CQME

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 2008

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately RMB5,949,655,000
- Gross profit increased by approximately 21.5%
- Equity attributable to shareholders increased approximately by 83.2% to approximately RMB3,418,345,000
- Earning per share achieved approximately RMB0.16

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 2008 and the comparative figures for the corresponding period of 2007 as follows:

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2008

		Year ended 31 December	
		2008	2007
	Note	***RMB'000***	*RMB'000*
Revenue	3	**5,949,655**	5,485,500
Cost of sales		**(4,774,237)**	(4,517,929)
Gross profit		**1,175,418**	967,571
Selling and marketing expenses		**(213,005)**	(175,215)
Administrative expenses		**(547,126)**	(426,730)
Other gains, net		**13,486**	37,412
Other income	4	**35,160**	32,397
Operating profit		**463,933**	435,435
Finance income		**43,904**	22,556
Finance costs		**(86,586)**	(55,499)
Finance costs, net	5	**(42,682)**	(32,943)
Share of profit of associates		**181,306**	117,237
Profit before income tax		**602,557**	519,729
Income tax expense	6	**(78,676)**	(45,906)
Profit for the year		**523,881**	473,823

Attributable to:			
Equity holders of the Company		**503,531**	450,015
Minority interests		**20,350**	23,808
		523,881	473,823
Earning per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic and diluted	7	**0.16**	0.20

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

		As at 31 December	
		2008	2007
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**1,182,845**	997,436
Investment properties		**26,498**	28,888
Lease prepayments		**279,223**	378,387
Intangible assets		**47,555**	49,358
Investments in associates		**641,597**	474,291
Deferred income tax assets		**72,951**	67,137
Available-for-sale financial assets		**3,318**	9,761
Other non-current assets		**169**	1,518
		2,254,156	2,006,776
Current assets			
Inventories		**1,232,120**	1,002,102
Trade and other receivables	8	**1,230,764**	1,183,504
Amount due from customers for contract work		**181,162**	167,134
Held-to-maturity financial assets		**5,000**	—
Restricted cash		**314,190**	229,795
Cash and cash equivalents		**2,308,454**	1,036,079
		5,271,690	3,618,614
Total assets		**7,525,846**	5,625,390

EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**3,684,640**	2,679,740
Reserves		**(952,715)**	(1,032,248)
Retained earnings		**686,420**	218,241
		3,418,345	1,865,733
Minority interests		**52,494**	46,542
Total equity		**3,470,839**	1,912,275
LIABILITIES			
Non-current liabilities			
Borrowings		**273,995**	274,466
Deferred income		**105,312**	105,655
Deferred income tax liabilities		**393**	1,359
Long-term employee benefit obligations		**131,830**	131,750
		511,530	513,230
Current liabilities			
Trade and other payables	9	**2,727,724**	2,569,070
Amount due to customers for contract work		**11,906**	—
Current income tax liabilities		**71,279**	60,812
Borrowings		**700,790**	544,288
Current portion of long-term employee benefit obligations		**8,160**	6,550
Provisions for warranty		**23,618**	19,165
		3,543,477	3,199,885
Total liabilities		**4,055,007**	3,713,115
Total equity and liabilities		**7,525,846**	5,625,390
Net current assets		**1,728,213**	418,729
Total assets less current liabilities		**3,982,369**	2,425,505

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Attributable to equity holders of the Company					
	Share capital	Other reserves	(Accumulated deficit)/ retained earnings	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2007	1,999,195	(717,202)	(35,428)	1,246,565	202,751	1,449,316
Profit for the year	—	—	450,015	450,015	23,808	473,823
Dividends	—	—	(86,776)	(86,776)	(863)	(87,639)
Changes in fair value of available-for-sales financial assets, net of deferred tax	—	5,512	—	5,512	—	5,512
Disposal of available-for-sale financial assets	—	(4,503)	—	(4,503)	(1,481)	(5,984)
Extinguishment of debts by CQMEHG	—	47,958	—	47,958	—	47,958
Expenses related to proposed issue of shares charged to other reserves	—	(21,050)	—	(21,050)	—	(21,050)
Transfer to reserves	—	12,371	(12,371)	—	—	—
Incorporation of the Company						
— issue of new shares for acquisition of Chongqing General Industry from an equity holder of the Company	198,192	(20,519)	—	177,673	(177,673)	—
— capital contribution of cash from equity holders of the Company	482,353	(300,004)	—	182,349	—	182,349
Distribution	—	(34,811)	(97,199)	(132,010)	—	(132,010)

	Attributable to equity holders of the Company					
	Share capital	Other reserves	(Accumulated deficit)/ retained earnings	Total	Minority interests	Total equity
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 31 December 2007	2,679,740	(1,032,248)	218,241	1,865,733	46,542	1,912,275
Profit for the year	—	—	503,531	503,531	20,350	523,881
Proceeds from issuance of share capital	1,004,900	149,200	—	1,154,100	—	1,154,100
Share issuance costs	—	(99,543)	—	(99,543)	—	(99,543)
Changes in fair value of available-for-sales financial assets, net of deferred tax	—	(5,476)	—	(5,476)	—	(5,476)
Dividends	—	—	—	—	(29,350)	(29,350)
Capital contribution of cash from minority shareholders	—	—	—	—	14,952	14,952
Transfer to reserves	—	35,352	(35,352)	—	—	—
Balance at 31 December 2008	3,684,640	(952,715)	686,420	3,418,345	52,494	3,470,839

NOTES:

1. General Information

The Group is principally engaged in manufacturing and sales of commercial vehicle parts and components, general machinery, machinery tools and power equipment.

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

Prior to the establishment of the Company, the operations of commercial vehicle parts and components, general machinery, machinery tools and power equipment and other operations were carried out by various companies owned or controlled by CQMEHG (the "Predecessor Operations").

In accordance with the reorganisation agreement (the "Reorganisation Agreement") entered into amongst CQMEHG and Other Three Promoters (as defined below), CQMEHG underwent the Reorganisation and established the Company on 27 July 2007 (the "effective date of the Reorganisation") and details are as follows:

1. the Company issued 1,999,194,803 shares of par value of RMB1.00 each to CQMEHG in consideration for the following assets and liabilities (collectively referred to as the "Core Operations") transferred from CQMEHG to the Company:

   (i) All operating assets and liabilities relating to the manufacturing and sales of commercial vehicle parts and components;

   (ii) All operating assets and liabilities relating to the manufacturing and sales of power equipment;

   (iii) All operating assets and liabilities relating to manufacturing and sales of general machinery; and

   (iv) All operating assets and liabilities relating to manufacturing and sales of machinery tools.

2. the Company issued 198,192,123 shares of par value of RMB1.00 each to China Huarong Asset Management Corporation ("Huarong Company"; 中國華融資產管理有限公司) in exchange for 44.35% interests in Chongqing General Industry (Group) Co. Ltd. ("Chongqing General Industry"; 重慶通用工業(集團)有限責任公司). Immediately before the effective date of the Reorganisation, CQMEHG has another 53.03% interests in Chongqing General Industry which formed part of the Core Operations.

3. the Company issued 241,176,614 shares of par value of RMB1.00 each to Chongqing Yufu Assets Management Co. Ltd. ("Yufu Company"; 重慶渝富資產經營管理有限公司) and 241,176,614 shares of par value of RMB1.00 each to Chongqing Jiangong Group Co. Ltd. ("Jiangong Company"; 重慶建工集團有限責任公司) for an aggregate cash consideration of approximately RMB482,353,000.

Huarong Company, Yufu Company and Jiangong Company are owned and controlled by the PRC government.

The shares issued in this connection totalling of 2,679,740,154 shares were the initial registered capital of the Company. CQMEHG in aggregate owned 74.6% interest in the Company, and Huarong Company, Yufu Company and Jiangong Company (collectively referred to as "Other Three Promoters") in aggregate owned 25.4% interests in the Company.

In addition, pursuant to the Reorganisation, the equity interests of all entities of CQMEHG that their business activities are not similar to that of the Company's business (collectively referred as the "Excluded Operations") were not transferred to the Company. The Excluded Operations were retained by CQMEHG and accordingly were not included in the consolidated financial statements.

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

2. Basis of preparation and accounting policies

The consolidated accounts of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS"). These accounts have been prepared under the historical cost convention, as modified by the revaluation of held-to-maturity financial assets, which are carried at fair value.

3. Revenue and Segment Information

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

3.1. *Primary reporting format-business segments*

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash.

Segment liabilities comprise operating liabilities.

Capital expenditure comprises mainly additions to property, plant and equipment and intangible assets.

(a) As at and for the year ended 31 December 2008

The segment results for the year ended 31 December 2008 and other segment items included in the consolidated income statements are as follows:

	Commercial vehicle parts and components	Power equipment	General machinery	Machinery tools	Unallocated	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment revenue	**1,674,476**	**1,904,701**	**1,212,098**	**1,177,302**	**—**	**5,968,577**
Inter-segment revenue	**—**	**(8,152)**	**—**	**(10,770)**	**—**	**(18,922)**
Revenue	**1,674,476**	**1,896,549**	**1,212,098**	**1,166,532**	**—**	**5,949,655**
Segment result	**257,759**	**90,869**	**92,755**	**77,570**	**(55,020)**	**463,933**
Operating profit						**463,933**
Finance costs, net						**(42,682)**
Share of profit of associates	**36,230**	**133,573**	**11,503**	**—**	**—**	**181,306**
Profit before income tax						**602,557**
Income tax expense						**(78,676)**
Profit for the year						**523,881**

Other segment items

Depreciation on property, plant and equipment and investment properties	**24,244**	**22,256**	**11,835**	**21,030**	**319**	**79,684**
Amortisation of deferred income	**—**	**(901)**	**(5,756)**	**(5,270)**	**—**	**(11,927)**
Amortisation of lease prepayments and intangible assets	**582**	**5,327**	**3,787**	**1,769**	**—**	**11,465**
Write-down of inventories	**2,898**	**3,392**	**3,230**	**1,406**	**—**	**10,926**
Provision for impairment on trade and other receivables/(reversal)	**1,952**	**(5,829)**	**3,592**	**868**	**—**	**583**
Provision for impairment on property plant and, equipment	**—**	**—**	**1,198**	**—**	**—**	**1,198**

The segment assets and liabilities as at 31 December 2008 and capital expenditure for the year then ended are as follows:

	Commercial vehicle parts and components	**Power equipment**	**General machinery**	**Machinery tools**	**Unallocated**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	**1,342,776**	**1,469,175**	**1,879,265**	**1,060,954**	**1,132,079**	**6,884,249**
Investments in associates	**320,203**	**264,825**	**56,569**	**—**	**—**	**641,597**
Total assets						**7,525,846**
Liabilities	**652,473**	**718,868**	**1,258,067**	**460,213**	**965,386**	**4,055,007**
Capital expenditure	**50,010**	**95,386**	**115,166**	**83,003**	**1,298**	**344,863**

(b) As at and for the year ended 31 December 2007

The segment results for the year ended 31 December 2007 and other segment items included in the consolidated income statements are as follows:

	Commercial vehicle parts and components *RMB'000*	Power equipment *RMB'000*	General machinery *RMB'000*	Machinery tools *RMB'000*	Unallocated *RMB'000*	Total *RMB'000*
Total segment revenue	1,419,977	2,012,007	1,008,288	1,045,228	—	5,485,500
Inter-segment revenue	—	—	—	—	—	—
Revenue	1,419,977	2,012,007	1,008,288	1,045,228	—	5,485,500
Segment result	217,427	84,939	63,363	76,014	(6,308)	435,435
Operating profit						435,435
Finance costs, net						(32,943)
Share of profit of associates	49,068	63,043	5,126	—	—	117,237
Profit before income tax						519,729
Income tax expense						(45,906)
Profit for the year						473,823
Other segment items						
Depreciation on property, plant and equipment and investment properties	20,162	21,522	10,036	21,053	188	72,961
Amortisation of deferred income	—	(762)	(5,756)	(5,201)	—	(11,719)
Amortisation of lease prepayments and intangible assets	8,722	47	2,824	1,274	—	12,867
Write-down of inventories	2,028	—	4,552	276	—	6,856
Provision for impairment on trade and other receivables	720	1,076	11,062	2,054	—	14,912

The segment assets and liabilities as at 31 December 2007 and capital expenditure for the year then ended are as follows:

	Commercial vehicle parts and components	**Power equipment**	**General machinery**	**Machinery tools**	**Unallocated**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Assets	1,082,859	1,289,529	1,563,734	875,720	339,257	5,151,099
Investments in associates	272,767	156,707	44,817	—	—	474,291
Total assets						5,625,390
Liabilities	533,920	785,375	1,117,697	389,497	886,626	3,713,115
Capital expenditure	98,706	72,143	128,364	46,348	1,417	346,978

3.2 Secondary reporting format — geographical segments

For the years ended 31 December 2008 and 2007, less than 10% of the Group's revenue and profit were derived from overseas sales and all the principal assets employed by the Group are located in the PRC. Accordingly, no analysis by geographical segments has been provided for the year.

4. Other income

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Government grants in relation to		
— Tax refunds	**11,107**	22,206
— further development of manufacturing technology	**8,412**	8,066
— relocation for environment protection	**12,110**	—
— others	**3,531**	2,125
	35,160	32,397

5. Finance costs, net

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Finance income		
— Interest income on short-term bank deposits	**43,904**	18,665
— Interest income from receivables due from CQMEHG	**—**	3,891
	43,904	22,556
Interest expense		
— Bank borrowings wholly repayable within five years	**(70,406)**	(45,670)
— Bank borrowings wholly repayable after five years	**(14,115)**	—
— Other borrowings	**—**	(10,248)
— Finance lease liabilities	**(257)**	—
	(84,778)	(55,918)
Net exchange (loss)/gain	**(1,808)**	419
Net finance costs	**(42,682)**	(32,943)

6. Income tax expense

The amount of income tax expense charged to the consolidated income statements represents:

	Year ended 31 December	
	2008	2007
	RMB'000	*RMB'000*
Current income tax:		
— PRC enterprise income tax	**84,490**	56,755
Deferred tax	**(5,814)**	(10,849)
	78,676	45,906

7. Earnings per share

	Year ended 31 December	
	2008	2007
Profit attributable to equity holders of the Company *(RMB'000)*	**503,531**	450,015
Weighted average number of ordinary shares in issue *(thousand)*	**3,224,061**	2,282,755
Basic and diluted earnings per share *(RMB per share)*	**0.16**	0.20

The Company's weighted average number of shares in issue during the year ended 31 December 2007 used in the basic earnings per share calculation is determined on the assumption that the 1,999,195,000 shares at par value RMB1.00 each issued to CQMEHG had been in issue prior to the incorporation of the Company. It is adjusted to add the 680,545,000 shares at par value RMB1.00 each issued to the other Promoters on 27 July 2007 upon the incorporation of the Company. In determining the weighted average number of shares in issue for the year ended 31 December 2008, the 2,679,740,000 shares, existing as at 1 January 2008, were adjusted by the 1,004,900,000 shares issued on 13 June 2008, which were outstanding for six and a half months.

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

8. Trade and other receivables

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Trade and bills receivables *(a)*	**1,178,539**	1,192,229
Less: provision for impairment of trade receivables	**(235,974)**	(253,009)
Trade and bills receivables — net	**942,565**	939,220
Deposits paid	**15,915**	35,281
Less: provision for impairment of deposits paid	**(9,707)**	(14,877)
Deposits paid — net	**6,208**	20,404
Prepayments	**192,122**	179,012
Receivables from CQMEHG	**—**	21,373
Staff advances	**28,898**	17,403
Other receivables due from related parties	**27,816**	10,201
Others	**55,223**	13,590
Less: provision for impairment of receivables other than trade receivables and deposits paid	**(22,068)**	(17,699)
	1,230,764	1,183,504

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

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Less than 30 days	**243,261**	339,048
31 days to 90 days	**307,708**	248,872
91 days to 1 year	**364,287**	335,588
1 year to 2 years	**83,697**	72,238
2 years to 3 years	**37,384**	22,025
Over 3 years	**142,202**	174,458
	1,178,539	1,192,229

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

Trade receivables that are less than nine months past due are generally not considered individually impaired. As at 31 December 2008, trade receivables of approximately RMB343,890,000 (2007: RMB313,704,000) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default. The analysis of ageing, which were counted from the day of recognition of trade receivables, is as follows:

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
91 days to 1 year	**313,726**	302,356
1 year to 2 years	**26,390**	11,348
2 year to 3 years	**3,774**	—
	343,890	313,704

As at 31 December 2008, trade receivables of RMB283,680,000 (2007: RMB290,605,000) were individually impaired and provided for. The amount of the provision was RMB235,974,000 as at 31 December 2008 (2007: RMB253,009,000). 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:

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
91 days to 1 year	**50,561**	33,232
1 year to 2 years	**57,307**	60,890
2 years to 3 years	**33,610**	22,025
Over 3 years	**142,202**	174,458
	283,680	290,605

9. Trade and other payables

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Trade and bills payables	**1,183,519**	956,647
Other taxes payables	**115,601**	116,789
Other payable	**284,822**	176,871
Accrued payroll and welfare	**166,878**	194,085
Advances from customers	**666,147**	594,924
Advances from government	**310,757**	529,754
	2,727,724	2,569,070

As at 31 December 2007 and 2008, the ageing analysis of the trade and bills payables was as follows:

	As at 31 December	
	2008	2007
	RMB'000	*RMB'000*
Less than 30 days	**282,486**	224,235
31 days than 90 days	**347,045**	193,591
91 days to 1 year	**468,927**	487,702
1 year to 2 years	**52,625**	15,274
2 years to 3 years	**11,163**	11,309
Over 3 years	**21,273**	24,536
	1,183,519	956,647

CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to present the audited consolidated financial results of the Group for the year ended 31 December 2008 to all shareholders.

RESULTS REVIEW

In 2008, under the dual impacts from natural disaster and global financial crisis, like many peers in China, the Group had encountered unprecedented difficulties and challenges. Especially in the fourth quarter, certain businesses sustained tremendous impact, afflicting the operating revenue growth of the Group to a certain extent. Facing such conditions, the Company took flexible and effective measures according to the environment to enhance control, focus on operation quality and risk control, especially on investment risks. Amid the adversity of global financial crisis, operation of the Company basically kept stable momentum in 2008. Revenue from operations and total profit recorded growth. Four major business segments showed the pattern of "two rise, one stable, one fall", which means rapid growth in commercial vehicle parts and components segment and general machinery segment, stable growth in CNC machine tools segment, and negative growth in power equipment segment due to steep drop of raw material price. Besides, investment income from our associated companies increased remarkably.

Revenue of the Group for the year ended 31 December 2008 was approximately RMB5,949.7 million (2007: RMB5,485.5 million), representing an increase of approximately RMB464.2 million or approximately 8.5%. Profit attributable to shareholders of the Company amounted to approximately RMB503.5 million (2007: RMB450 million), representing an increase of approximately RMB53.5 million or approximately 11.89% over last year.

Basic earnings per share for the year ended 31 December 2008 was approximately RMB0.16 (2007: RMB0.20). Total assets amounted to approximately RMB7,525.8 million (2007: RMB5,625.4 million), while total liabilities amounted to approximately RMB4,055 million (2007: RMB3,713.1 million). Total equity attributable to the equity holders was approximately RMB3,418.3 million (2007: RMB1,865.7 million). Net asset value per share was approximately RMB0.94 (2007: RMB0.71).

To achieve the Group's sustainable development, the Group developed and implemented the following development strategies in 2009:

(I) Accelerate industry restructuring to optimize product structure

1. Develop high profitable industrial products with high growth potentials; and

2. Explore new industry, new sector and new market to adjust market structure.

(II) Speed up capital restructuring to optimize asset structure

Leveraging on the multiple measures launched by the State for expanding investment, stimulating consumption, boosting domestic demand and preserving growth, as well as Strategic Development of Western China, and the preferential policies issued by the State Council on promoting the balanced reform and development between the urban and rural areas in Chongqing, we will capitalize our advantages in technology, brand, market and capital to strengthen control over joint ventures. To secure rapid growth of the Group and develop core business of the Company, the Group will actively seek to cooperate or establish joint ventures with world renowned enterprises to enhance our overall strength by selecting automobile and light rail related industries to uplift our operation, technology and brand.

(III) Expedite corporate management restructuring to optimize management and control

1. Strengthen management to reduce operation cost and improve operation efficiency;

2. Expand synergy effects and concentrate procurement to reduce cost; and

3. Enhance supervision.

(IV) Promote organization restructuring to optimize talent team

1. The Company will continue to preserve and attract talents with abundant technique and experience. Performance related incentive plans are designed for the management and employees, as well as promotion opportunity and professional training for major employees to uplift expertise for the management and technicians.

2. By timely promoting internal integration, easing the Company's control, concentrating assets to advanced enterprises, focusing talents to key businesses, we strive to improve our operation performance.

FOUR MAJOR BUSINESSES OF THE GROUP

Commercial Vehicle Parts and Components

Under the downward trend of international automobile market, China's automobile industry, whose production had exceeded 20% for two consecutive years, failed to maintain its rapid growth momentum in 2008. However, in the revival plan for ten sectors launched by PRC government, automobile industry ranked highest in the list. Benefiting from the RMB4 trillion package for infrastructure, railway construction and disaster stricken area reconstruction, the business of the Company's commercial vehicle parts and components segment has been increasing as at February 2009. At the same time, diesel engine segment was supported by power, shipping and construction machinery industries and remained stable rising orders. Steady growth is expected for this segment in 2009.

On 5 February 2009, the Company entered into an agreement with Shanghai Electric (Group) Corporation to acquire 102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear Transmission Co., Ltd ("Qijiang Gear") and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Qi-Chi Forging Co. Ltd ("Qijiang Forging") at a total consideration of RMB256.96 million. Upon completion of the transaction, the Company held 100% equity interest in Qijiang Gear and 48% equity interest in Qijiang Forging directly. Qijiang Gear became a wholly owned subsidiary of the Company. The Company through Qijiang Gear held the remaining 52% equity interest in Qijiang Forging, and Qijiang Forging also became a wholly-owned subsidiary of the Company. The complete acquisition of the two companies would help the Company to implement its independent development strategy for commercial vehicle parts and components business or introduce world-renowned companies with more advanced technology for restructuring and growth.

In 2009, the Company will continue to expand investment for independent R&D, put more efforts in new product development and proactively develop high efficiency diesel engine. The successful trial production of QSK high powered diesel engine will open up new market demand. The Company will accelerate the quality upgrade and import substitution by developing proprietary gear transmission system, breaking system and steering system.

Power Equipment

With the support of positive policies including PRC government spending more on transportation, energy, power and other infrastructures and post disaster reconstruction, China's power demand increased gradually with huge projects for national power grid expansion and upgrading. Together with the designation by NDRC as its production base for impact-type hydroelectric turbine generators with high hydraulic heads and the independent R&D tech advantage, our power transmission/transformation and hydroelectric turbine generators businesses are expected to grow steadily in 2009.

With the turning back of real estate market, wire and cable business is hopeful of revitaling. In 2009, wire and cable sales volume is to keep growing but sales value will decrease due to raw material copper price plunge. Non-ferrous metal powders business is recovering as automobile market recovers. It is anticipated in 2009, though wire and cable revenue is to decrease, operating profit will remain stable.

To be inline with the stable development of the industry, we are to promote a series commercial operations of major new product projects in 2009. Main projects include commercialization impact-type wheel CNC machine-shaping technology, 800KV or above ultra-high voltage transformer and high-voltage electrical ceramics. Through technology innovation, the Company's core competitiveness and industry position are to be enhanced.

General machinery

The general machinery segment has more streamlined structure: downstream industries belongs to high growth sectors and advantages in sub-markets are obvious. The financial crisis has minor and delayed impact on the segment. Its products include high-end industrial pumps and refrigeration equipments widely used in nuclear industry. The sector has 19 registered patent technologies. The Company believes that general machinery segment will benefit from stable demand in oil and natural gas production, environment protection, aviation, nuclear power and wind power industries. The Company will continue to explore different markets to consolidate its leading position, win recognition for its brand from various industries and substitute the market position of imported products. In 2009, general machinery segment is expected to maintain stable operating revenue and profit growth.

We will further increase investment in this business segment for its technical innovation and step up to promote new product development and industrialization in 2009. Meanwhile, we are to accelerate the development of the new generation of aeration fan and our wind power rotor blade is at multiple location operation test, and obtain the safety certification of pump products for nuclear power station. To raise the technology level and market share of Motherson CNG Station and flat auto discharge centrifuges.

CNC Machine Tools

CNC machine tools segment maintained a high growth rate for the last six years. However, the unexpected downturn in 2008, especially from the closely related automobile industry, has caused the demand for machine tools to drop steeply. With equipment manufacturing part of the ten sector's revival plan being implemented, machine tools sector will be improved as economy recovers. Especially gear-producing machines backed by automobile industry and wind power industry, may grow against adverse economic conditions. As aluminum ingots sector shrinks, operation scale of CNC machine tools in 2009 may decrease moderately, but gross profit margin is to expected to increase.

Meanwhile, CNC machine tools business adapted to market demand changes by timely adjusting product mix, and directed its product development on large CNC machine tools and cutting tools that is urgently needed by wind power and heavy chemical industry. With its brand advantages, the segment obtained multiple orders for key projects in China. The segment fully utilized integration advantages and marketing information platform to expand market share for CNC machine tools, CNC lathes and machine centre and complex precision metal-cutting tools.

In order to seize the opportunities from rapidly developing wind power industry and strong demand for large high precision CNC machine tools, we will further increase investment in technical innovation and step up new product development. Especially, the successful development and sale of large and high-end CNC gear-producing machines like YD31125CNC6 will provide opportunities for new market expansion. At the same time, we will strengthen mid and high-end lathe development, facilitate product structure upgrade, accelerate R&D for large module gear hobbing cutter, large module hard alloy mobile facer and large module gear shaping cutter, and strive for early mass production.

The Company will rely on the advanced technology, R&D capacity, brand popularity and market share in order to penetrate into high-end market and gradually substituting imported products market position.

OUTLOOK AND PROSPECTS

Affected by the financial crisis, principal businesses spiraling up

In 2008, the global real economy was heavily hit. Certain businesses of the Company were inevitably impacted to a certain extent by the US sub-prime crisis and credit crisis at the beginning of the year and global financial tsunami in September. Nonetheless, based on current operations, we believe that our businesses have basically demonstrated signs of revitaling since February 2009, as driven by the stimulus package launched by the PRC government at the end of 2008 for expanding investment and stimulating consumption, the Strategic Development of Western China and the preferential policies issued by the State Council on promoting the balanced reform and development between the urban and rural areas in Chongqing.

Principal Business Orders

As at the end of February 2009, our principal business orders had reached 60% of the scheduled production quantity target for 2009. Especially, diesel engines, industrial pumps, hydroelectric generators and high-voltage transformers had covered their scheduled product quantity target for 2009, namely, 18,000 diesel engines, 900MW hydroelectric generator units and industrial pumps of approximately RMB400 million, which created favourable conditions for the achievement of the annual sales target for 2009.

Benefiting from Lower Raw Material Prices

The prices of steel and copper, our major industrial raw materials for manufacturing industrial equipments and machinery products, have respectively decreased by 30% and 53% since the fourth quarter of 2008. Although the Company may cut product prices in certain businesses amid the possible economic slowdown and fiercer price competition in China in 2009, we are still of the view that the lower raw materials price will be condusive to long-term cost control of the Company. It is expected that the decline in raw material prices in 2009 will enable the Company to keep a stable or slightly higher gross profit margin.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS OVERVIEW

Operating Analysis

Commercial vehicle parts and components

During the reporting period, the commercial vehicle parts and components segment maintained its growth. In the first half of year, it was lifted by the rapidly increasing demand from the PRC automobile industry and the market due to the implementation of National III emission standards. However, in the second half of 2008, the growth momentum of China's automobile production declined amid domestic economic conditions impacted by international financial tsunami. Due to the rapidly rising demand for diesel engine from building construction, industry, transportation infrastructure and shipping sectors, commercial vehicle parts and components industry kept a steady sales growth. Revenue for the year amounted to approximately RMB1,674.5 million, an increase of approximately RMB254.5 million or approximately 17.9% as compared with approximately RMB1,420 million for 2007.

During 2008, the Company accelerated the implementation of its investment projects, including Automobiles Air Suspension Technology Innovation Project (Phase I) and arrange procedures for acquisition of Qijiang Gear and Qijiang Forging. On 5 February 2009, the Company entered into an agreement with Shanghai Electric (Group) Corporation to further acquire 102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Forging at a total consideration of RMB256.96 million. The complete acquisition of the equity interest in the two companies would help the Company to implement its independent development strategy for commercial vehicle parts and components business or attract world-renowned companies with more advanced technology for restructuring and growth.

Power equipment

During the reporting period, sales of the power equipment segment slightly declined as nonferrous metal powder and wires & cables businesses were impacted by the significant decrease in raw material (copper) prices. Revenue for the year amounted to approximately RMB1,896.6 million, a decrease of approximately RMB115.4 million or approximately 5.7% as compared with approximately RMB2,012 million for 2007.

During 2008, the Company actively carried out investment projects including Commercialization Technical Innovation Project of Hydroelectric Equipment Complete Systems (Phase I), Relocation and Technical Innovation (Phase I) of Chongqing Pigeon Electric-porcelain Company Limited (重慶鴿牌電瓷有限公司) and Production Technology Innovation Project for Copper and Copper Based Powder (Phase I).

General machinery

During the reporting period, more quality high-end products had been produced in 2008 leading to a robust demand from various industries. The revenue of general machinery business for the year amounted to approximately RMB1,212.1 million, an increase of approximately RMB203.8 million or approximately 20.2% as compared with approximately RMB1,008.3 million for 2007. The robust growth in the business was mainly attributable to the market expansion arising from product mix adjustment and new product development.

During the reporting period, the Company initiated and expedited implementation of investment projects such as Industrialisation Technical Innovation Project (Phase I) for Key Components including Rotor Blades for Large Wind Power Generators, Relocation and Major Installation of Local Technical Innovation Project (Phase I) of the Pump Company, and Technical Innovation Project (Phase I) of Complete Systems for High Volume Main and Sub Station and High Pressure Compressors. The implementation of these investment projects increased the production capacity of our products and improved our profitability, laying a sound foundation for our long-term growth.

CNC machine tools

During the reporting period, the CNC machine tools business growth pace slowed down, mainly due to the decline in automobile industry. With weaker market demands, the revenue for the year was approximately RMB1,166.5 million, an increase of approximately RMB121.3 million or approximately 11.6% as compared with approximately RMB1,045.2 million for 2007.

The Company has sped up the execution of investment projects including Production Technical Innovation Project (I) for Large Precise High-speed CNC Gear-Producing Machine, Technical Innovation Project (Phase I) for Modern High-Precision, High-Efficiency and Special-Purpose Tool, R&D Manufacturing Technology Innovation Project (Phase I) for φ300~φ500 Serial Medium CNC Lathe and Turning and Milling Machining Centers. The implementation of the Company's development plan provides a good foundation for the optimisation of production.

Sales

For the year ended 31 December 2008, the Group's revenue amounted to approximately RMB5,949.7 million, an increase of approximately RMB464.2 million or approximately 8.5% as compared with approximately RMB5,485.5 million for 2007.

Overall, sales of power equipments were approximately RMB1,896.6 million (accounting for approximately 31.9% of total revenue), a decrease of approximately 5.7% from last year, but the sales of commercial vehicle parts and components were approximately RMB1,674.5 million (accounting for approximately 28.1% of total revenue), an increase of approximately 17.9%; sales of general machinery were approximately RMB1,212.1 million (accounting for approximately 20.4% of total revenue), an increase of approximately 20.2%; sales of CNC machine tools were approximately RMB1,166.5 million (accounting for approximately 19.6% of total revenue), an increase of approximately 11.6%. Accordingly, the total revenue of the Group was driven up.

Gross Profit

The gross profit for 2008 was approximately RMB1,175.4 million, increased by approximately RMB207.8 million or approximately 21.5%, as compared with approximately RMB967.6 million for last year, accounting for approximately 19.8% of the total sales.

The increase in gross profit as compared with last year was mainly due to higher gross profit margin for the larger portion of general machinery and commercial vehicle parts and components. Their gross profit margin increased from 27% and 23% to 31% and 25% respectively, which drove the overall gross profit margin up. Although the gross profit margin of power equipment and CNC machine tools decreased slightly, the overall gross profit margin for the year still rose from 17.6% to 19.8%, representing an increase of approximately 2.2%.

Selling and Administrative Expenses

The selling and administrative expenses for 2008 were approximately RMB760.1 million, an increase of approximately RMB158.2 million or approximately 26.2%, as compared with approximately RMB601.9 million for last year. The selling and administrative expenses represented approximately 12.8% of the total revenue, an increase of approximately 1.8% as compared with 11% for last year.

During the year, our selling and distribution costs which primarily consist of transportation expenses, costs for the sales staff and various marketing expenses increased by approximately RMB37.8 million over last year. Administrative expenses increased by approximately RMB120.4 million over last year, primarily owing to an increase of approximately RMB66.6 million in R&D expenses as compared with last year, and certain listing expenses of approximately RMB24.7 million included in the current administrative expenses due to our successful listing in Hong Kong in 2008, and an increase of approximately RMB21.2 million in staff cost and assets depreciation.

Operating Profit

The operating profit for 2008 was approximately RMB463.9 million, an increase of approximately RMB28.5 million or approximately 6.5%, as compared with approximately RMB435.4 million for last year. Not counting the effect of one off gains included in other income and gains, operating profit increased by approximately RMB49.6 million, or approximately 13.6%, over last year.

Net Finance Costs

Interest expenses for 2008 were approximately RMB86.6 million, an increase of approximately RMB31.1 million or 56%, as compared with approximately RMB55.5 million for last year, due to the increase in bank interest lending rate as well as loan amount for the first half of the year.

Taxation

The corporate income tax expenses for the year ended 31 December 2008 were approximately RMB78.7 million, an increase of approximately RMB32.8 million, or approximately 71.5%, as compared with approximately RMB45.9 million for last year, mainly resulted from the increase in assessable income as well as movement of deferred tax.

Profit Attributable to Equity Holders

Profit attributable to shareholders for the year ended 31 December 2008 was approximately RMB503.5 million, an increase of approximately RMB53.5 million or approximately 11.9% as compared with approximately RMB450 million for last year. Earnings per share decreased from approximately RMB0.2 last year to approximately RMB0.16.

Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2008.

Cash flow

The Group's cash and bank deposits (including restricted cash) amounted to approximately RMB2,622.6 million as at 31 December 2008 (31 December 2007: RMB1,265.9 million), a significant increase of approximately RMB1,356.7 million or approximately 107.2% as compared with last year, attributable to cash flow generated from operating activities and approximately RMB1,008.8 million of net proceeds raised from the issuance of new shares by the Group through listing on the Stock Exchange on 13 June 2008.

During the Period, the Group had a net cash inflow from operating activities of approximately RMB444.4 million (31 December 2007: RMB476.9 million), a net cash outflow from investing activities of approximately RMB335.4 million (31 December 2007: RMB222.1 million), and a net cash inflow from financing activities of approximately RMB1,165.2 million (31 December 2007: RMB264.3 million).

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 2008, the Group had total assets of approximately RMB7,525.8 million, an increase of approximately RMB1,900.4 million, as compared with approximately RMB5,625.4 million as at 31 December 2007. Total current assets amounted to approximately RMB5,271.7 million, increased by approximately RMB1,653.1 million as compared with approximately RMB3,618.6 million as at 31 December 2007, accounting for approximately 70% of total assets. Total non-current assets was approximately RMB2,254.1 million, an increase of approximately RMB247.3 million as compared with approximately RMB2,006.8 million as at 31 December 2007, accounting for approximately 30% of total assets.

As at 31 December 2008, total liabilities of the Group amounted to approximately RMB4,055 million, an increase of approximately RMB341.9 million, as compared with approximately RMB3,713.1 million as at 31 December 2007. Total current liabilities were approximately RMB3,543.5 million, an increase of approximately RMB343.5 million as compared with approximately RMB3,200 million as at 31 December 2007, accounting for 87.4% of total liabilities. Total non-current liabilities were approximately RMB511.5 million, a decrease of approximately RMB1.7 million as compared with approximately RMB513.2 million as at 31 December 2007, accounting for approximately 12.6% of total liabilities.

As at 31 December 2008, net current assets of the Group were approximately RMB1,728.2 million, an increase of RMB1,309.5 million, as compared with approximately RMB418.7 million as at 31 December 2007.

Current Ratio

As at 31 December 2008, current ratio (the ratio of current assets over current liabilities) of the Group, increased from 1.13:1 for 2007 to 1.49:1 for 2008.

Gearing Ratio

As at 31 December 2008, due to the proceeds raised from the issuance of new shares and profit for the year, by comparing the borrowing and the total capital of the Group's gearing ratio was 22% (31 December 2007: 30%).

Exchange Rate Risks

The proceeds of H shares offered by the Company were denominated in Hong Kong Dollar ("HKD") and deposited in the commercial banks of China as HKD in accordance with the rules of China State Administration of Foreign Exchange. Accordingly, the Group may face certain exchange rate risks. However, as the Group had limited transactions denominated in foreign currencies, there is no significant effect on the Group's operations.

Indebtedness

As at 31 December 2008, the Group had an aggregate bank and other borrowings of approximately RMB974.8 million, representing an increase of approximately RMB156 million as compared with approximately RMB818.8 million as at 31 December 2007.

Borrowings repayable by the Group within one year were approximately RMB700.8 million, representing an increase of approximately RMB156.5 million as compared with approximately RMB544.3 million as at 31 December 2007. Borrowings repayable after one year were approximately RMB274 million.

Pledges of Assets

As at 31 December 2008, approximately RMB314.2 million was deposited with the banks with security or restricted for use (31 December 2007: RMB229.8 million). In addition, certain bank loans of the Group were secured by certain land use rights, plants and machineries and inventories of the Group, which had an aggregate net book value of approximately RMB305.3 million as at 31 December 2008 (31 December 2007: RMB261.8 million).

Contingent Liabilities

As at 31 December 2008, the Group had no contingent liabilities.

Significant Purchase or Sale of Affiliates and Associates

On 5 February 2009, the Company entered into an agreement with Shanghai Electric (Group) Corporation to acquire 102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Forging at a total consideration of RMB256.96 million. Save as the above, the Group did not have any other significant disclosable events during the year.

Capital Expenditure

As at 31 December 2008, the total capital expenditure of the Group was approximately RMB344.9 million, which was principally invested in plant expansion, production technology improvement, equipment upgrade and the expansion of production capacity (31 December 2007: RMB347 million).

Capital Committment

As at 31 December 2008, the Group had capital commitments of approximately RMB186.8 million (31 December 2007: approximately RMB312.4 million) in respect of fixed assets.

Risk of Foreign Exchange

The Group uses Renminbi as the reporting currency. During the Period, pressure on Renminbi appreciation was eased due to global economic recession in the second half of 2008. A slowdown in Renminbi appreciation will strengthen the competitiveness of our export products, but it may bring negative impacts on the import of materials and equipments by the Group from overseas. In addition, as the proceeds from listing is settled by HK dollars, the Group is exposed to risks concerning foreign exchange when converting the proceeds to Renminbi.

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

Employees

As at 31 December 2008, the Group had 14,819 employees (31 December 2007: 15,444 employees). The Group intends to continuously improve incentive schemes that link with the performance reviews of our management and employees and to invest in education and training programs for our management personnel and manufacturing staff. It is believed that these measures will help us to attract and retain talents for our businesses.

USE OF PROCEEDS

The aggregate proceeds from the Company's Global Offering on the Stock Exchange on 13 June 2008 amounted to approximately HK$1,306 million (equivalent to approximately RMB1,154.1 million). After deducting related issuance expenses, the net proceeds amounted to approximately RMB1,008.8 million. For the year 31 December 2008, approximately RMB363.7 million of net proceeds had been applied in accordance with the proposed applications set out in the Company's prospectus as follows:

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

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

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

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

- approximately HK$74.41 million (equivalent to approximately RMB65.49 million) was used for product expansion and construction of a production base for wind power turbine blades and a production base for specialized refrigeration machines, industrial pumps and industrial fans used by nuclear power stations.

- approximately HK$44.13 million (equivalent to approximately RMB38.84 million) was used for technological improvements and capacity expansion for the industrial pumps business.

- approximately HK$23.36 million (equivalent to approximately RMB20.56 million) was used for technological improvements and capacity expansion for the gas compressors business, with emphasis on complete systems for high capacity first class and second class stations and high pressure compressors.

- approximately HK$96.93 million (equivalent to approximately RMB85.3 million) was used for technological improvements and capacity expansion for the gear producing machines business, with emphasis on high speed, precision CNC machines.

- approximately HK$8.66 million (equivalent to approximately RMB7.62 million) was used for technological improvements and capacity expansion for the complex precision metal-cutting tools business, with emphasis on specialized tools.

- approximately HK$34.09 million (equivalent to approximately RMB30 million) was used for technological improvements and capacity expansion for the CNC lathes and machine centers business, with emphasis on a production facility for lathe production technology and large-scale CNC lathes.

- approximately HK$10.36 million (equivalent to approximately RMB9.12 million) was used for working capital and general corporate purposes.

OTHER CORPORATE INFORMATION

Competition and Conflict of Interests

The Company's 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

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

For the year ended 31 December 2008, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB60.9 million.

On 16 May 2008, the Company entered into a master supplies agreement with the Parent Company (the "Master Supplies Agreement") pursuant to which 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.

For the year ended 31 December 2008, the monetary value of supplies by the Parent Company and its associates under the Master Supplies Agreement to the Company was approximately RMB56.9 million.

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

For the year ended 31 December 2008, the rent payable by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB8.8 million.

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 a number of services necessary for the normal business operations and production to the Company.

For the year ended 31 December 2008, the services fee payable by the Company to the Parent Company and its associate under the Master Integrated Service Agreement was approximately RMB0.3 million.

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

As agreed by both parties, the rent payable by Huahao Smelting for each of the three years ending 31 December 2010 was RMB0.28 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 are:

(1) entered into by the Company in the ordinary and usual course of its 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 these 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 provided a letter reporting 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, except for the transactions under the Master Supplies Agreement.

The Company will take all the necessary and appropriate measures to comply the requirements under the Listing Rules in respect of the transaction which exceeds the annual caps.

Code on Corporate Governance Practices

The Company believes that the incessant upgrading of its standard of corporate governance is the underlying cornerstone for safeguarding the interests of shareholders and investors as well as enhancing corporate value of the Company. The Company, with reference to the Company Law of the People's Republic of China, the Listing Rules, the Articles of Association of the Company and other relevant laws and regulations, and taking into considerations of 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 for any part of the period for the year ended 31 December 2008, in compliance with the Code on Corporate Governance Practices as 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 primary 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. Wu Jian. Mr. Lo Wah Wai is the chairman of the audit committee. The audit committee has reviewed the Company's unaudited results for the period under review and respective recommendation and opinion have been made.

Remuneration Committee

The Company has a remuneration committee consisting of two independent non-executive Directors, Mr. Ren Xiaochang and Mr. Lo Wah Wai, and one non-executive Director, Mr. Yu Gang. 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.

Supervisory Committee

The Company has a supervisory committee consisting of six supervisors, namely Mr. Duan Rongsheng, Mr. Ye Zusheng, Ms. Wang Rongxue, Ms. He Xiaoping, Mr. Wang Xuqi and Mr. Wu Chongjiang. 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 2008. Having made specific enquiries of all Directors and supervisors of the Company who confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2008.

Purchase, Sale or Redemption of securities

During the period under review, neither the Company nor any of its subsidiaries has purchased, redeemed or sold any listed securities of the Company.

DISCLOSURE OF INFORMATION ON THE STOCK EXCHANGE'S WEBSITE

The electronic version of this announcement has been published on the website of the Stock Exchange (http://www.hkex.com.hk). An annual report for the year ended 31 December 2008 containing all the information required by Appendix 16 to the Listing Rules will be despatched to shareholders of the Company and published on the website of the Stock Exchange in due course.

By Order of the Board
Chongqing Machinery & Electric Co., Ltd.*
Sun Nengyi
Executive Director, Chairman

Chongqing, the PRC
17 April 2009

As at the date of this announcement, the executive Directors are Mr. Sun Nengyi, Mr. He Yong, Mr. Liao Shaohua and Mr. Chen Xianzheng; the non-executive Directors are Mr. Huang Yong, Mr. Yu Gang, Mr. Yang Jingpu and Mr. Wu Jian; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang.

* *For identification purposes only*

Please also refer to the published version of this announcement in China Daily.