 2 independent non-executive Directors, Mr. Kong Weiliang and Mr. Ren Xiaochang, and 1 non-executive Director, Mr. Huang Yong. 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.

Strategic Committee

A strategic committee under the Board of the Company has been established based on the Company's needs for strategic development. The strategic committee of the Company comprises of four executive Directors, Mr. Xie Hua Jun, Mr. Yu Gang, Mr. Liao Shaohua and Mr. Chen Xianzheng, one non-executive Director, Mr. Huang Yong, and two independent non-executive Directors, Mr. Ren Xiaochang and Mr. Kong Weiliang. Mr. Xie Hua Jun, Chairman of the Board, also acts as the chairman of the committee. The strategic committee is mainly in charge of studying and proposing suggestions on the Company's long-term development strategies and material investment decisions and providing decision-making references to the Board.

Supervisory Committee

The supervisory committee of the Company comprises of six supervisors, namely Mr. Duan Rongsheng, Mr. Zhang Xinzhi (new appointment), Ms. Liao Rong (resigned), Ms. Wang Rongxue, Mr. Liu Xing, Mr. Wang Xuqi and Mr. Chen Qing. The supervisory committee performs its supervisory functions on corporate governance, regulated operation and maximizing shareholders' value.

Securities Transaction by Directors

The Company has adopted the model code for securities transactions by directors ("Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding its directors' and supervisors' securities transactions in 2011. Having made specific enquiries of all Directors and supervisors of the Company, it is confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2011.

Purchase, Sale or Redemption of Securities

During the period under review, none of the Company and its subsidiaries purchased, sold or redeemed any listed securities of the Company.

Publication of Annual Results on the websites of the Stock Exchange and the Company

The annual results announcement has been published on the Company's website (http://www.chinacqme.com) and the Stock Exchange's website (http://www.hkex.com.hk). The annual report will also be available at the Company's and the Stock Exchange's websites on or about 31 March 2012 and will be dispatched to shareholders of the Company thereafter according to the means they chose to receive corporate communications.

By Order of the Board
Chongqing Machinery & Electric Co., Ltd.*
Xie Hua Jun
Executive Director, Chairman

Chongqing, the PRC
20 March 2012

As at the date of this announcement, the executive Directors are Mr. Xie Hua Jun, Mr. Yu Gang, Mr. Liao Shaohua and Mr. Chen Xianzheng; the non-executive Directors are Mr. Huang Yong, Mr. Wang Jiyu, Mr. Liu Liangcai and Mr. Yang Jingpu; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang.

* *For identification purposes only*