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 2012

FINANCIAL HIGHLIGHTS

- Revenue amounted to approximately RMB10,556,600,000
- Gross profit decreased by approximately 18.6% to approximately RMB1,594,700,000
- Profit attributable to shareholders decreased by approximately 40% to approximately RMB440,700,000
- Earnings per share was approximately RMB0.12

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 2012 and the comparative figures for the corresponding period of 2011 as follows:

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

		Year ended 31 December	
		2012	2011
	Note	***RMB '000***	*RMB '000*
Revenue	3	**10,556,621**	10,546,001
Cost of sales		**(8,961,886)**	(8,586,096)
Gross profit		**1,594,735**	1,959,905
Distribution costs		**(284,788)**	(304,379)
Administrative expenses		**(808,934)**	(800,342)
Other gains, net		**45,923**	116,255
Other income	4	**131,890**	36,508
Operating profit		**678,826**	1,007,947
Finance income		**35,783**	34,187
Finance costs		**(163,369)**	(131,324)
Finance costs, net	5	**(127,586)**	(97,137)
Share of profit of associates		**963**	2,848
Profit before income tax		**552,203**	913,658
Income tax expense	6	**(96,530)**	(168,463)
Profit for the year		**455,673**	745,195
Other comprehensive income:			
Changes in fair value of available-for-sale financial assets		**124**	(788)
Income tax relating to changes in fair value of available-for-sale financial assets		**(19)**	517
Currency translation differences		**606**	528
Other comprehensive income for the year, net of tax		**711**	257
Total comprehensive income for the year		**456,384**	745,452
Profit attributable to:			
Equity holders of the Company		**440,770**	737,277
Non-controlling interests		**14,903**	7,918
		455,673	745,195

Total comprehensive income attributable to:			
Equity holders of the Company		**441,481**	737,534
Non-controlling interests		**14,903**	7,918
		456,384	745,452
Earnings per share for profit attributable to the equity holders of the Company during the year (expressed in RMB per share)			
— Basic and diluted	7	**0.12**	0.20
Dividends proposed after the balance sheet date to all shareholders	8	**128,962**	221,078

BALANCE SHEETS

		Group	
		As at 31 December	
		2012	2011
	Note	***RMB '000***	*RMB '000*
ASSETS			
Non-current assets			
Property, plant and equipment		**2,295,176**	2,194,838
Investment properties		**33,006**	36,007
Lease prepayments		**462,078**	301,674
Intangible assets		**280,061**	268,520
Investments in associates		**384,734**	397,655
Deferred income tax assets		**87,370**	83,482
Available-for-sale financial assets		**3,653**	3,529
Other non-current assets		**13,541**	14,260
		3,559,619	3,299,965
Current assets			
Inventories		**1,770,753**	1,788,669
Trade and other receivables	9	**3,950,059**	3,302,678
Amount due from customers for contract work		**352,777**	283,991
Restricted cash		**252,859**	295,099
Cash and cash equivalents		**2,628,884**	2,789,570
		8,955,332	8,460,007
Total assets		**12,514,951**	11,759,972

	Note		
EQUITY			
Capital and reserves attributable to equity holders of the Company			
Share capital		**3,684,640**	3,684,640
Reserves		**(784,909)**	(827,006)
Retained earnings			
— Proposed final dividend		**128,962**	221,078
— Others		**2,116,611**	1,846,189
		5,145,304	4,924,901
Non-controlling interests		**338,799**	41,958
Total equity		**5,484,103**	4,966,859
LIABILITIES			
Non-current liabilities			
Borrowings		**1,169,058**	1,458,533
Deferred income		**520,808**	556,000
Deferred income tax liabilities		**24,526**	32,120
Long-term employee benefit obligations		**44,041**	76,781
		1,758,433	2,123,434
Current liabilities			
Trade and other payables	10	**3,623,350**	3,281,339
Dividends payable		**23,228**	40,184
Amount due to customers for contract work		**10,589**	7,852
Current income tax liabilities		**58,335**	63,976
Borrowings		**1,491,318**	1,211,158
Current portion of long-term employee benefit obligations		**10,417**	12,554
Provisions for warranty		**55,178**	52,616
		5,272,415	4,669,679
Total liabilities		**7,030,848**	6,793,113
Total equity and liabilities		**12,514,951**	11,759,972
Net current assets		**3,682,917**	3,790,328
Total assets less current liabilities		**7,242,536**	7,090,293

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to equity holders of the Company					
	Share capital *RMB '000*	**Other reserves** *RMB '000*	**Retained earnings** *RMB '000*	**Total** *RMB '000*	**Non-controlling interests** *RMB '000*	**Total equity** *RMB '000*
Balance at 1 January 2011	3,684,640	(847,198)	1,672,554	4,509,996	64,212	4,574,208
Comprehensive income						
Profit for the year	—	—	737,277	737,277	7,918	745,195
Other comprehensive income						
Changes in fair value of available-for-sales financial assets, net of tax	—	(271)	—	(271)	—	(271)
Currency translation differences	—	528	—	528	—	528
Total other comprehensive income	—	257	—	257	—	257
Total comprehensive income	—	257	737,277	737,534	7,918	745,452
Total contributions by and distributions to equity holders of the Company recognised directly in equity						
Dividends relating to 2010	—	—	(294,771)	(294,771)	—	(294,771)
Dividends to non-controlling interests	—	—	—	—	(15,418)	(15,418)
Total contributions by and distributions to equity holders of the Company	—	—	(294,771)	(294,771)	(15,418)	(310,189)
Changes in ownership interests in subsidiaries without change of control	—	(27,858)	—	(27,858)	(14,754)	(42,612)
Transfer to reserves	—	47,793	(47,793)	—	—	—
Total transactions with equity holders	—	19,935	(342,564)	(322,629)	(30,172)	(352,801)
Balance at 31 December 2011	3,684,640	(827,006)	2,067,267	4,924,901	41,958	4,966,859

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

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 automobile parts and components, general machinery, machinery tools and power equipment. The Group has operations mainly in the People's Republic of China (the "PRC" or "China").

The Company was established in the PRC on 27 July 2007 as a joint stock company with limited liability as part of the reorganisation of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. ("CQMEHG") in preparation for a listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited. CQMEHG is a state-owned enterprise established in the PRC and has been directly under the administration and control of the State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government. The address of the Company's registered office is No. 60, Huangshan Road Central, Northern New District, Chongqing 401123, the PRC.

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

These consolidated financial statements are presented in RMB, unless otherwise stated. These consolidated financial statements have been approved for issue by the Board of Directors on 19 March 2013.

2 Basis of preparation

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

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

Changes in accounting policy and disclosures

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

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

- HKFRS 13, 'Fair value measurement', aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements, which are largely aligned between HKFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs or US GAAP.

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

- HKFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. HKFRS 9 was issued in November 2009 and October 2010. It replaces the parts of HKFRS 39 that relate to the classification and measurement of financial instruments. HKFRS 9 requires financial assets to be classified into two measurement categories: those measured as at fair value and those measured at amortised cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the HKAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess HKFRS 9's full impact and intends to adopt HKFRS 9 no later than the accounting period beginning on or after 1 January 2015. The Group will also consider the impact of the remaining phases of HKFRS 9 when completed by the Board.

- HKFRS 10, 'Consolidated financial statements', builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Group intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013, and it is not expected to have a significant impact on the consolidated financial statements.

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

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

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

Except for the HKFRS 11 "Joint arrangements", the other HKFRSs or HK(IFRIC) interpretations that are not yet effective that would not be expected to have a material impact on the Group.

3. Segment information

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

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

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

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

The segment information provided to the operating management committee for the reportable segments for the year ended 31 December 2012 is as follows:

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

The segment information for the year ended 31 December 2011 is as follows:

	Engines RMB'000	Gear boxes RMB'000	Hydroelectric generation equipment RMB'000	Electrical wires and cables RMB'000	General machinery RMB'000	Machinery tools RMB'000	High-voltage transformers RMB'000	Materials sales RMB'000	All other segments RMB'000	Total Group RMB'000
Segment revenue	1,898,383	1,172,147	400,876	2,352,305	544,491	1,541,213	—	653,714	1,988,041	10,551,170
Inter-segment revenue	—	—	—	(1,164)	—	(4,005)	—	—	—	(5,169)
Revenue from external customers	1,898,383	1,172,147	400,876	2,351,141	544,491	1,537,208	—	653,714	1,988,041	10,546,001
Operating profit	527,180	105,006	53,972	80,316	68,375	124,256	—	497	48,345	1,007,947
Finance income	7,138	206	2,579	4,897	2,736	5,569	—	8	11,054	34,187
Finance costs	958	(6,117)	(4,652)	(31,775)	(2,672)	(22,492)	—	—	(64,574)	(131,324)
Share of profit from associates	—	(189)	—	—	(4,948)	—	10,335	—	(2,350)	2,848
Profit before income tax										913,658
Income tax expense	(89,233)	(14,628)	(5,574)	(10,257)	(11,675)	(22,981)	—	(126)	(13,989)	(168,463)
Profit for the year										745,195
Depreciation on property, plant and equipment and investment properties	10,559	28,891	8,416	16,939	18,425	36,854	—	29	34,059	154,172
Amortisation of lease prepayments and intangible assets	3,041	3,207	944	1,305	3,341	6,699	—	—	3,147	21,684
Write down/(write-back) of inventories	86	(491)	—	2,137	(78)	4,817	—	—	(3,531)	2,940
(Reversal of)/provision for impairment on trade and other receivables	(315)	(136)	1,103	1,706	(9,861)	9,589	—	108	3,287	5,481
Total assets	984,520	1,325,898	802,320	970,819	1,243,815	2,309,199	161,215	139,581	3,822,605	11,759,972
Total assets include:										
Investments in associates	—	1,070	—	—	70,428	—	161,215	—	164,942	397,655
Additions to non-current assets (other than financial instruments and deferred tax assets)	21,772	47,591	18,633	11,971	96,256	230,949	—	527	94,965	522,664

Except Holroyd Precision Limited, Precision Components Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited, PTG Deutschland GmbH ("PTG six entities"), Precision Technologies Group Investment Development Company Limited ("PTGHK") and Precision Technologies Group (PTG) Limited, the other entities of the Group are domiciled in the PRC. The result of the Group's revenue from external customers in the PRC for the year ended 31 December 2012 is approximately RMB10,230,832,000 (2011: RMB10,203,233,000), and the total of its revenue from external customers from other countries is approximately RMB325,789,000 (2011: RMB342,768,000).

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

4. Other income

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

5. Finance costs, net

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

6. Taxation

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

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

7. Earnings per share

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

8. Dividends

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

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

9. Trade and other receivables

	Group As at 31 December 2012 RMB '000	2011 RMB '000
Trade and bills receivables (a)	**3,630,180**	3,197,968
Less: provision for impairment of trade receivables	**(250,526)**	(247,554)
	3,379,654	2,950,414
Deposits paid	**90,725**	76,918
Less: provision for impairment of deposits paid	**(10,639)**	(10,341)
Deposits paid - net	**80,086**	66,577
Prepayments	**409,752**	198,087
Staff advances	**35,979**	33,873
Others	**69,044**	73,157
Less: provision for impairment of receivables other than trade receivables and deposits paid	**(24,456)**	(19,430)
	3,950,059	3,302,678

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

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

As at 31 December 2012, trade and bills receivables of approximately RMB1,596,739,000 (2011: RMB1,238,317,000) were past due but not impaired. These relate to a number of customers for whom there is no recent history of default. The analysis of ageing, which were counted from the day of recognition of trade receivables, is as follows:

	Group As at 31 December 2012 RMB '000	2011 RMB '000
91 days to 1 year	**1,279,372**	1,008,848
1 year to 2 years	**263,533**	202,726
2 years to 3 years	**53,834**	26,743
	1,596,739	1,238,317

As at 31 December 2012, trade receivables of RMB268,869,000 (2011: RMB251,667,000) were individually impaired and provided for. The amount of provision was approximately RMB250,526,000 as at 31 December 2012 (2011: RMB247,554,000). The individually impaired receivables mainly relate to certain customers, which are in difficult financial situations. It was assessed that a portion of the receivables is expected to be recovered based on the past collection history under similar circumstances. The ageing of these receivables is as follows:

	Group As at 31 December 2012 RMB '000	2011 RMB '000
91 days to 1 year	**7,803**	14,442
1 year to 2 years	**23,757**	31,893
2 years to 3 years	**45,185**	35,820
Over 3 years	**192,124**	169,512
	268,869	251,667

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

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

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

	As at 31 December 2012 RMB '000	2011 RMB '000
RMB	**3,716,760**	3,197,294
UK pound ("UKP")	**188,495**	70,583
USD	**33,020**	22,900
Other currencies	**11,784**	11,901
	3,950,059	3,302,678

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

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

Deposits paid	**Year ended 31 December**	
	2012	2011
	RMB '000	*RMB '000*
At beginning of the year	**10,341**	10,341
Provision for impairment of receivables	**298**	—
At end of the year	**10,639**	10,341

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

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

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

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

10. Trade and other payables

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

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

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

CHAIRMAN'S STATEMENT

On behalf of the Board, I am pleased to announce the annual results of the Group for the year ended 31 December 2012 (the "Period"). The Group's annual results have been audited by the Company's auditor, PricewaterhouseCoopers. It is my pleasure to present the annual results of the Group as well as sustainable development strategy and outlook to shareholders of the Company.

RESULTS REVIEW

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

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

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

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

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

BUSINESS REVIEW AND OUTLOOK

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Trade business

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

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

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

DEVELOPMENT FOUNDATION AND ADVANTAGES

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

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

DEVELOPMENT STRATEGY

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

I. Development Strategy

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

II. Work Priorities

1. Promote innovation in project management and advance structural adjustment

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

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

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

3. Scale up economy monitoring to improve management

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

4. Improve quality of capital operation and enhance financing capability

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

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

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

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

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

Results Overview

Operation Analysis

Automobile parts and components

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

During the Period, gross profit for the automobile parts and components segment was approximately RMB749.3 million, representing a decrease of approximately RMB213.4 million or approximately 22.2%, as compared with approximately RMB962.7 million for the year ended 31 December 2011. Gross profit margin decreased to 26.0% for 2012 from 27.4% for 2011, primarily due to the decrease in sales volume, which led to the rise of unit cost, and decrease in sales price as a result of intensified market competition, which led to a decrease in gross profit margin of its business by 1.4 percentage points.

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

Power equipment

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

During the Period, gross profit for the power equipment segment was approximately RMB278.1 million, an increase of approximately RMB30.6 million or approximately 12.4%, as compared with approximately RMB247.5 million for the year ended 31 December 2011. The overall gross profit margin slightly increased to 7.7% for 2012 from 7.1% for 2011, primarily due to the increase in the proportion of electrical wires, cables and other business with low gross profit, and the gross profit margin slightly increased to 7.5% for 2012 from 5.3% for 2011, while the gross profit margin decreased to 24.1% for 2012 from 32.6% for 2011 due to the changes in product sales structure of hydro turbine generators.

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

General machinery

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

During the Period, gross profit for the general machinery segment was approximately RMB304.9 million, a decrease of approximately RMB40.9 million or approximately 11.8% as compared with approximately 345.8 million for the year ended 31 December 2011. Gross profit margin decreased slightly to 22.9% for 2012 from 25.3% for 2011. The decrease in the gross profit margin of the segment was mainly due to the intensified market competition, which led to a decrease in sales price, and the changes in product sales structure.

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

CNC machine tools (apart from trade business)

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

During the Period, gross profit for the CNC machine tools segment was approximately RMB255.2 million, a decrease of approximately RMB145.7 million or approximately 36.3%, as compared with approximately RMB400.9 million for the year ended 31 December 2011. Gross profit margin slightly decreased to 24.8% for 2012 from 26.1% for 2011, primarily due to the decrease in sales volume.

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

Trade business

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

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

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

SALES

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

GROSS PROFIT

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

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

OTHER INCOME AND GAINS

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

SELLING AND ADMINISTRATIVE EXPENSES

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

OPERATING PROFIT

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

FINANCE COSTS

Interest expense for 2012 were approximately RMB163.4 million, an increase of approximately RMB32.1 million or approximately 24.4%, as compared with approximately RMB131.3 million for last year, mainly due to higher interest rate and interests incurred by bonds for the Period.

SHARE OF PROFITS OF ASSOCIATED COMPANIES

The Group's share of profits of associated companies for the year ended 31 December 2012 was approximately RMB1.0 million, a substantial decrease of approximately RMB1.8 million or approximately 64.3%, as compared with approximately RMB2.8 million for last year. The decrease was due to the operating losses of RMB15.0 million recorded by Chongqing Hongyan Fangda Automobile Suspension Co., Ltd. and Knorr-Bremse CAFF Systems for Commercial Vehicles (Chongqing) Ltd. and the decrease in the profits of other associated companies, while Chongqing Midea General Refrigeration Equipment Co., Ltd. turned losses into gains and recorded profits of approximately RMB14.1 million during the period.

INCOME TAX EXPENSES

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

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

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

DISTRIBUTABLE RESERVES

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

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

FINAL DIVIDEND

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

In order to ascertain the entitlements of the shareholders to receive the proposed final dividend, the register of members of the Company will be closed from Saturday, 22 June 2013 to Thursday, 27 June 2013 (both days inclusive), during which period no transfer of shares will be registered. All transfer documents accompanied by share certificates of the holders of H Shares of the Company must be lodged at our H Share Registrar at Hong Kong, Computershare Hong Kong Investor Services Limited at Shops 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration no later than 4:30 p.m. on Friday, 21 June 2013.

WITHHOLDING OF ENTERPRISE INCOME TAX FOR NONRESIDENT CORPORATE SHAREHOLDERS

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

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

If any resident enterprise (as defined in the EIT Law) whose name appears on the H Share Register of Members which is duly incorporated in the PRC or under the laws of a foreign country (or a territory) but with a PRC-based de facto management body does not wish to have the 10% enterprise income tax to be withheld by the Company, it should lodge all transfers with and submit a legal opinion issued by a PRC certified lawyer (with affixation of common seal of the law firm thereto) that establishes its resident enterprise status to the Company's H Share Registrars, Computershare Hong Kong Investor Services Limited at Shops 1712 1716, 17th floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 21 June 2013. Any natural person investor whose H shares are registered in the name of any such non-individual shareholders and who does not wish to have any enterprise income tax to be withheld by the Company, may consider transferring the legal title of the relevant H shares into his or her own name and lodging all relevant transfer instruments accompanied by the H share certificates with the Company's H Share Registrars for registration no later than 4:30 p.m. on 21 June 2013. Shareholders are recommended to consult their tax advisors regarding tax issues in respect of the ownership and disposal of H shares in the PRC and Hong Kong and other tax effects.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Sunday, 19 May 2013 to Tuesday, 18 June 2013 (both days inclusive), during which period no transfer of shares will be registered. In order to qualify for attending 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 17 May 2013.

CASH FLOW

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

During the Period, the Group had a net cash inflow from operating activities of approximately RMB141.0 million (as at 31 December 2011: RMB166.7 million), a net cash outflow from investing activities of approximately RMB331.4 million (as at 31 December 2011: RMB295.9 million), and a net cash inflow from financing activities of approximately RMB27.8 million (as at 31 December 2011: RMB804.7 million). Directors believe that the Group is financially sound and has sufficient resources to meet its operating capital needs and fund any predictable capital expenditure.

ASSETS AND LIABILITIES

As at 31 December 2012, the Group had total assets of approximately RMB12,515.0 million, representing an increase of approximately RMB755.0 million as compared with approximately RMB11,760.0 million as at 31 December 2011. Total current assets amounted to approximately RMB8,955.3 million, increased by approximately RMB495.3 million as compared with approximately RMB8,460.0 million as at 31 December 2011, accounting for approximately 71.6% of total assets. However, total non-current assets was approximately RMB3,559.6 million, representing an increase of approximately RMB259.6 million as compared with approximately RMB3,300.0 million as at 31 December 2011, and accounting for approximately 28.4% of total assets.

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

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

CURRENT RATIO

As at 31 December 2012, current ratio (the ratio of current assets to current liabilities) of the Group slightly decreased from1.81:1 for 2011 to 1.70:1 for 2012.

GEARING RATIO

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

INDEBTEDNESS

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

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

PLEDGES OF ASSETS

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

CONTINGENT LIABILITIES

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

SIGNIFICANT EVENTS

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

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

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

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

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

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

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

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

SUBSEQUENT EVENTS

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

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

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

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

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

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

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

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

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

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

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

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

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

CAPITAL EXPENDITURE

As at 31 December 2012, the total capital expenditure of the Group was approximately RMB532.9 million, which was principally used for establishment by way of capital contribution of Chongqing Tongkang Environment Protection Technology Co., Ltd. (重慶潼康環保科技有限公司), plant expansion, production technology improvement and equipment upgrade (31 December 2011: 522.7 million).

CAPITAL COMMITMENT

As at 31 December 2012, the Group had capital commitments of approximately RMB149.3 million (31 December 2011: RMB147.4 million) in respect of fixed assets and intangible assets.

RISK OF FOREIGN EXCHANGE

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

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

EMPLOYEES

As at 31 December 2012, the Group had a total of 17,782 employees (31 December 2011: 18,082 employees). The Group will continue the upgrade of its technical talent base, foster and recruit technical and management personnel possessed with extensive professional experiences, optimize the distribution system that links with the remunerations and performance reviews of our management and employees, improve training on safety so as to ensure employees' safety and maintain good and harmonious employee-employer relations.

OTHER CORPORATE INFORMATION

Competition and Conflict of Interests

As at 31 December 2012, the non-competition agreement entered into between Chongqing Machinery and Electronic Holding (Group) Co., Ltd., the Parent Company, and the Company remained effective. Please refer to the Prospectus for details of such undertakings.

CONTINUING CONNECTED TRANSACTIONS

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

Master Sales Agreement

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

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

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

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

For the year ended 31 December 2012, the monetary value of sales under the Master Sales Agreement by the Company to the Parent Company and its associates was approximately RMB119.2 million.

Master Supplies Agreement

On 13 April 2011, a master supplies agreement was renewed by and between the Company and the Parent Company (the "Master Supplies Agreement"). Pursuant to the Master Supplies Agreement, the Parent Company and its associates have agreed to supply the Company with parts and raw materials such as gears, component parts, YB2 series engines, electricity, water, gas and electrolytic copper (the "Supplies").

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

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

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

For the year ended 31 December 2012, the monetary value of supplies under the Master Supplies Agreement by the Parent Company and its associates to the Company was approximately RMB310.0 million.

Master Leasing Agreement

On 25 June 2012, the Company revised the master leasing agreement (the "Master Leasing Agreement") with the Parent Company for the leasing of land and buildings from the Parent Company and its associates to the Company as offices, production facilities, workshops and staff quarters.

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

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

Master Integrated Service Agreement

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Compliance with Code on Corporate Governance Practice

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

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not at any time during the year ended 31 December 2012 in compliance with the code provisions under 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 three independent non-executive Directors and one non-executive Director, namely Mr. Lo Wah Wai, Mr. Kong Weiliang, Mr. Jin Jingyu, and Mr. Liu Liangcai. Mr. Lo Wah Wai is the chairman of the audit committee. The audit committee has reviewed the Company's results for the period and respective recommendation and opinion have been made.

Remuneration Committee

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

Nomination Committee

The Nomination Committee of the Company consists of 1 executive Director (Chairman), 3 independent non-executive Directors and 1 non-executive Director, and shall be chaired by the Chairman, namely, Mr. Yu Gang (as acting chairman), Mr. Kong Weiliang, Mr. Ren Xiaochang, Mr. Jin Jingyu, and Mr. Huang Yong. The nomination committee is responsible for the identification and evaluation of candidates for appointment or reappointment as directors and senior management, as well as the development and maintenance of the Company's overall corporate governance policies and practices.

Strategic Committee

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

Supervisory Committee

The supervisory committee of the Company comprises six supervisors, namely Mr. Duan Rongsheng, Mr. Zhang Xinzhi, 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 procedures governing directors' securities transactions in compliance with the Model Code as set out in Appendix 10 to the Listing Rules. Specific confirmation has been obtained from all directors to confirm compliance with the Model Code during the year ended 31 December 2012.

Purchase, Sale or Redemption of Securities

During the year ended 31 December 2012, 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 28 March 2013 and will be dispatched to shareholders of the Company thereafter according to the means they chose to receive corporate communications.

By Order of the Board
Chongqing Machinery & Electric Co., Ltd.*
Yu Gang
Executive Director (As Acting Chairman)

Chongqing, the PRC
19 March 2013

As at the date of this announcement, the executive Directors are Mr. Yu Gang, Mr. Liao Shaohua, Mr. Chen Xianzheng and Mr. Xie Huajun; 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*