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 2010

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately RMB8,883,202,000
- Gross profit increased by approximately 35.7%
- Equity attributable to shareholders increased by approximately 11.5% to approximately RMB4,509,996,000
- Earnings per share achieved approximately RMB0.19

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 2010 and the comparative figures for the corresponding period of 2009 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2010

	Note	Year ended 31 December	
		2010	2009
		RMB'000	*RMB'000*
Revenue	3	**8,883,202**	6,893,290
Cost of sales		**(7,191,584)**	(5,646,278)
Gross profit		**1,691,618**	1,247,012
Distribution costs		**(300,931)**	(253,056)
Administrative expenses		**(743,581)**	(534,386)
Other gains, net		**49,026**	47,375
Other income	4	**52,632**	66,606
Operating profit		**748,764**	573,551
Finance income		**29,617**	35,208
Finance costs		**(79,124)**	(66,620)
Finance costs, net	5	**(49,507)**	(31,412)
Share of profit of associates		**65,801**	142,331
Profit before income tax		**765,058**	684,470
Income tax expense	6	**(66,298)**	(59,914)
Profit for the year		**698,760**	624,556
Other comprehensive income:			
Recognition of fair value change relating to acquisition of subsidiary		**—**	30,612
Changes in fair value of available-for-sale financial assets		**(2,623)**	3,227
Income tax relating to changes in fair value of available-for-sale financial assets		**579**	(1,069)
Currency translation differences		**(6)**	—
Other comprehensive income for the year, net of tax		**(2,050)**	32,770
Total comprehensive income for the year		**696,710**	657,326

	Note		
Profit attributable to:			
Equity holders of the Company		**687,732**	594,277
Non-controlling interests		**11,028**	30,279
		698,760	624,556
Total comprehensive income attributable to:			
Equity holders of the Company		**685,682**	627,047
Non-controlling interests		**11,028**	30,279
		696,710	657,326
Earnings per share for profit attributable to the equity holders of the Company during the year *(expressed in RMB per share)*			
— Basic and diluted	7	**0.19**	0.16
Dividends proposed after the balance sheet date to all shareholders	8	**294,771**	221,078

BALANCE SHEET

As at 31 December 2010

		Group	
		As at 31 December	
		2010	2009
	Note	***RMB'000***	*RMB'000*
ASSETS			
Non-current assets			
Property, plant and equipment		**1,812,713**	1,659,174
Investment properties		**21,718**	24,108
Lease prepayments		**270,516**	274,741
Intangible assets		**274,467**	84,910
Investments in associates		**397,943**	427,661
Deferred income tax assets		**115,898**	66,891
Available-for-sale financial assets		**4,317**	6,545
Other non-current assets		**10,212**	10,186
		2,907,784	2,554,216
Current assets			
Inventories		**1,612,628**	1,290,816
Trade and other receivables	9	**2,901,478**	2,130,646
Amount due from customers for contract work		**158,521**	157,766
Available-for-sale financial assets		**—**	8,000
Restricted cash		**473,016**	419,758
Cash and cash equivalents		**2,118,810**	2,187,362
		7,264,453	6,194,348
Total assets		**10,172,237**	8,748,564
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**3,684,640**	3,684,640
Reserves		**(847,198)**	(882,299)
Retained earnings			
— Proposed final dividend		**294,771**	221,078
— Others		**1,377,783**	1,021,973
		4,509,996	4,045,392
Non-controlling interests		**64,212**	73,880
Total equity		**4,574,208**	4,119,272

LIABILITIES			
Non-current liabilities			
Borrowings		**481,359**	355,968
Deferred income		**513,017**	166,381
Deferred income tax liabilities		**29,311**	11,251
Long-term employee benefit obligations		**131,788**	144,563
		1,155,475	678,163
Current liabilities			
Trade and other payables	10	**3,226,915**	3,013,883
Amount due to customers for contract work		**24,785**	14,414
Current income tax liabilities		**55,385**	46,167
Borrowings		**1,061,592**	843,857
Current portion of long-term employee benefit obligations		**14,078**	13,346
Provisions for warranty		**59,799**	19,462
		4,442,554	3,951,129
Total liabilities		**5,598,029**	4,629,292
Total equity and liabilities		**10,172,237**	8,748,564
Net current assets		**2,821,899**	2,243,219
Total assets less current liabilities		**5,729,683**	4,797,435

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2010

	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 2009	3,684,640	(952,715)	686,420	3,418,345	52,494	3,470,839
Comprehensive income						
Profit for the year	—	—	594,277	594,277	30,279	624,556
Other comprehensive income						
Recognition of fair value change relating to acquisition of subsidiary	—	30,612	—	30,612	—	30,612
Changes in fair value of available-for-sales financial assets, net of tax	—	2,158	—	2,158	—	2,158
Total other comprehensive income	—	32,770	—	32,770	—	32,770
Total comprehensive income	—	32,770	594,277	627,047	30,279	657,326
Transactions with owners						
Dividends to non-controlling interests	—	—	—	—	(9,049)	(9,049)
Capital contribution of cash from non-controlling interests	—	—	—	—	156	156
Transfer to reserves	—	37,646	(37,646)	—	—	—
Total transactions with owners	—	37,646	(37,646)	—	(8,893)	(8,893)
Balance at 31 December 2009	3,684,640	(882,299)	1,243,051	4,045,392	73,880	4,119,272

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

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 wholly owned by the Chongqing State-Owned Assets Supervision and Administration Commission. The address of the Company’s registered office is No. 155, Zhongshan Third Road, Yu Zhong District, Chongqing 400015, the PRC.

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

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 31 March 2011.

2. Basis of preparation and Accounting policies

The consolidated financial statements of Chongqing Machinery & Electric Co, Ltd. have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by the valuation of financial assets at fair value through profit or loss and available-for-sale financial assets which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group’s accounting policies.

Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

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

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

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

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

* HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in the profit or loss. HKAS 27 (revised) has had no impact on the current period, as none of the non-controlling interests have a deficit balance; there have been no transactions whereby an interest in an entity is retained after the loss of control of that entity, and there have been no transactions with non-controlling interests.

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

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

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

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

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

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

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

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.

The segment information provided to the operating management committee for the reportable segments for the year ended 31 December 2010 is as follows:

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

The segment information for the year ended 31 December 2009 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	986,195	650,542	299,459	1,713,276	1,174,308	1,324,632	—	754,549	6,902,961
Inter-segment revenue	—	—	—	(6,534)	—	(3,137)	—	—	(9,671)
Revenue from external customers	986,195	650,542	299,459	1,706,742	1,174,308	1,321,495	—	754,549	6,893,290
Operating profit	253,446	37,314	47,988	72,708	102,890	74,922	—	(15,717)	573,551
Finance income	6,738	474	3,364	4,015	3,621	4,996	—	12,000	35,208
Finance costs	301	(4,576)	(5,139)	(13,132)	(9,004)	(15,349)	—	(19,721)	(66,620)
Share of profit from associates	—	(3,311)	—	—	19,409	—	112,113	14,120	142,331
Profit before income tax									684,470
Income tax expense	(12,993)	(5,681)	(3,750)	(9,565)	(12,171)	(14,630)	—	(1,124)	(59,914)
Profit for the year									624,556

Depreciation on property, plant and equipment and investment properties	10,850	19,135	7,824	13,566	15,288	27,117	—	18,325	112,105
Amortisation of lease prepayments and intangible assets	3,095	3,413	781	2,126	3,923	1,595	—	530	15,463
(Write-back)/write down of inventories	(222)	123	—	233	1,774	1,505	—	295	3,708
(Reversal of)/provision for impairment on trade and other receivables	(5,687)	2,246	1,997	(211)	3,704	(14,928)	—	589	(12,290)
impairment loss of property, plant and equipment	—	—	—	—	—	—	—	—	—
Total assets	367,516	924,832	664,576	977,756	2,109,997	1,262,538	248,003	2,193,346	8,748,564
Total assets include:									
Investments in associates	—	—	—	—	73,728	—	248,003	105,930	427,661
Additions to non-current assets (other than financial instruments and deferred tax assets)	25,416	250,344	17,509	57,135	233,336	64,544	—	47,558	695,842

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

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

4. Other income

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

5. Finance costs, net

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

6. Income tax expense

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

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

7. Earnings per share

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

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

8. Dividends

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Dividends proposed after the balance sheet date:		
— final dividend	**294,771**	221,078

The Board of Directors, in a meeting held on 31 March 2011, proposed to distribute a final dividend for 2010 to equity holders of the Company of approximately RMB294,771,212.32 (RMB0.08 per share), based on total number of shares which are in issue as at 31 December 2010. Such dividend is to be approved at the Annual General Meeting on 31 May 2011. These financial statements do not reflect this dividend payable.

9. Trade and other receivables

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Trade and bills receivables *(a)*	**2,701,706**	2,005,622
Less: provision for impairment of trade receivables	**(249,038)**	(226,639)
Trade and bills receivables - net	**2,452,668**	1,778,983
Deposits paid	**59,821**	45,764
Less: provision for impairment of deposits paid	**(10,341)**	(10,031)
Deposits paid - net	**49,480**	35,733
Prepayments	**296,194**	216,235
Staff advances	**36,118**	29,560
Others	**85,516**	88,128
Less: provision for impairment of receivables other than trade receivables and deposits paid	**(18,498)**	(17,993)
Current portion	**2,901,478**	2,130,646

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

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

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

As at 31 December 2010, trade receivables of approximately RMB953,661,000 (2009: RMB541,097,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The analysis of ageing, which were counted from the day of recognition of trade receivables, is as follows:

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
91 days to 1 year	**747,868**	412,706
1 year to 2 years	**163,719**	125,034
2 years to 3 years	**42,074**	3,357
	953,661	541,097

As at 31 December 2010, trade receivables of RMB252,874,000 (2009: RMB303,902,000) were individually impaired and provided for. The amount of the provision was RMB249,038,000 as at 31 December 2010 (2009: RMB226,639,000). The individually impaired receivables mainly relate to certain customers, which are in difficult financial situations. It was assessed that a portion of the receivables is expected to be recovered based on the past collection history under similar circumstances. The ageing of these receivables is as follows:

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
91 days to 1 year	**22,701**	62,053
1 year to 2 years	**23,673**	54,911
2 years to 3 years	**49,383**	37,316
Over 3 years	**157,117**	149,622
	252,874	303,902

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

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

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

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

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

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

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

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

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

10. Trade and other payables

	As at 31 December	
	2010	2009
	RMB'000	*RMB'000*
Trade and bills payables	**1,959,662**	1,635,227
Other taxes payables	**115,520**	139,682
Other payables	**327,993**	245,587
Accrued payroll and welfare	**192,191**	165,818
Advances from customers	**628,514**	569,682
Advances from government	**3,035**	257,887
	3,226,915	3,013,883

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

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

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 2010 to all shareholders.

RESULTS REVIEW

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

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

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

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

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

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

BUSINESS REVIEW AND OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

DEVELOPMENT STRATEGY

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

Development Strategy

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

Work Priorities

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

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

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

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

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

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

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

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

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

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

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

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

Principal Business Orders

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

Stable Raw Material Prices Beneficial to Cost Control

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

MANAGEMENT DISCUSSION AND ANALYSIS

Results Overview

Operation Analysis

Commercial vehicle parts and components

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

Power equipment

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

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

General machinery

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

CNC machine tools

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

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

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

Sales

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

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

Gross Profit

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

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

Other Income and Gains

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

Selling and Administrative Expenses

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

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

Operating Profit

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

Finance Costs

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

Share of Profits of Associated Companies

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

Income Tax Expenses

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

Profit Attributable to Shareholders

Profit attributable to shareholders for the year ended 31 December 2010 was approximately RMB687.7 million, an increase of approximately RMB93.4 million or approximately 15.7% as compared with approximately RMB594.3 million for last year. Earnings per share increased from RMB0.16 per share last year to RMB0.19 per share.

Dividends

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

Withholding of Enterprise Income Tax for Nonresident Corporate Shareholders

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

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

If any resident enterprise (as defined in the EIT Law) whose name appears on the H Share Register of Members which is duly incorporated in the PRC or under the laws of a foreign country (or a territory) but with a PRC-based de facto management body does not wish to have the 10% enterprise income tax to be withheld by the Company, it should lodge all transfers with and submit a legal opinion issued by a PRC certified lawyer (with affixation of common seal of the law firm thereto) that establishes its resident enterprise status to the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 29 April 2011. Any natural person investor whose H shares are registered in the name of any such non-individual shareholders and who does not wish to have any enterprise income tax to be withheld by the Company, may consider transferring the legal title of the relevant H shares into his or her own name and lodging all relevant transfer instruments accompanied by the H share certificates with the Company's H Share Registrars for registration no later than 4:30 p.m. on 29 April 2011. Shareholders are recommended to consult their tax advisors regarding tax issues in respect of the ownership and disposal of H shares in the PRC and Hong Kong and other tax effects.

Closure of Register of Members

The register of members of the Company will be closed from Saturday, 30 April 2011 to Tuesday, 31 May 2011 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for the proposed final dividend and attending and voting at the annual general meeting, all transfers accompanied by the relevant shares certificates must be lodged with the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712-1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 29 April 2011.

Cash Flow

The Group's cash and bank deposits (including restricted cash) amounted to approximately RMB2,591.8 million as at 31 December 2010 (31 December 2009: RMB2,607.1 million), representing a decrease of approximately RMB15.3 million or approximately 0.6% as compared with last year.

During the period, the Group had a net cash inflow from operating activities of approximately RMB55.8 million (31 December 2009: RMB198.9 million), a net cash outflow from investing activities of approximately RMB186.4 million (31 December 2009: RMB382.3 million), and a net cash inflow from financing activities of approximately RMB65.4 million (31 December 2009: RMB63.6 million). Directors believe that the Group is financially sound and has sufficient resources to meet its operating capital needs and fund any predictable capital expenditure.

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

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

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

Current Ratio

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

Gearing Ratio

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

Indebtedness

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

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

Pledges of Assets

As at 31 December 2010, approximately RMB473.0 million of the Group was deposited with the banks with security or restricted for use (31 December 2009: RMB419.8 million). In addition, certain bank borrowings of the Group were secured by certain land use rights, plants and machineries and inventories of the Group, which had a net book value of approximately RMB353.2 million as at 31 December 2010 (31 December 2009: RMB389.3 million).

Contingent Liabilities

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

Significant Events

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

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

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

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

1) the annual proposed caps of the price payable by the Group to the Parent Company and its associates under the Master Supplies Agreement for the financial year ended 31 December 2010 was revised from RMB140,000,000 to RMB220,000,000;

2) the annual proposed caps of the price payable by the Parent Company and its associates to the Group under the Master Sales Agreement for the financial years ended 31 December 2011, 2012 and 2013 were RMB140,000,000, RMB160,000,000 and RMB190,000,000, respectively;

3) the annual proposed caps of the price payable by the Group to the Parent Company and its associates under the Master Supplies Agreement for the financial years ended 31 December 2011, 2012 and 2013 were RMB300,000,000, RMB360,000,000 and RMB450,000,000, respectively;

4) the annual proposed caps of the price payable by the Group to the Parent Company and its associates under the Master Leasing Agreement for the three financial years ended 31 December 2011, 2012 and 2013 was RMB22,000,000;

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

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

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

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

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

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

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

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

Capital Expenditure

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

Capital Commitment

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

Risk of Foreign Exchange

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

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

Employees

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

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 the year ended 31 December 2010, approximately RMB901.78 million of net proceeds raised from the issue of new shares had been applied in accordance with the proposed applications set out in the Company's prospectus, which was approved and adjusted at the 2008 annual general meeting held on 25 June 2009, as follows:

- approximately HK$31.40 million (equivalent to approximately RMB27.63 million) was used for technological upgrades and capacity expansion for the vehicle suspension systems business, with emphasis on air suspensions.

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

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

- approximately HK$28.54 million (equivalent to approximately RMB25 million) was used for technological improvements and capacity expansion for the non-ferrous metal materials business, with emphasis on copper-based powders and copper material extension products.

- approximately HK$90.89 million (equivalent to approximately RMB80 million) was used for product expansion and construction of a production base for wind power turbine blades and a production base for specialized refrigeration machines, industrial pumps and industrial fans used by nuclear power stations.

- approximately HK$102.24 million (equivalent to approximately RMB90 million) was used for technological improvements and capacity expansion for the industrial pumps business.

- approximately HK$79.53 million (equivalent to approximately RMB70 million) was used for technological improvements and capacity expansion for the gas compressors business, with emphasis on complete systems for high capacity first class and second class stations and high pressure compressors.

- approximately HK$96.93 million (equivalent to approximately RMB85.30 million) was used for technological improvements and capacity expansion for the gear producing machines business, with emphasis on high speed, precision CNC machines.

- approximately HK$34.05 million (equivalent to approximately RMB30 million) was used for technological improvements and capacity expansion for the complex precision metal-cutting tools business, with emphasis on specialized tools.

- approximately HK$34.05 million (equivalent to approximately RMB30 million) was used for technological improvements and capacity expansion for the CNC lathes and machine centers business, with emphasis on a production facility for lathe production technology and large scale CNC lathes.

- approximately HK$290.56 million (equivalent to approximately RMB256.61 million) was used for the acquisition of equity interest in Qijiang Gear and Qijiang Forging held from Shanghai Electric Group Corporation.

- approximately HK$69.22 million (equivalent to approximately RMB60.40 million) was used for the acquisition of equity interest in six wholly-owned subsidiaries of PTG Company.

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

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

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

Additionally, in case where there is a material fluctuation in the prices of any or all of the Products, the parties will re-negotiate the terms of the Master Sales Agreement in good faith by way of entering into a supplemental agreement or a new master sales agreement. The Master Sales Agreement is valid for a period of three years from the date of the agreement and renewable for another three years by the Company giving at least three months' notice prior to the expiry of the initial term. Pursuant to this agreement, as approved at the Company's extraordinary general meeting held on 25 June 2009, the annual caps of sales amounts for the year ended 2010 were set at RMB160 million. Pursuant to the caps adjusted at the Company's extraordinary general meeting held on 25 June 2010 ("EGM"), the approved annual caps of sales amounts for 2011, 2012 and 2013 were set at RMB140 million, RMB160 million and RMB190 million respectively. On 16 June 2010, the Company renewed Master Sales Agreement with Chongqing Machinery and Electronic Holding (Group) Co., Ltd. for a term of three years.

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

- price set by the PRC Government; if no such price, or

- not lower than the maximum of the guide prices set by the PRC Government for such Products; if there is no set price and no guide prices, or

- market price as reference; if there is no market price for certain products as reference, or

- an agreed price which is equivalent to the actual or reasonable costs of producing such products of the Group together with a reasonable profit. A "reasonable profit" is a profit that is agreed between the parties as being no more than 10% of the actual cost or reasonable cost incurred for the provision of the Products.

For the year ended 31 December 2010, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB92.4 million.

Master Supplies Agreement

On 16 May 2008, a master supplies agreement was entered into by and between the Company and the Parent Company (the "Master Supplies Agreement"). Pursuant to the Master Supplies Agreement, the Parent Company and its associates have agreed to supply the Company with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper (the "Supplies").

Additionally, in case where there is a material fluctuation in the price of any or all of the Supplies, the parties will re-negotiate the terms of the Master Supplies Agreement in good faith by way of entering into a supplemental agreement or a new master supplies agreement. The Master Supplies Agreement is valid for a period of three years from the date of the agreement and renewable for another three years by the Company giving at least three months' notice prior to the expiry of the initial term. Pursuant to this agreement, as approved at the Company's extraordinary general meeting held on 25 June 2009, the annual caps of supplies amounts for the year ended 2010 were set at RMB220 million. Pursuant to the caps adjusted at the Company's EGM, the annual caps of supplies amounts for 2011, 2012 and 2013 were set at RMB300 million, RMB360 million and RMB450 million respectively. On 16 June 2010, the Company renewed Master Supplies Agreement with Chongqing Machinery and Electronic Holding (Group) Co., Ltd. for a term of three years.

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

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

For the year ended 31 December 2010, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB216.6 million.

Master Leasing Agreement

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

According to the agreement, the Parent Group leased a total area of 176,274 sq.m. and 18,236 sq.m. of land and buildings respectively to the Company. The Master Leasing Agreement is valid for a period of three years and renewable for another three years by the Company giving three months' notice prior to the expiry of the initial term. Pursuant to this agreement, as approved at the Company's extraordinary general meeting held on 25 June 2009, the annual caps of leasing amounts for the year ended 2010 were set at RMB22 million. According to the caps adjusted at the EGM, the annual caps of leasing amounts for 2011, 2012 and 2013 were set at RMB22 million. On 16 June 2010, the Company renewed Master Leasing Agreement with Chongqing Machinery and Electronic Holding (Group) Co., Ltd. for a term of three years.

For the year ended 31 December 2010, the rent paid by the Company to the Parent Company and its associates under the Master Leasing Agreement was approximately RMB16 million.

Master Integrated Service Agreement

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

1. Property management services which include (but are not limited to) the provision of security, greenery and cleaning services;

2. Welfare and facility support services which include (but are not limited to) medical facilities, staff canteens and nurseries;

3. Vehicle maintenance, logistics and transportation services and waste management;

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

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

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

For the year ended 31 December 2010, the services fee paid by the Company to the Parent Company and its associates under the Master Integrated Service Agreement was approximately RMB0.2 million.

Equipment Leasing Agreement

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

As agreed by both parties, the rent payable by Huahao Smelting for each of the three years ended 31 December 2010 was RMB0.376 million. During the year ended 31 December 2010, the Company no longer leased production equipment under the Equipment Leasing Agreement from the Parent Company and its associates.

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

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

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

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

Under Rule14A.38 of the Listing Rules, the Company's auditor PricewaterhouseCoopers has performed procedures for the above continuing connected transactions ("Transactions") in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants, and reported that:

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

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

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

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

Compliance with code on Corporate Governance Practice

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

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2010 in compliance with the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules.

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 unaudited results for the period under review 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.

Supervisory Committee

The supervisory committee of the Company comprises of six supervisors, namely Mr. Duan Rongsheng, Ms. Liao Rong, 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 2010. 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 2010.

Purchase, Sale or Redemption of Securities

During the year ended 31 December 2010, 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 2011 and will be dispatched to shareholders of the Company thereafter according to the means they chose to receive corporate communications.

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

Chongqing, the PRC
31 March 2011

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*