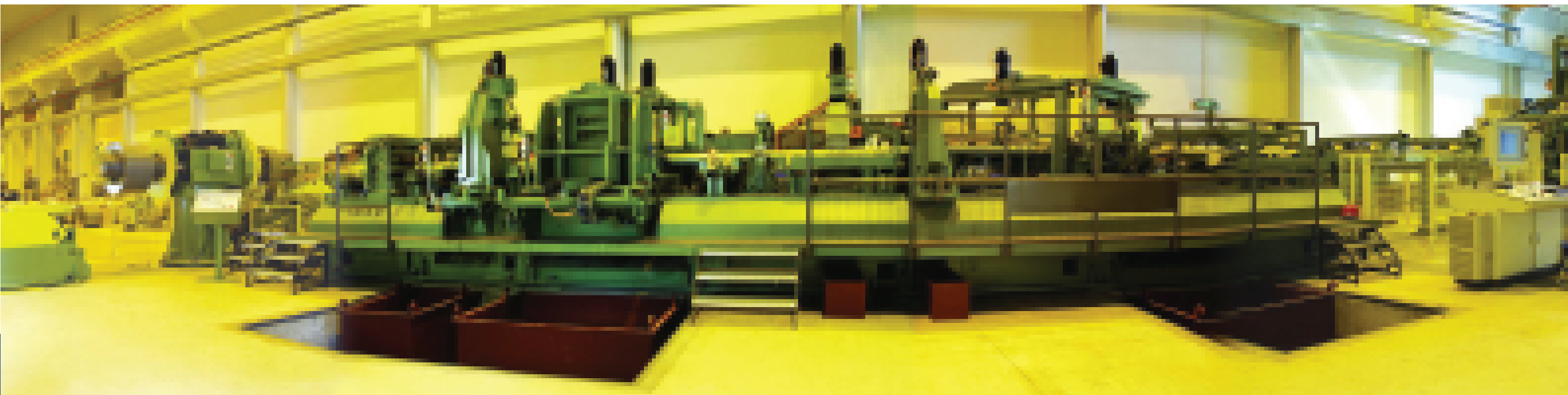
重慶機電股份有限公司

CHONGQING MACHINERY & ELECTRIC CO., LTD.*

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

Stock Code: 02722

2010 Interim Report



* For identification purposes only

CONTENTS

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Xie Hua Jun *(Chairman)*
Mr. He Yong
Mr. Liao Shaohua
Mr. Chen Xianzheng

Non-executive Directors

Mr. Huang Yong
Mr. Yu Gang
Mr. Yang Jingpu
Mr. Liu Liangcai
(appointed on 15 June 2010)

Independent Non-executive Directors

Mr. Lo Wah Wai
Mr. Ren Xiaochang
Mr. Kong Weiliang

SUPERVISORS

Mr. Duan Rongsheng
Ms. Liao Rong
Ms. Wang Rongxue
Mr. Liu Xing
(appointed on 15 June 2010)
Mr. Wang Xuqi
Mr. Chen Qing
(appointed on 15 June 2010)

LEGAL REPRESENTATIVE

Mr. Xie Hua Jun

COMPANY SECRETARY

Mr. Wang Xiaojun *(Practising Lawyer)*

COMMITTEES UNDER BOARD OF DIRECTORS

Audit Committee

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

Remuneration Committee

Mr. Ren Xiaochang *(Chairman)*
Mr. Yu Gang
Mr. Lo Wah Wai

Nomination Committee

Mr. Kong Weiliang *(Chairman)*
Mr. Huang Yong
Mr. Ren Xiaochang

INTERNATIONAL AUDITORS

PricewaterhouseCoopers

LEGAL ADVISORS TO THE COMPANY

Jun He Law Offices
(As to Hong Kong Laws)
Beijing Kaiwen Law Firm Chongqing Branch
(As to PRC Laws)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2008, 20/F, Jardine House,
No. 1 Connaught Place, Central, Hong Kong

WEBSITE OF THE COMPANY

www.chinacqme.com

CORPORATE INFORMATION *(CONTINUED)*

AUTHORIZED REPRESENTATIVES

Mr. Chen Xianzheng
Mr. Wang Xiaojun

QUALIFIED ACCOUNTANT

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

ALTERNATE AUTHORIZED REPRESENTATIVE

Mr. Lo Wah Wai

REGISTERED ADDRESS

No. 155 Zhongshan Third Road
Yuzhong District, Chongqing City, the PRC
Postal code: 400015

HONG KONG SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor,
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS

China Merchants Bank
Chongqing Shangqingsi Sub-branch
1st Floor, Zhong-an International Building
No. 162 Zhongshan Third Road
Yuzhong District
Chongqing City, the PRC

SHARE INFORMATION

Listing Place

The Stock Exchange of Hong Kong Limited (the "Stock Exchange")

Stock Code

02722

FINANCIAL YEAR END

31 December

FINANCIAL HIGHLIGHTS

Chongqing Machinery & Electric Co., Ltd.* (the "Company") and its subsidiaries (collectively the "Group") announce the highlights of the consolidated financial information set out below.

- Revenue of the Group for the six months ended 30 June 2010 amounted to approximately RMB4,263.1 million, representing an increase of around 52.1% from the corresponding period last year.

- Gross profit of the Group for the six months ended 30 June 2010 amounted to approximately RMB827.9 million, representing an increase of around 66% from the corresponding period last year.

- Profit attributable to the equity holders of the Company for the six months ended 30 June 2010 was approximately RMB345.7 million, representing an increase of around 60.5% from the corresponding period last year.

- Basic earnings per share for the six months ended 30 June 2010 was approximately RMB0.09.

CHAIRMAN'S STATEMENT

Dear Shareholders,

The board of directors of the Company is pleased to announce the interim results of the Group for the six months ended 30 June 2010 (the "Period"). The Group's interim results have not been audited but have been reviewed by the audit committee and the Company's auditor, PricewaterhouseCoopers.

RESULTS

Total revenue of the Group for the six months ended 30 June 2010 amounted to approximately RMB4,263.1 million, representing an increase of around 52.1% from RMB2,802.6 million for the corresponding period last year.

Profit attributable to equity holders of the Company for the six months ended 30 June 2010 amounted to approximately RMB345.7 million, representing an increase of around 60.5% from RMB215.4 million for the corresponding period last year.

Earnings per share for the six months ended 30 June 2010 was approximately RMB0.09 (first half of 2009: RMB0.06). As at 30 June 2010, total assets of the Group amounted to approximately RMB9,787.1 million (31 December 2009: RMB8,748.6 million), while total liabilities amounted to approximately RMB5,563.6 million (31 December 2009: RMB4,629.3 million). Total shareholders' equity was approximately RMB4,223.5 million (31 December 2009: RMB4,119.3 million), of which approximately RMB4,168.3 million (31 December 2009: RMB4,045.4 million) was attributable to the equity holders of the Company. Net asset value per share was approximately RMB1.15 (31 December 2009: RMB1.12).

As the macroeconomic environment continued to recover during the first half of the year, our four major business segments benefiting from the domestic demand stimulus packages, our group reported overall strong sales performance for the Period with a significant growth of 52.1% as compared with the corresponding period last year. During the Period, we have adopted effective measures to promote internal control mechanisms and emphasis on the gradual improvement of employees' remuneration package and the improvement in the productivity, which would assist us in consolidating talents and labour resources in the long run. We expect our results to maintain a stable growth as a whole throughout the year.

RESULTS ***(continued)***

We proactively improve our product quality and cost-effectiveness through speeding up independent technical innovation and research and development, with a view to attaining first-class level in the world. The completion of the acquisition of the entire equity interests in the six wholly-owned subsidiaries of Precision Technologies Group Ltd.("PTG"), a British company, during the Period would assist the Group in enhancing the high-end technical know-how of our CNC machine tools segment and driving the optimization of our capability of technical development in this area as well as in expanding our business scale to international markets and enhancing the profile of the Group. Details of the acquisition agreement are set out on page 73 under the section heading "Significant Events" of this report.

DEVELOPMENT STRATEGY

Pursuant to the development strategy set for 2010, our group makes more efforts in accelerating our development pace and pushing forward independent innovation and further enhance the strategic view for our projects, with an aim to planning in a broad and long-term perspective, construction with a high standard, management in an effective manner as well as the healthy development of construction mechanism, so as to ensure satisfactory outcomes of "creative, efficient, execution and beyond" in respect of our development priorities:

(I) Accelerate adjustment and upgrade to transform growth mode;

(II) Speed up project construction to upgrade core technology and production capacity;

(III) Accelerate R&D of high value-added products to improve profitability;

(IV) Expedite capital operation, actively promote joint venture, cooperation, merger and acquisition and reorganization;

(V) Enhance market analysis and forecast to explore new market;

(VI) Speed up the promotion of lean management to improve management standards.

BUSINESS OUTLOOK

Commercial vehicle parts and components (engine, gear box and other products)

Since the PRC government introduced a series of preferential policies to stimulate the development of the automobile industry in the second half of 2009, the commercial vehicle parts and components business of the Group experienced rapid growth as compared with the corresponding period last year and recorded a significant increase of approximately 51.8% in revenue from the corresponding period last year. Demand for diesel engines from such sectors as building construction, construction machinery, shipbuilding and commercial vehicles remained stable at a high level. Work shifts for diesel engines, braking and steering systems and clutches business were adjusted and increased to raise production capacity, which led to a rapid increase in output and helped win market initiative. Accordingly, the sales of commercial vehicle parts and components achieved a rapid growth. We expect the commercial vehicle parts and components business to achieve an overall steady growth for the whole year of 2010.

During the Period, demand for NT series of engines from construction machinery and electricity generation sectors saw noticeable increase. In addition, dozens of product series, including various types of gear boxes (PF, PR, PS and PE) and engine power takeoffs manufactured by the Group were well-popular among domestic and overseas markets and customers. At the 2010 Busworld Asia Exhibition held at Shanghai, two products under "Qijiang" brand, S6-100 and S6-160 bus gear boxes of Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear") were exhibited to the public and highly appreciated from the market for their highlighted features in respect of fuel efficiency and environment friendliness, light weight, human-friendly manipulation and reliable quality which cater for the latest market demand.

BUSINESS OUTLOOK *(continued)*

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

Chinese government injected RMB4 trillion in construction of infrastructure, expansion of power network and refurbishment of existing construction facilities, which boosted the demand for electrical wires and cables in the first half. Meanwhile, as the Group's production technology improved, and demands from European Union and Southeast Asia recovered, overseas orders for hydroelectric turbine generators continued to grow. It is expected in the second half of 2010, the Chinese government will further underpin the investment in transportation, energy, power and other infrastructure construction, thus maintaining steady growth of hydroelectric turbine generators business. The Group's power equipment segment achieved rapid growth as compared with the same period last year, representing an increase of approximately 66.9%. Growth rate of electrical wires and cables segment is expected to slowdown in the second half of the year. The large high voltage transformer business is to see moderate retreat due to the intensifying competition from domestic peers. In 2010, power equipment segment is expected to see overall stable growth.

Designated by the National Development and Reform Commission as national level production base for impact-type hydroelectric turbine generators with high hydraulic heads and large capacity, the Group is to continue independent R&D on high-end product technology and commercialization of impact-type wheel CNC machine-shaping technology. First batch of orders to European Union have been successfully delivered. The Company has equipped with testing and production capacity for 1000KV AC and ±800KV DC ultra high voltage transformer. In particular, 750KV AC ultra high voltage transformer received sizable order which has been delivered. Copper and Copper Based Powder (Phase I) project has been completed and commenced production, initially forming the largest non-ferrous metal powder production base in China. The high-voltage electrical ceramics project has been completed and put into production, with massive production capacity for 220KV and lower voltage electrical ceramic products. Development of copper bar and special copper materials for 1 million kilowatts ultra-critical generating units, wind power generating units and nuclear power generating units, and cables for 2MW wind power generating units have been completed. Sizable order has been received and delivery has been made.

BUSINESS OUTLOOK *(continued)*

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

Looking back to the first half of 2010, as steel and metallurgical industries recovered, especially driven by growing industries such as petrochemical, natural gas, environmental protection, aviation, nuclear power and wind power, the Group's products have shown their edges in niche markets. Accordingly, the Group received more new orders during the Period. General machinery segment saw a growth of approximately 8.6% as compared with the same period last year. This segment is expected to remain moderately stable throughout 2010.

To be in line with the emission reduction targets set by the United Nations in 2009, China has implemented mandatory environmental protection measures in respect of nine industries with overcapacity, including cement, coal and steel, etc. Implementation of these new policies requires enterprises of non-compliance to purchase or refresh new environmental protection, automatic and efficient equipments, thus expanding the market demand. The Group independently designed GKH800-NB air-tight explosion-proof centrifuges, and secondary pump for million-kW pressurized water reactor nuclear power station. In particular, the Group has secured contracts for water pressure test pump through successful bidding, won three bids for centrifugal upward injection pump and recognized by customers, which is expected to become a new growth driver. "W" type high-voltage oil-free air compressor has been listed in the first batch of municipal level key new products in 2010. In addition, the trial run platform for cold water units, which was newly built by the Group, obtained certification from National Quality Supervision and Inspection Center for Compressor and Refrigeration Equipments.

BUSINESS OUTLOOK ***(continued)***

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

As driven by demand from automobile sector and supported by material technical improvement projects in agricultural machinery, construction machinery, mining machinery and wind power, revenue from the Group's CNC machine tools segment in the first half of 2010 increased by approximately 69.7% over the same period last year. The central government is expected to continue its stimulus package in the second half of 2010 aiming for stabilizing and stimulating economy and expanding domestic demand, which will enable this segment to maintain its steady growth in the year.

More investment is to be made for technical renovation of the segment. By actively implementing commercialization of large CNC gear-manufacturing machine tools, the segment would enable its products to have capacity of maximum machining diameter of 3.2 metres. Y4232CNC9 series CNC gear shaving machine and YX3132CNC4 4-axle CNC gear hobbing machine have been listed in municipal level key new products plan for 2010. The Group will accelerate production of the mid to large CNC lathes with specification over ϕ500 and ϕ630, and R&D for large module gear hobbing cutter, large module hard alloy mobile facer and large module gear shaping cutter. In order to push forward high-end technology restructuring of the segment, the Group acquired the entire equity interests of six wholly-owned subsidiaries of PTG, which would help to upgrade technology integration advantage and explore overseas market through these foreign enterprises in future.

SUMMARY

In the first half of 2010, Chinese economy grew at a rapid pace. GDP reached approximately RMB17,284.0 billion, representing a year-on-year increase of 11.1% in terms of comparable prices. The growth is 3.7 percentage points higher as compared with the same period last year. However, amid uncertainties such as control policies on real estate market by central government and debt crisis in Europe, the management of the Group is to follow up domestic and overseas market conditions, intensify analysis and judgment, closely watch economic operation, and prepare for unpredictable scenarios, so as to create ever more glorious results leveraging on the cutting-edges of the Group's four major segments. We expect our businesses to keep upward momentum in the second half of 2010.

On behalf of the Board, I would like to extend my heartfelt gratitude to our shareholders, clients and suppliers for their lasting support and care. My sincere appreciation also goes to our staff for their relentless efforts and devotion in the first half of 2010.

Xie Hua Jun
Executive Director Chairman

Chongqing, the PRC, 30 August 2010

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION
TO THE BOARD OF DIRECTORS OF CHONGQING MACHINERY & ELECTRIC CO., LTD.
(incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 14 to 59, which comprises the condensed consolidated balance sheet of Chongqing Machinery & Electric Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2010 and the related condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting".

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 30 August 2010

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

30 June 2010

(All amounts in RMB unless otherwise stated)

Condensed consolidated balance sheet

	Note	30 June 2010 RMB'000 Unaudited	31 December 2009 RMB'000 Audited
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,791,548	1,659,174
Investment properties	5	22,913	24,108
Lease prepayments	5	271,511	274,741
Intangible assets	5	262,828	84,910
Investments in associates		368,691	427,661
Deferred income tax assets		101,898	66,891
Available-for-sale financial assets		4,734	6,545
Other non-current assets		9,111	10,186
		2,833,234	2,554,216
Current assets			
Inventories		1,467,416	1,290,816
Trade and other receivables	6	2,775,509	2,130,646
Amount due from customers for contract work		168,226	157,766
Available-for-sale financial assets		—	8,000
Restricted cash		411,359	419,758
Cash and cash equivalents		2,131,345	2,187,362
		6,953,855	6,194,348
Total assets		9,787,089	8,748,564

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(CONTINUED)*

30 June 2010

(All amounts in RMB unless otherwise stated)

Condensed consolidated balance sheet *(Continued)*

	Note	30 June 2010 RMB'000 Unaudited	31 December 2009 RMB'000 Audited
EQUITY			
Equity attributable to equity holders of the Company			
Share capital	7	3,684,640	3,684,640
Reserves		(883,953)	(882,299)
Retained earnings			
— Proposed final dividend		—	221,078
— Others		1,367,619	1,021,973
		4,168,306	4,045,392
Non-controlling interests		55,158	73,880
Total equity		4,223,464	4,119,272
LIABILITIES			
Non-current liabilities			
Borrowings	8	444,217	355,968
Deferred income		452,172	166,381
Deferred income tax liabilities		28,783	11,251
Long-term employee benefit obligations	9	142,026	144,563
		1,067,198	678,163

Condensed consolidated balance sheet *(Continued)*

	Note	**30 June 2010 RMB'000 Unaudited**	31 December 2009 RMB'000 Audited
Current liabilities			
Trade and other payables	10	**3,180,610**	3,013,883
Amount due to customers for contract work		**23,463**	14,414
Current income tax liabilities		**53,957**	46,167
Borrowings	8	**987,822**	843,857
Current portion of long-term employee benefit obligations	9	**13,346**	13,346
Dividends payable		**215,092**	—
Provisions for warranty	11	**22,137**	19,462
		4,496,427	3,951,129
Total liabilities		**5,563,625**	4,629,292
Total equity and liabilities		**9,787,089**	8,748,564
Net current assets		**2,457,428**	2,243,219
Total assets less current liabilities		**5,290,662**	4,797,435

The notes on pages 23 to 59 form an integral part of this unaudited condensed consolidated interim financial information.

Condensed consolidated statement of comprehensive income

		Unaudited	
		Six months ended 30 June	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Revenue	4	**4,263,106**	2,802,628
Cost of sales		**(3,435,180)**	(2,303,978)
Gross profit		**827,926**	498,650
Distribution costs		**(158,160)**	(111,578)
Administrative expenses		**(317,747)**	(221,710)
Other gains, net		**7,511**	20,721
Other income		**13,732**	12,186
Operating profit	12	**373,262**	198,269
Finance income		**13,091**	17,681
Finance costs		**(46,276)**	(33,663)
Finance costs, net		**(33,185)**	(15,982)
Share of post-tax profits of associates		**33,843**	61,660
Profit before income tax		**373,920**	243,947
Income tax expense	13	**(21,400)**	(21,053)
Profit for the period		**352,520**	222,894

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(CONTINUED)*

30 June 2010

(All amounts in RMB unless otherwise stated)

Condensed consolidated statement of comprehensive income *(Continued)*

		Unaudited Six months ended 30 June	
	Note	**2010** **RMB'000**	2009 RMB'000
Other comprehensive income:			
Recognition of fair value change relating to acquisition of subsidiaries		—	30,612
Fair value (losses)/gains on available-for-sale financial assets, net of tax		(1,654)	2,541
Other comprehensive income for the period, net of tax		(1,654)	33,153
Total comprehensive income for the period		350,866	256,047
Profit attributable to:			
Equity holders of the Company		345,646	215,422
Non-controlling interests		6,874	7,472
		352,520	222,894
Total comprehensive income attributable to:			
Equity holders of the Company		343,992	248,575
Non-controlling interests		6,874	7,472
		350,866	256,047
Earning per share for profit attributable to the equity holders of the Company *(expressed in RMB per share)*			
— Basic and diluted	14	0.09	0.06

The notes on pages 23 to 59 form an integral part of this unaudited condensed consolidated interim financial information.

Condensed consolidated statement of changes in equity

		Unaudited					
		Attributable to equity holders of the Company					
	Note	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 2009		3,684,640	(952,715)	686,420	3,418,345	52,494	3,470,839
Comprehensive income							
Profit for the period		—	—	215,422	215,422	7,472	222,894
Other comprehensive income							
Changes in fair value of available-for-sale financial assets, net of tax		—	2,541	—	2,541	—	2,541
Recognition of fair value change relating to acquisition of subsidiaries		—	30,612	—	30,612	—	30,612
Total comprehensive income		—	33,153	215,422	248,575	7,472	256,047
Total transactions with owners		—	—	—	—	—	—
Balance at 30 June 2009		3,684,640	(919,562)	901,842	3,666,920	59,966	3,726,886

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(CONTINUED)*

30 June 2010

(All amounts in RMB unless otherwise stated)

Condensed consolidated statement of changes in equity *(Continued)*

		Unaudited					
		Attributable to equity holders of the Company					
	Note	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 2010		3,684,640	(882,299)	1,243,051	4,045,392	73,880	4,119,272
Comprehensive income							
Profit for the period		—	—	345,646	345,646	6,874	352,520
Other comprehensive income							
Changes in fair value of available-for-sale financial assets, net of tax		—	(1,654)	—	(1,654)	—	(1,654)
Total comprehensive income		—	(1,654)	345,646	343,992	6,874	350,866
Transactions with owners							
Dividends relating to 2009		—	—	(221,078)	(221,078)	—	(221,078)
Dividends to non-controlling interests		—	—	—	—	(25,596)	(25,596)
Total transactions with owners		—	—	(221,078)	(221,078)	(25,596)	(246,674)
Balance at 30 June 2010		3,684,640	(883,953)	1,367,619	4,168,306	55,158	4,223,464

The notes on pages 23 to 59 form an integral part of this unaudited condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(CONTINUED)*

30 June 2010

(All amounts in RMB unless otherwise stated)

Condensed consolidated cash flow statement

		Unaudited	
		Six months ended 30 June	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Cash generated from operations		**60,849**	171,008
Interest paid		**(39,059)**	(33,701)
Income tax paid		**(55,486)**	(35,920)
Transaction costs in relation to acquisition of subsidiaries	16	**(1,423)**	—
Net cash (used in)/generated from operating activities		**(35,119)**	101,387
Cash flows from investing activities			
Purchase of available-for-sale financial assets		**(394)**	—
Proceeds from return of investments		**2,782**	—
Additional investment to associates		**(10,912)**	—
Purchases of property, plant and equipment		**(133,346)**	(201,079)
Purchase of intangible assets		**(589)**	(1,436)
Proceeds on disposal of property, plant and equipment		**3,904**	3,894
Acquisition of subsidiaries, net of cash acquired	16	**(196,031)**	(172,086)
Interest received		**13,091**	17,681
Dividends received		**100,902**	125,511
Net cash used in investing activities		**(220,593)**	(227,515)

Condensed consolidated cash flow statement *(Continued)*

		Unaudited	
		Six months ended 30 June	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Cash flows from financing activities			
Proceeds from borrowings		**678,797**	434,468
Repayments of borrowings		**(443,798)**	(407,556)
Finance lease paid		**(2,785)**	(2,785)
Dividends paid to joint venture partners		**—**	(36,623)
Dividends paid to non-controlling interests		**(25,596)**	(1,995)
Net cash generated from/(used in) financing activities		**206,618**	(14,491)
Net decrease in cash and cash equivalents		**(49,094)**	(140,619)
Cash and cash equivalents at the beginning of the period		**2,187,362**	2,308,454
Exchange losses		**(6,923)**	—
Cash and cash equivalents at end of the period		**2,131,345**	2,167,835

The notes on pages 23 to 59 form an integral part of this unaudited condensed consolidated interim financial information.

Notes to the condensed consolidated interim financial information

1. General information

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

The Company was established in the PRC on 27 July 2007 as a joint stock company with limited liability as part of the reorganisation of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. ("CQMEHG") in preparation for a listing of the Company's shares on The 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. 155, Zhongshan Third Road, Yu Zhong District, Chongqing 400015, the PRC.

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

These condensed consolidated interim financial information are presented in RMB, unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 30 August 2010.

This condensed consolidated interim financial information has not been audited.

Notes to the condensed consolidated interim financial information *(Continued)*

1. General information *(Continued)*

Key events

The operational highlight of the period was the acquisition of Holroyd Precision Limited, Precision Components Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited and PTG Deutschland GmbH (collectively referred to as "PTG six entities"), which are incorporated outside of the PRC and are mainly engaged in screw processing and the design, production and sales of screw machinery tools, large-scale machinery tools and grinding machines. Further details are given in Note 16.

2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2010 has been prepared in accordance with Hong Kong Accounting Standard ("HKAS") 34, "Interim financial reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2009, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

3 Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2009, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Notes to the condensed consolidated interim financial information *(Continued)*

3 Accounting policies *(Continued)*

(a) New and amended standards adopted by the Group

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

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

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

  The standard was applied to the acquisition of PTG six entities on 30 June 2010. Acquisition-related costs of RMB6,177,000 have been recognised within 'administrative expenses' in the statement of comprehensive income. These would previously have been included in the consideration for the business combination. See Note 16 for further details of the business combination that was entered during the period.

Notes to the condensed consolidated interim financial information *(Continued)*

3 Accounting policies *(Continued)*

(a) New and amended standards adopted by the Group (Continued)

As the Group has adopted HKFRS 3 (revised), it is required to adopt HKAS 27 (revised), 'consolidated and separate financial statements', at the same time. HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

(b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group

- HK(IFRIC)-Int 17, 'Distributions of non-cash assets to owners' is effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.

- 'Additional exemptions for first-time adopters' (Amendment to HKFRS 1) is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing HKFRS preparer.

- HKAS 39 (Amendment), 'Eligible hedged items' is effective for annual period on or after 1 July 2009. That is not currently applicable to the Group, as it has no hedging activities.

- HKFRS 2 (Amendment), 'Group cash-settled share-based payment transaction' is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it does not have relevant share-based payment transactions.

Notes to the condensed consolidated interim financial information *(Continued)*

3 Accounting policies *(Continued)*

(b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group (Continued)

- First improvements to Hong Kong Financial Reporting Standards (2008) were issued in October 2008 by the HKICPA. The improvement related to HKFRS 5 "Non-current assets held for sale and discontinued operations" is effective for annual period on or after 1 July 2009. This is not currently applicable to the Group, as it does not have relevant non-current assets held for sale or discontinued operations.

- Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:

- HKFRS 9, 'Financial instruments' addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess HKFRS 9's full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, as HKFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The Group has not yet decided when to adopt HKFRS 9.

Notes to the condensed consolidated interim financial information *(Continued)*

3 Accounting policies *(Continued)*

(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted: (Continued)

- HKAS 24 (Revised) 'Related party disclosures' supersedes HKAS 24 'Related party disclosures' issued in 2003. The revised HKAS 24 is required to be applied from 1 January 2011. Earlier application, for either the entire standard or the government-related entity, is permitted. The Group will apply the revised HKAS 24 from 1 January 2011.

- Under 'Classification of rights issues' (Amendment to HKAS 32), for rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted, although this Amendment to HKAS 32 is not currently applicable to the Group.

- Amendments to HK(IFRIC) Int-14 'Prepayments of a minimum funding requirement' corrects an unintended consequence of HK(IFRIC) Int-14, 'HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was not intended when HK(IFRIC) Int-14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. This is not currently applicable to the Group.

Notes to the condensed consolidated interim financial information *(Continued)*

3 Accounting policies *(Continued)*

(c) *The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted: (Continued)*

- HK(IFRIC) -Int 19, 'Extinguishing financial liabilities with equity instruments' clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted, although this new interpretation is not currently applicable to the Group.

- 'Limited exemption from comparative HKFRS 7 disclosures for first-time adopters' (Amendment to HKFRS 1) provide first-time adopters with the same transition provisions as included in the amendment to HKFRS 7 in relation to relief from presenting comparative information that ended before 31 December 2009 for new fair value disclosures requirements. This is required to be applied for annual periods beginning on or after 1 July 2010. Early adoption is permitted. This is not relevant to the Group, as it is an existing HKFRS preparer.

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA. All improvements are effective in the financial year of 2011.

Notes to the condensed consolidated interim financial information *(Continued)*

4. Segment information

The chief operating decision-maker has been identified as the operating management committee. The operating management committee currently consists of general manager, vice general managers and chief financial officer of the Company. This committee reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on the reports reviewed by the operating management committee that are used to make strategic decisions.

The committee considers the business from product perspective. From a product perspective, management assesses the performance of engines, gear boxes, hydroelectric generation equipment, electrical wires and cables, general machinery, machinery tools and high-voltage transformers.

The operating management committee assesses the performance of the operating segments based on a measure of operating profit. Interest income and expenditure are not included in the result for each operating segment that is reviewed by operating management committee. Other information provided, except as noted below, to the operating management committee is measured in a manner consistent with that in the financial statements.

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 condensed consolidated statement of comprehensive income.

Notes to the condensed consolidated interim financial information *(Continued)*

4. Segment information *(Continued)*

The segment results for the six months ended 30 June 2010 are as follows:

	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wires and cables	General machinery	Machinery tools	High-voltage transformers	All other segments	Total Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment revenue	706,316	420,411	146,124	1,014,248	525,624	897,097	—	562,467	4,272,287
Inter-segment revenue	—	—	—	(7,276)	—	—	—	(1,905)	(9,181)
Revenue from external customers	706,316	420,411	146,124	1,006,972	525,624	897,097	—	560,562	4,263,106
Operating profit	200,562	59,660	5,669	21,615	17,821	59,532	—	8,403	373,262
Finance income	2,057	435	1,600	1,898	1,685	347	—	5,069	13,091
Finance costs	72	(3,091)	(2,989)	(11,725)	(7,777)	(8,457)	—	(12,309)	(46,276)
Share of post-tax profits of associates	—	—	—	—	3,746	—	22,110	7,987	33,843
Profit before income tax									373,920
Income tax expense									(21,400)
Profit for the period									352,520

Notes to the condensed consolidated interim financial information *(Continued)*

4. Segment information *(Continued)*

The segment results for the six months ended 30 June 2009 are 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*	All other segments *RMB'000*	Total Group *RMB'000*
Total segment revenue	490,471	269,344	132,409	586,964	484,227	530,196	—	345,787	2,839,398
Inter-segment revenue	—	(8,026)	—	(4,626)	—	(1,594)	—	(22,524)	(36,770)
Revenue from external customers	490,471	261,318	132,409	582,338	484,227	528,602	—	323,263	2,802,628
Operating profit	123,388	15,564	12,888	21,507	24,655	16,913	—	(16,646)	198,269
Finance income	5,109	149	1,813	1,544	1,644	1,574	—	5,848	17,681
Finance costs	(111)	(1,844)	(2,758)	(6,701)	(4,580)	(7,991)	—	(9,678)	(33,663)
Share of post-tax profits of associates	—	(4,955)	—	—	4,869	—	60,268	1,478	61,660
Profit before income tax									243,947
Income tax expense									(21,053)
Profit for the period									222,894

The segment assets as at 30 June 2010 and 31 December 2009 are as follows:

Total assets	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*	All other segments *RMB'000*	Total Group *RMB'000*
30 June 2010	783,197	912,159	725,207	1,068,426	2,294,543	1,776,058	169,211	2,058,288	9,787,089
31 December 2009	367,516	924,832	664,576	977,756	2,109,997	1,262,538	248,003	2,193,346	8,748,564

Notes to the condensed consolidated interim financial information *(Continued)*

5. Property, plant and equipment, investment properties, lease prepayments and intangible assets

The movement of property, plant and equipment, investment properties, lease prepayments and intangible assets are as follows:

	Unaudited				
	Property, plant and equipment *RMB'000*	Investment properties *RMB'000*	Lease prepayments *RMB'000*	Intangible assets *RMB'000*	Total *RMB'000*
Six months ended 30 June 2010					
Opening net book amount at 1 January 2010	1,659,174	24,108	274,741	84,910	2,042,933
Acquisition of subsidiaries *(Note 16)*	41,998	—	—	181,681	223,679
Additions	157,260	—	—	589	157,849
Disposals	(3,356)	—	—	—	(3,356)
Depreciation/amortisation	(63,528)	(1,195)	(3,230)	(4,352)	(72,305)
Closing net book amount at 30 June 2010	1,791,548	22,913	271,511	262,828	2,348,800

Notes to the condensed consolidated interim financial information *(Continued)*

5. Property, plant and equipment, investment properties, lease prepayments and intangible assets *(Continued)*

	Unaudited				
	Property, plant and equipment	Investment properties	Lease prepayments	Intangible assets	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2009					
Opening net book amount at 1 January 2009	1,182,845	26,498	279,223	47,555	1,536,121
Acquisition of subsidiaries *(Note 16)*	220,227	—	—	40,944	261,171
Additions	203,418	—	—	1,436	204,854
Disposals	(3,081)	—	—	—	(3,081)
Depreciation/amortisation	(51,509)	(1,195)	(4,173)	(3,748)	(60,625)
Closing net book amount at 30 June 2009	1,551,900	25,303	275,050	86,187	1,938,440

Notes to the condensed consolidated interim financial information *(Continued)*

6. Trade and other receivables

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade and bills receivable	**2,486,363**	2,005,622
Less: provision for impairment of trade receivables	**(249,562)**	(226,639)
Trade and bills receivable — net	**2,236,801**	1,778,983
Other receivables	**566,822**	379,687
Less: provision for impairment of other receivables	**(28,114)**	(28,024)
Other receivables — net	**538,708**	351,663
	2,775,509	2,130,646

Notes to the condensed consolidated interim financial information *(Continued)*

6. Trade and other receivables *(Continued)*

The general credit period granted to customers is up to 90 days. As at 30 June 2010 and 31 December 2009, the ageing analysis of the trade and bills receivables were as follows:

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade and bills receivable		
Less than 30 days	**710,561**	542,618
31 days to 90 days	**598,023**	618,005
91 days to 1 year	**798,526**	474,759
1 year to 2 years	**165,925**	179,945
2 years to 3 years	**55,428**	40,673
Over 3 years	**157,900**	149,622
	2,486,363	2,005,622

Notes to the condensed consolidated interim financial information *(Continued)*

7. Share capital

	Number of Shares *'000*	Domestic shares *RMB'000* Unaudited	H shares *RMB'000* Unaudited	Total shares *RMB'000* Unaudited
Registered, issued and fully paid				
At 30 June 2009 and 1 January 2009 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640
At 30 June 2010 and 1 January 2010 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640

Notes to the condensed consolidated interim financial information *(Continued)*

8. Borrowings

	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	Unaudited	Audited
Non-current		
Long-term bank borrowings	**442,626**	351,713
Finance lease liabilities	**1,591**	4,255
Total non-current borrowings	**444,217**	355,968
Current		
Short-term bank borrowings	**950,681**	801,781
Other current borrowings	**31,901**	37,009
Finance lease liabilities	**5,240**	5,067
Total current borrowings	**987,822**	843,857
Total borrowings	**1,432,039**	1,199,825

Notes to the condensed consolidated interim financial information *(Continued)*

8. Borrowings *(Continued)*

Movements in borrowings is analysed as follows:

	RMB'000 Unaudited
Six months ended 30 June 2010	
Opening amount at 1 January 2010	1,199,825
New borrowings	678,797
Repayment of borrowings	(443,798)
Finance lease paid	(2,785)
Closing amount as at 30 June 2010	1,432,039
Six months ended 30 June 2009	
Opening amount at 1 January 2009	974,785
Acquisition of subsidiaries *(Note 16)*	107,000
New borrowings	434,468
Repayment of borrowings	(407,556)
Finance lease paid	(2,785)
Closing amount as at 30 June 2009	1,105,912

Interest expense on borrowings for the six months ended 30 June 2010 is approximately RMB35,115,000 (30 June 2009: RMB31,535,000).

Notes to the condensed consolidated interim financial information *(Continued)*

8. Borrowings *(Continued)*

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

	As at 30 June 2010	As at 31 December 2009
	RMB'000	*RMB'000*
	Unaudited	Audited
Fixed rate		
— Expiring within 1 year	**60,000**	14,000
— Expiring beyond 1 year	**138,150**	116,720
	198,150	130,720

Notes to the condensed consolidated interim financial information *(Continued)*

9. Long-term employee benefit obligations

The amounts of retirement and termination benefit obligations recognised in the balance sheet were as follows:

	30 June 2010 *RMB'000* Unaudited	31 December 2009 *RMB'000* Audited
Present value of defined benefits obligations	**155,942**	164,773
Unrecognised actuarial gain	**(570)**	(6,864)
Liability in the balance sheet	**155,372**	157,909
Less: current portion	**(13,346)**	(13,346)
	142,026	144,563

Notes to the condensed consolidated interim financial information *(Continued)*

9. Long-term employee benefit obligations *(Continued)*

The movements of retirement and termination benefit obligations are as follows:

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	Unaudited	Unaudited
At beginning of the period	**157,909**	139,990
For the period		
— Interest costs	**2,889**	4,710
— Actuarial loss/(gain)	**1,589**	(10,580)
— Additions on termination benefit obligations	**—**	5,560
— Payment	**(7,015)**	(3,870)
At end of the period	**155,372**	135,810

Notes to the condensed consolidated interim financial information *(Continued)*

10. Trade and other payables

	30 June 2010 *RMB'000* Unaudited	31 December 2009 *RMB'000* Audited
Trade and bills payables	**1,829,089**	1,635,227
Other taxes payables	**132,744**	139,682
Other payables	**328,168**	245,587
Accrued payroll and welfare	**178,282**	165,818
Advances from customers	**694,777**	569,682
Advances from government	**17,550**	257,887
	3,180,610	3,013,883

Notes to the condensed consolidated interim financial information *(Continued)*

10. Trade and other payables *(Continued)*

As at 30 June 2010 and 31 December 2009, the ageing analysis of the trade and bills payables (including amounts due to related parties of trading in nature) were as follows:

	30 June 2010 ***RMB'000*** **Unaudited**	31 December 2009 *RMB'000* Audited
Trade and bills payables		
Less than 30 days	**635,717**	610,364
31 days than 90 days	**566,248**	446,478
91 days to 1 year	**529,957**	481,287
1 year to 2 years	**38,428**	42,385
2 years to 3 years	**19,695**	16,210
Over 3 years	**39,044**	38,503
	1,829,089	1,635,227

Notes to the condensed consolidated interim financial information *(Continued)*

11. Provisions for warranty

This represents the warranty costs for after-sale services of certain vehicle parts and components, which are estimated based on present after-sale service policies and prior years' experiences on the incurrence of such costs. Such provision for warranty was charged to distribution costs in the statement of comprehensive income.

	Provision for warranty *RMB'000* Unaudited
Six months ended 30 June 2010	
At 1 January 2010	19,462
Charged to statement of comprehensive income	9,457
Utilised during the period	(6,782)
At 30 June 2010	22,137
Six months ended 30 June 2009	
At 1 January 2009	23,618
Charged to statement of comprehensive income	5,281
Utilised during the period	(5,727)
At 30 June 2009	23,172

Notes to the condensed consolidated interim financial information *(Continued)*

12. Operating profit

The following items which are unusual because of their nature, size or incidence have been (credited)/charged to the operating profit during the period:

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Inventory write-down/(write-back)	**2,104**	(1,156)
Provision for impairment on trade and other receivables	**19,601**	2,724
Transactions cost in relation to acquisition of subsidiaries *(Note 16)*	**6,177**	—
Gain on disposal of property, plant and equipment	**(548)**	(813)

Non-financial assets that have an indefinite life are not subject to amortisation, but are tested for impairment annually at year-end (31 December) or whenever there is any indication of impairment. There was no indication of impairment for non-financial assets with indefinite lives during the period.

Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstance indicate that the carrying amount may not be recoverable. There was no impairment charge provided during the period.

The inventory write-down of RMB2,104,000 mainly relates to machinery tools that do not meet current market demands.

Financial assets were reviewed for impairment as at 30 June 2010. The impairment charge of RMB19,601,000 on trade and other receivables mainly relates to certain customers which are in difficult financial situations.

Notes to the condensed consolidated interim financial information *(Continued)*

13. Income tax expense

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law") which was effective from 1 January 2008. Pursuant to detailed measures of the new CIT Law in respect of West China Development Champion, the corporate income tax rate of most of the Group's subsidiaries is 15% from 2008 to 2010. The five entities which are subject to corporate income tax rate of 25% from 1 January 2008 onwards are as follows:

— the Company;

— Chongqing Huijiang Machine Tools Founding Co., Ltd.;

— Chongqing Boshui Imports & Exports Trade Co., Ltd.;

— Chongqing General Group Bingyang Air conditioner Equipment installation Co., Ltd.; and

— Chongqing Machine Tools (Group) Shengpu Machinery Set Co., Ltd.

Chongqing Cummins Engine Co., Ltd. is qualified as a high-tech enterprise and pursuant to the approval by the relevant authorities in 2009, it is entitled to a preferential corporate income tax rate of 15% from 2008 to 2010.

The new corporate income tax rate of 25% of Shenzhen Chongfa Cummins Engine Co., Ltd. will be gradually effective in a 5-year period. For the six months ended 30 June 2010, the applicable corporate income tax rate is 22% (2009: 20%).

Overseas profit tax has been provided at the rates of taxation prevailing in the countries in which the Group operates.

Notes to the condensed consolidated interim financial information *(Continued)*

13. Income tax expense *(Continued)*

The amount of income tax expense charged to the statement of comprehensive income represents:

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Current income tax:		
— PRC enterprise income tax	**57,289**	6,233
Deferred tax	**(35,889)**	14,820
	21,400	21,053

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for the year ending 31 December 2010 is 15% (the estimated tax rate for the six months ended 30 June 2009 was 15%), because most of the Group's subsidiaries and jointly controlled entities are subject to tax rate of 15% as mentioned above, while the entities subject to tax rate of 25% do not have material impact on the estimation of average annual tax rate.

Notes to the condensed consolidated interim financial information *(Continued)*

14. Earnings per share

	Six months ended 30 June	
	2010	2009
	Unaudited	Unaudited
Profit attributable to equity holders of the Company *(RMB'000)*	**345,646**	215,422
Weighted average number of ordinary shares in issue *(thousand)*	**3,684,640**	3,684,640
Basic and diluted earnings per share *(RMB per share)*	**0.09**	0.06

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

15. Dividends

A dividend that relates to the year ended 31 December 2009 of approximately RMB221,078,000 (RMB0.06 per share) was approved at the Annual General Meeting on 15 June 2010 and was recorded as a liability in the condensed interim financial information.

Notes to the condensed consolidated interim financial information *(Continued)*

16. Business combinations

Current period

On 30 June 2010, the Group acquired the entire share capital of PTG six entities at a total cash consideration of Great Britain Pound 20,000,000 (equivalent to approximately RMB200,229,000). There is no contingent consideration. PTG six entities are incorporated outside of the PRC and are mainly engaged in screw processing and the design, production and sales of screw machinery tools, large-scale machinery tools and grinding machines. The acquisition is expected to increase the Group's market share in Europe.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

	RMB'000
Purchase consideration:	
— cash paid	200,229

Notes to the condensed consolidated interim financial information *(Continued)*

16. Business combinations *(Continued)*

Current period (Continued)

The assets and liabilities recognised as a result of the acquisition are as follows:

	Provisional fair value *RMB'000*
Cash and cash equivalents	4,198
Property, plant and equipment	41,998
Customer relationships	55,807
Brand	12,256
Inventories	16,862
Receivables	90,430
Payables	(115,974)
Net deferred tax liabilities	(18,966)
Net identifiable assets acquired	86,611
Goodwill	113,618
	200,229
Outflow of cash to acquire business, net of cash acquired:	
— cash consideration	(200,229)
— cash and cash equivalents in subsidiaries acquired	4,198
Cash outflow on acquisition	(196,031)

Notes to the condensed consolidated interim financial information *(Continued)*

16. Business combinations *(Continued)*

Current period (Continued)

The Group has engaged an independent valuer to identify the fair value of identifiable assets and liabilities acquired. The valuation has not yet been completed and the provisional fair value represents management's current best estimates of the fair values at acquisition, which are subject to change. The goodwill is attributable to PTG six entities' strong position and expected profitability in production and sales of machinery tools. None of the goodwill is expected to be deductible for tax purposes.

(a) Acquisition related costs

Acquisition-related costs of approximately RMB6,177,000 are included within 'administrative expenses' in the statement of comprehensive income.

(b) Acquired receivables

The fair value of trade and other receivables is RMB90,430,000 and includes trade receivables with a fair value of RMB48,371,000. The gross contractual amount for trade receivables due is RMB52,095,000, of which RMB3,724,000 is expected to be uncollectible.

(c) Revenue and profit contribution

If the acquisition had occurred on 1 January 2010, consolidated revenue and consolidated profit for the half year ended 30 June 2010 would have been RMB4,331,679,000 and RMB315,676,000 respectively.

Notes to the condensed consolidated interim financial information *(Continued)*

16. Business combinations *(Continued)*

Prior period

Before February 2009, the Group directly owned 49% and 23.52% equity interests in Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear") and Qijiang Qi-Chi Forging Co., Ltd. (Qijiang Forging) respectively. As Qijiang Gear owned 52% equity interests in Qijiang Forging, the Group directly and indirectly owned 49% equity interests of Qijiang Forging. In February 2009, the Group acquired the remaining 51% equity interests of Qijiang Gear and 24.48% equity interests of Qijiang Forging for a cash consideration of approximately RMB256,609,000. Thereafter, Qijiang Gear and Qijiang Forging became wholly owned subsidiaries of the Group. Details of this business combination were disclosed in Note 38 of the Group's annual financial statements for the year ended 31 December 2009.

17. Contingencies

As at 30 June 2010, the Group had no material contingencies.

18. Capital commitments

Capital expenditure contracted for at the balance sheet date but not yet incurred is as follows:

	30 June 2010 *RMB'000* Unaudited	31 December 2009 *RMB'000* Audited
Property, plant and equipment	**146,898**	174,561
Intangible assets	**1,365**	3,129

Notes to the condensed consolidated interim financial information *(Continued)*

19. Related party transactions

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC government which also controls a significant portion of the productive assets and entities in the PRC (collectively referred as the "state-owned enterprises").

In accordance with HKAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC government are regarded as related parties of the Group ("other state-owned enterprises"). For purpose of related party transactions disclosure, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are state-owned enterprises. Many state-owned enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs. Nevertheless, management believes that meaningful information relating to related party transactions has been adequately disclosed.

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the six months ended 30 June 2009 and 2010, respectively.

Notes to the condensed consolidated interim financial information *(Continued)*

19 Related party transactions *(Continued)*

(a) *Significant related party transactions*

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Transactions with fellow subsidiaries		
Revenue		
— Revenue from sales of goods	**50,718**	38,770
Expenses		
— Purchase of materials	**91,451**	31,677
— Management fees	**347**	399
— Leasing of equipment	**188**	188
Transactions with jointly controlled entities *(i)*		
Revenue		
— Revenue from sales of goods	**60,302**	36,128
Transactions with associates		
Revenue		
— Revenue from sales of goods	**5,065**	6,370
Expenses		
— Purchase of materials	**11,994**	1,133
— Services	**—**	85
Transactions with shareholders of jointly controlled entities		
Revenue		
— Revenue from sales of goods	**20,474**	81,174
Expenses		
— Management fees and technical fees	**1,280**	1,471

Notes to the condensed consolidated interim financial information *(Continued)*

19 Related party transactions *(Continued)*

(a) Significant related party transactions (Continued)

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Transactions with other state-owned enterprises		
Revenue		
— Revenue from sales of goods	**939,744**	592,201
Expenses		
— Purchase of materials	**878,558**	623,331

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

Notes to the condensed consolidated interim financial information *(Continued)*

19 Related party transactions *(Continued)*

(b) Balances with related parties

	30 June 2010 RMB'000 Unaudited	31 December 2009 RMB'000 Audited
Trade and other receivables		
Trade receivables due from		
— Fellow subsidiaries	49,063	49,735
— Jointly controlled entities	3,630	2,159
— Associates	1,709	2,496
— Shareholders of jointly controlled entities	3,225	2,561
— Other state-owned enterprises	853,378	592,051
Other receivables due from		
— Fellow subsidiaries	20	385
— Jointly controlled entities	2,146	2,146
— Associates	1,460	1,937
— Other state-owned enterprises	15,182	17,110
Prepayments due from		
— Fellow subsidiaries	24,056	29,563
	953,869	700,143

Notes to the condensed consolidated interim financial information *(Continued)*

19 Related party transactions *(Continued)*

(b) Balances with related parties (Continued)

	30 June 2010 *RMB'000* **Unaudited**	31 December 2009 *RMB'000* Audited
Trade and other payables		
Trade payables due to		
— Fellow subsidiaries	29,405	38,614
— Associates	1,441	814
— Other state-owned enterprises	427,460	462,114
Other payables due to		
— CQMEHG	5,699	11,453
— Fellow subsidiaries	23,849	34,421
— Shareholders of jointly controlled entities	415	1,418
— Other state-owned enterprises	72,356	59,855
	560,625	608,689
Borrowings		
— Associates	—	5,000
Other balances with other state-owned enterprises		
— Restricted cash	411,359	419,758
— Cash and cash equivalents	2,123,611	2,185,313
— Borrowings	1,393,307	1,153,494

Notes to the condensed consolidated interim financial information *(Continued)*

19 Related party transactions *(Continued)*

(c) Key management compensation

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Basic salaries, housing allowances, other allowances and benefits-in-kind	**735**	721
Contributions to pension plans	**91**	93
Discretionary bonuses	**981**	900
	1,807	1,714

MANAGEMENT'S DISCUSSION AND ANALYSIS (INCLUDING FINANCIAL REVIEW)

RESULTS OVERVIEW

SALES

For the six months ended 30 June 2010, the Group's total revenue amounted to approximately RMB4,263.1 million, representing an increase of 52.1% as compared with approximately RMB2,802.6 million for the same period last year.

Overall, revenue of commercial vehicle parts and components were approximately RMB1,473 million (34.6% of total revenue), an increase of approximately 51.8%; revenue of power equipment were approximately RMB1,367.4 million (32.1% of total revenue), an increase of approximately 66.9%; revenue of general machinery were approximately RMB525.6 million (12.3% of total revenue), an increase of approximately 8.6%; and revenue of CNC machine tools were approximately RMB897.1 million (21% of total revenue), an increase of approximately 69.7%.

The growth in sales of commercial vehicle parts and components, power equipment, general machinery and CNC machine tools during the Period was mainly due to further recovery of macro economic environment and favourable result from the central government's RMB4 trillion stimulus package, which drove the revenue of our four major business segments to grow at rapid pace as compared with the same period last year.

GROSS PROFIT

The gross profit for the six months ended 30 June 2010 was approximately RMB827.9 million, increased by approximately RMB329.2 million or approximately 66%, as compared with approximately RMB498.7 million for the same period last year, accounting for approximately 19.4% of revenue. Overall gross profit margin increased by 1.6 percentage points over the same period last year. This is mainly due to lower unit cost resulting from the increase in sales of commercial vehicle parts and components and CNC machine tools. On the contrary, lower gross profit margin of power equipment business was due to higher unit cost which caused by significant rise in copper price, the raw materials for electrical wires and cables segment. We expect that the raw material price will continue steady in the second half of 2010, which could keep the gross profit margin of the Group stable.

RESULTS OVERVIEW *(continued)*

OTHER INCOME AND GAINS

The other income and gains for the six months ended 30 June 2010 were approximately RMB21.2 million, a decrease of approximately RMB11.7 million or approximately 35.6%, as compared with approximately RMB32.9 million for the same period last year.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for the six months ended 30 June 2010 were approximately RMB475.9 million, an increase of approximately RMB142.6 million or approximately 42.8%, as compared with approximately RMB333.3 million for the same period last year. The selling and administrative expenses accounted for approximately 11.2% of revenue, a decrease from 11.9% for the same period last year, mainly due to the rapid growth in revenue during the Period, which diluted the percentage of selling and administrative expenses.

During the Period, our selling costs recorded for the first half of the year increased by approximately RMB46.6 million over the same period last year, mainly due to the increase in transportation expenses, costs for the sales staff and various marketing expenses.

In addition, the administrative expenses increased by approximately RMB96 million, mainly due to higher staff salary, employee welfare expenditures, depreciation, R&D expenses and impairment loss in trade receivable as compared with the same period last year.

OPERATING PROFIT

The operating profit for the six months ended 30 June 2010 was approximately RMB373.3 million, an increase of approximately RMB175 million or approximately 88.3%, as compared with approximately RMB198.3 million for the same period last year.

RESULTS OVERVIEW *(continued)*

NET FINANCE COSTS

The interest expenses for the six months ended 30 June 2010 was approximately RMB33.2 million, an increase of approximately RMB17.2 million or approximately 107.5%, as compared with approximately RMB16 million for the same period last year. This was mainly due to the increase in loans and the foreign exchange loss from trade for the Period.

SHARE OF PROFITS OF ASSOCIATED COMPANIES

The Company's share of profits of associated companies for the six months ended 30 June 2010 was approximately RMB33.8 million, a decrease of approximately RMB27.9 million or approximately 45.2%, as compared with approximately RMB61.7 million for the same period last year, which was due to the decrease in results of other associated companies.

INCOME TAX EXPENSES

The corporate income tax expenses for the six months ended 30 June 2010 were approximately RMB21.4 million, an increase of approximately RMB0.3 million, or approximately 1.4%, as compared with approximately RMB21.1 million for the same period last year, mainly due to the changes in deferred tax.

PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the Period was approximately RMB345.6 million, an increase of approximately RMB130.2 million or approximately 60.5% as compared with approximately RMB215.4 million for the same period last year. Earnings per share increased from RMB0.06 to approximately RMB0.09 per share as compared with the same period last year.

RESULTS OVERVIEW ***(continued)***

BUSINESS PERFORMANCE

The table below sets forth the revenue, gross profit and segment results attributable to the Group's major business segments for the periods indicated:

	Revenue		Gross Profit		Segment Results	
	Period ended 30 June		Period ended 30 June		Period ended 30 June	
	2010	2009	**2010**	2009	**2010**	2009
	(RMB in millions, except for percentage)					
Commercial vehicle parts and components						
Engines	**706.3**	490.5	**249.2**	155.3	**200.6**	123.4
Gear boxes	**420.4**	261.3	**119.9**	43.8	**59.7**	15.5
Other products	**346.3**	218.6	**68.9**	21.4	**26.6**	(8.0)
Total	**1,473.0**	970.4	**438.0**	220.5	**286.9**	130.9
% of total	**34.6%**	34.6%	**52.9%**	44.2%	**76.9%**	66.0%
Power equipment						
Hydroelectric generation equipment	**146.1**	132.4	**33.1**	37.9	**5.7**	12.9
Electrical wires and cables	**1,007.0**	582.3	**55.7**	39.6	**21.6**	21.5
Other products	**214.3**	104.7	**7.2**	1.1	**2.5**	(0.1)
Total	**1,367.4**	819.4	**96.0**	78.6	**29.8**	34.3
% of total	**32.1%**	29.2%	**11.6%**	15.8%	**8.0%**	17.3%

RESULTS OVERVIEW *(continued)*

BUSINESS PERFORMANCE *(continued)*

	Revenue Period ended 30 June		Gross Profit Period ended 30 June		Segment Results Period ended 30 June	
	2010	2009	**2010**	2009	**2010**	2009
	(RMB in millions, except for percentage)					
General machinery						
Total	**525.6**	484.2	**146.8**	120.7	**17.8**	24.7
% of total	**12.3%**	17.3%	**17.7%**	24.2%	**4.8%**	12.5%
CNC machine tools						
Total	**897.1**	528.6	**147.1**	78.9	**59.5**	16.9
% of total	**21.0%**	18.9%	**17.8%**	15.8%	**15.9%**	8.5%
Headquarters	**—**	—	**—**	—	**—**	—
Total	**—**	—	**—**	—	**(20.7)**	(8.5)
% of total	**—%**	—%	**—%**	—%	**(5.6%)**	(4.3%)
Total	**4,263.1**	2,802.6	**827.9**	498.7	**373.3**	198.3

RESULTS OVERVIEW *(continued)*

Commercial vehicle parts and components

Revenue from the commercial vehicle parts and components segment for the six months ended 30 June 2010 was approximately RMB1,473 million, an increase of approximately RMB502.6 million or 51.8%, as compared with approximately RMB970.4 million for the same period last year. Revenue from the engine business and gear box business increased by approximately RMB215.8 million or 44% and approximately RMB159.1 million or 60.9% as compared with the same period last year respectively while revenue from other products also increased by approximately RMB127.7 million or 58.4%.

During the Period, gross profit for the commercial vehicle parts and components segment was approximately RMB438 million, an increase of approximately RMB217.5 million or 98.6% as compared with approximately RMB220.5 million for the same period last year. Gross profit margin increased to approximately 29.7% for the six months ended 30 June 2010 from approximately 22.7% for the same period of 2009, primarily due to increases in sales and decreases in unit cost, which resulted in an increase of 7 percentage points in gross profit margin as compared with the same period last year.

Overall, the result for the commercial vehicle parts and components segment for the six months ended 30 June 2010 was approximately RMB286.9 million, an increase of approximately RMB156 million or 119.2%, as compared with approximately RMB130.9 million for the same period last year.

RESULTS OVERVIEW *(continued)*

Power equipment

Revenue from the power equipment segment for the six months ended 30 June 2010 was approximately RMB1,367.4 million, an increase of approximately RMB548 million or 66.9%, as compared with approximately RMB819.4 million for the same period last year, primarily due to a substantial increase of approximately RMB424.7 million, or 72.9% in revenue from electrical wires and cables business.

During the Period, gross profit for the power equipment segment was approximately RMB96 million, an increase of approximately RMB17.4 million or 22.1% as compared with approximately RMB78.6 million for the same period last year. Gross profit margin decreased to 7% for the six months ended 30 June 2010 from 9.6% for the same period of 2009, primarily due to the increases in unit cost of electrical wires and cables as a result of substantial recovery in price of the raw material copper.

Overall, the result for the power equipment segment for the six months ended 30 June 2010 was approximately RMB29.8 million, a decrease of approximately RMB4.5 million or 13.1% as compared with approximately RMB34.3 million for the same period last year.

RESULTS OVERVIEW *(continued)*

General machinery

Revenue from the general machinery segment for the six months ended 30 June 2010 was approximately RMB525.6 million, an increase of approximately RMB41.4 million or 8.6% as compared with approximately RMB484.2 million for the same period last year, primarily due to the increases in revenue from industrial pumps, gas compressors, separation machines, refrigeration machines and industrial fans business as boosted by the stable recovery of domestic economy in the first half of 2010.

During the Period, gross profit for the general machinery segment was approximately RMB146.8 million, an increase of approximately RMB26.1 million or 21.6% as compared with approximately RMB120.7 million for the same period last year. Gross profit margin increased to approximately 27.9% for the six months ended 30 June 2010 from approximately 24.9% for the same period of 2009. The increase in the gross profit margin of the segment was primarily due to the rise in products price driven by economic recovery and increased market demands in the first half of 2010.

Overall, the result for the general machinery segment for the six months ended 30 June 2010 was approximately RMB17.8 million, a decrease of approximately RMB6.9 million or 27.9%, as compared with approximately RMB24.7 million for the same period last year, due to the decrease in operating profit as a result of increased administrative expenses.

RESULTS OVERVIEW *(continued)*

CNC machine tools

Revenue from the CNC machine tools segment for the six months ended 30 June 2010 was approximately RMB897.1 million, an increase of approximately RMB368.5 million or 69.7% as compared with approximately RMB528.6 million for the same period last year, primarily due to increases in revenue from gear-producing machines, complex precision metal-cutting tools, CNC lathes and machine centers business as boosted by the stable recovery of domestic economy in the first half of 2010.

During the Period, gross profit for the CNC machine tools segment was approximately RMB147.1 million, an increase of approximately RMB68.2 million or 86.4% as compared with approximately RMB78.9 million for the same period last year. Gross profit margin increased to 16.4% for the six months ended 30 June 2010 from 14.9% for the same period of 2009, primarily due to increased sales and decreased unit cost which resulted in an increase of 1.5 percentage points in gross profit margin as compared with the same period last year.

Overall, the result for the CNC machine tools segment for the six months ended 30 June 2010 was approximately RMB59.5 million, an increase of approximately RMB42.6 million or 252% as compared with approximately RMB16.9 million for the same period last year.

RESULTS OVERVIEW *(continued)*

CASH FLOW

The Group's cash and bank deposits (including the restricted cash) aggregated to approximately RMB2,542.7 million as at 30 June 2010 (31 December 2009: approximately RMB2,607.1 million), a decrease of approximately RMB64.4 million or approximately 2.5%, primarily due to the payment of GBP20 million as the consideration for the acquisition of the entire equity interests in six wholly-owned subsidiaries of PTG by the Company during the Period. For details, please refer to the Company's announcements dated 10 March 2010 and 22 June 2010, respectively.

During the Period, the Group had a net cash outflow from operating activities of approximately RMB35.1 million (30 June 2009: a net cash inflow of approximately RMB101.4 million), a net cash outflow from investing activities of approximately RMB220.6 million (30 June 2009: approximately RMB227.5 million), and a net cash inflow from financing activities of approximately RMB206.6 million (30 June 2009: a net cash outflow of approximately RMB14.5 million).

ASSETS AND LIABILITIES

As at 30 June 2010, the Group had total assets of approximately RMB9,787.1 million, an increase of approximately RMB1,038.5 million as compared with approximately RMB8,748.6 million as at 31 December 2009. The total current assets were approximately RMB6,953.9 million, increased by approximately RMB759.6 million as compared with approximately RMB6,194.3 million as at 31 December 2009, accounting for approximately 71.1% of the total assets (31 December 2009: approximately 70.8%). However, total non-current assets were approximately RMB2,833.2 million, representing an increase of approximately RMB279 million as compared with approximately RMB2,554.2 million as at 31 December 2009, and accounting for approximately 28.9% of the total assets (31 December 2009: approximately 29.2%).

RESULTS OVERVIEW *(continued)*

ASSETS AND LIABILITIES *(continued)*

As at 30 June 2010, total liabilities of the Group amounted to approximately RMB5,563.6 million, an increase of approximately RMB934.3 million as compared with approximately RMB4,629.3 million as at 31 December 2009. Total current liabilities were approximately RMB4,496.4 million, representing an increase of approximately RMB545.3 million as compared with approximately RMB3,951.1 million as at 31 December 2009, and accounting for 80.8% of the total liabilities (31 December 2009: approximately 85.4%). However, total non-current liabilities were approximately RMB1,067.2 million, representing an increase of approximately RMB389 million as compared with approximately RMB678.2 million as at 31 December 2009, and accounting for approximately 19.2% of the total liabilities (31 December 2009: approximately 14.6%).

As at 30 June 2010, net current assets of the Group amounted to approximately RMB2,457.4 million, an increase of approximately RMB214.2 million as compared with approximately RMB2,243.2 million as at 31 December 2009.

CURRENT RATIO

Current ratio of the Group as at 30 June 2010 was 1.55:1 as compared with approximately 1.57:1 for last year.

INDEBTEDNESS

As at 30 June 2010, the Group had an aggregate bank and other borrowings of approximately RMB1,432 million, representing an increase of approximately RMB232.2 million as compared with approximately RMB1,199.8 million as at 31 December 2009.

Borrowings repayable by the Group within one year were approximately RMB987.8 million, representing an increase of approximately RMB143.9 million as compared with approximately RMB843.9 million as at 31 December 2009. Borrowings repayable after one year were approximately RMB444.2 million, representing an increase of approximately RMB88.2 million as compared with approximately RMB356 million as at 31 December 2009.

RESULTS OVERVIEW *(continued)*

MERGERS AND ACQUISITIONS

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

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

2) During the Period, the Company held a Board meeting on 10 March 2010, at which the agreement on acquisition of the entire equity interests in six wholly-owned subsidiaries of PTG at a consideration of GBP20 million was considered and approved. The six subsidiaries acquired by the Company and their main businesses are:

    (1) Holroyd Precision Limited is specialized in the manufacture of screw grinding machine and screw milling machine as well as technical services. Its major products include screw and thread grinding machine, screw milling machine, super-hard grinding machine and gear grinding machine;

    (2) Precision Components Limited focuses on the screw market of screw-type compressor and is engaged in the production of a series of compressor and turbocharger screws, including prototyping and mass production;

    (3) PTG Heavy Industries Limited offers a variety of large-scale horizontal lathe, roller grinding machine, deep hole boring machine, friction welding machines and other services, including design and manufacture of new machine tools, provision of re-design, re-manufacture and refurbishment services. It owns long-standing brands such as Binns & Berry and Crawford Swift;

RESULTS OVERVIEW ***(continued)***

MERGERS AND ACQUISITION ***(continued)***

2) During the Period, the Company held a Board meeting on 10 March 2010, at which the agreement on acquisition of the entire equity interests in six wholly-owned subsidiaries of PTG at a consideration of GBP20 million was considered and approved. The six subsidiaries acquired by the Company and their main businesses are: *(continued)*

   (4) Milnrow Investments Limited owns real estates used for the production by Holroyd and other companies in Rochdale, Manchester, and rent premises and land to Holroyd Precision Ltd. and Precision Components Limited;

   (5) PTG Advanced Developments Limited is engaged in the development of corporate strategy and intends to develop new projects such as large-scale machine tools;

   (6) PTG Deutschland Gmb H, a sales company established in Germany, is specialized in sales of PTG's products.

   The completion of the acquisition will help to improve the technical know-how of the Company, reinforce the capability of technical development of relevant enterprises of the Company, expand its business scale and enhance its profile.

   On 15 June 2010, after satisfaction of all the conditions precedent of the acquisition agreement, the purchaser and the seller proceeded with the completion in respect of the subject. The Company has made the initial payment of GBP17 million in cash, and the remaining GBP3 million is still deposited in the bank account jointly managed by the purchaser and the seller.

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

4) Restructuring project between strategic investors and Qijiang Gear with advanced technology and market advantages are still in process.

SIGNIFICANT EVENTS

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

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

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

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

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

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

SIGNIFICANT EVENTS *(continued)*

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

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

SIGNIFICANT EVENTS *(continued)*

As considered and approved at the first meeting of the second session of the Board on 15 June 2010, Mr. Xie Hua Jun was elected as chairman of the Board and legal representative. The term of office of Mr. Xie Hua Jun commences from the date of the meeting until expiry of the term of the second session of the Board of the Company.

As considered and approved at the first meeting of the second session of the Supervisory Committee on 15 June 2010, Mr. Duan Rongsheng was elected as chairman of the Supervisory Committee. The term of office of Mr. Duan Rongsheng commences from the date of the meeting until expiry of the term of the second session of the Supervisory Committee of the Company.

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

CONTINGENT LIABILITIES

As at 30 June 2010, the Group had no significant contingent liabilities.

CAPITAL EXPENDITURE

During the Period, the total capital expenditure of the Group was approximately RMB157.8 million, which was principally used for expansion of plants, enhancement of production technology, upgrading of production equipment and improvement to production capacity (for the six months ended 30 June 2009: approximately RMB204.9 million).

RISK OF FOREIGN EXCHANGE

The Group uses Renminbi as the reporting currency. During the Period, a more flexible mechanism Chinese government implemented in renminbi exchange rate reform is expected to increase the competitiveness of our export products and benefit the Group in material import which is expected to lower down our production cost.

In addition, as at 30 June 2010, the Group's bank deposits comprise approximately HK$173.6 million (30 June 2009: approximately HK$420.8 million). Save as the above, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

EMPLOYEES

As at 30 June 2010, the Group had 17,403 employees (30 June 2009:14,585 employees). The increase in the number of employees was due to the acquisition of equity interests in Qijiang Gear and Qijiang Forging in February 2009. The Group plans to continue to upgrade quality of technical talents and recruit skilled and experienced technical and managerial personnel, improve incentive schemes that link with the performance reviews of our management and employees and ensure a harmonious relationship between employee and employer to contribute to the harmony of society.

OTHER INFORMATION

SHARE CAPITAL STRUCTURE

	Number of share	Approximate percentage of issued share capital (%)
Domestic Shares	2,584,452,684	70.14
H Shares *(Note)*	1,100,187,470	29.86
Total	3,684,640,154	100

There was no movement in the share capital of the Company during the six months ended 30 June 2010, details of which are set out in Note 7 to the consolidated financial statements.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2010, none of the directors, chief executive or supervisors of the Company had any interests or short positions in the shares, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules.

OTHER INFORMATION *(CONTINUED)*

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES

As at 30 June 2010, so far as the Directors are aware, the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Domestic shares of RMB$1.00 each of the Company

Name of Substantial Shareholders	Number of shares	Nature of Interest	*Note*	Percentage of total issued domestic shares *(%)*	Percentage of total issued shares *(%)*
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	1,924,225,189	Beneficial owner	(1)	74.46 (L)	52.22
Chongqing Yufu Asset Management Co., Ltd	232,132,514	Beneficial owner	(1)	8.98 (L)	6.30
Chongqing Jiangong Group Co., Ltd.	232,132,514	Beneficial owner	(1)	8.98 (L)	6.30
China Huarong Asset Management Co., Ltd.	195,962,467	Beneficial owner	(2)	7.58 (L)	5.32
State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government	2,388,490,217	Interest in controlled corporations	(1)	92.42 (L)	64.82
Ministry of Finance of the PRC	195,962,467	Interest in controlled corporations	(2)	7.58 (L)	5.32

(L): Long Position

OTHER INFORMATION *(CONTINUED)*

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

H shares of RMB$1.00 each of the Company

Name of Shareholders	Number of shares	Capacity	*Note*	Percentage of total issued H shares *(%)*	Percentage of total issued shares *(%)*
GE Asset Management Incorporated	121,534,000	Investment manager		11.05 (L)	3.30 (L)
National Council for Social Security Fund	95,287,470	Beneficial owner		8.66 (L)	2.59 (L)
The Bank of New York Mellon (formerly known as The Bank of New York)	87,276,000	Interest of Custodian	(3)	7.93 (L)	2.37 (L)
The Bank of New York Mellon Corporation	87,276,000	Interest in controlled corporations	(3)	7.93 (L) 7.93 (P)	2.37 (L) 2.37 (P)
UBS AG	82,121,265	Beneficial owner, interest in controlled corporation and person having a security interest in shares	(4)	7.46 (L)	2.23 (L)
The Hamon Investment Group Pte Limited	78,394,000	Investment manager	(5)	7.13 (L)	2.13 (L)
The Dreyfus Corporation	67,180,000	Investment manager		6.11 (L)	1.82 (L)
Hang Seng Bank Trustee International Limited	64,394,000	Trustee (Other than a baretrustee)	(6)	5.85 (L)	1.75 (L)

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

H shares of RMB$1.00 each of the Company *(continued)*

Name of Shareholders	Number of shares	Capacity	*Note*	Percentage of total issued H shares *(%)*	Percentage of total issued shares *(%)*
To Hau Yin	64,394,000	Interest of child under 18 and/or spouse	(6)	5.85 (L)	1.75 (L)
Cheah Cheng Hye	64,394,000	Founder of discretionary trust	(6)	5.85 (L)	1.75 (L)
Value Partners Group Limited	64,394,000	Interest in controlled corporations	(6)	5.85 (L)	1.75 (L)
Value Partners Limited	64,394,000	Investment manager	(6)	5.85 (L)	1.75 (L)
Cheah Company Limited	64,394,000	Interest in controlled corporations	(6)	5.85 (L)	1.75 (L)
Cheah Capital Management Limited	64,394,000	Interest in controlled corporations	(6)	5.85 (L)	1.75 (L)
FIL Limited	55,364,000	Investment manager		5.03 (L)	1.50 (L)

(L): Long Position

(P): Lending Pool

OTHER INFORMATION *(CONTINUED)*

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

Notes:

1. Chongqing Machinery and Electronic Holding (Group) Co., Ltd., Chongqing Yufu Asset Management Co., Ltd. and Chongqing Jiangong Group Co.,Ltd. were wholly owned by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government which was deemed to be interested in 1,924,225,189 domestic shares, 232,132,514 domestic shares and 232,132,514 domestic shares of the Company respectively.

2. China Huarong Asset Management Co., Ltd. is wholly owned by the Ministry of Finance of the People's Republic of China and its interest in 195,962,467 domestic shares of the Company was deemed to be the interests of the Ministry of Finance of the People's Republic of China.

3. The Bank of New York Mellon Corporation holds 100% interest in The Bank of New York Mellon (formerly known as "The Bank of New York"), which holds 87,276,000 of H shares of the Company. The interest in 87,276,000 H shares relates to the same block of shares in the Company and includes a lending pool of 87,276,000 of H shares of the Company.

4. UBS AG was interested in 82,121,265 H shares of the Company, among which 65,074,365 shares by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	**Percentage of ownership in controlled corporation** *(%)*	**Number of shares**
UBS Global Asset Management (Americas) Inc	100	54,620,409
UBS Global Asset Management (Australia) Ltd	100	1,691,956
UBS Global Asset Management Trust Company	100	1,628,000
UBS Global Asset Management (Japan) Ltd	100	7,134,000

OTHER INFORMATION *(CONTINUED)*

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES *(continued)*

Notes: (continued)

5. The Hamon Investment Group Pte Limited was interested in 78,394,000 H shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	**Percentage of ownership in controlled corporation** *(%)*	**Number of shares**
Hamon Asset Management Limited	100	6,514,000
Hamon U.S. Investment Advisors Limited	100	67,180,000
Hamon Investment Management Limited	100	4,700,000

6. Value Partners Limited holds 64,394,000 H shares of the Company directly as investment manager. Value Partners Limited is wholly controlled by Value Partners Group Limited, which in turn is controlled as to 31.23% by Cheah Capital Management Limited. Cheah Capital Management Limited is wholly controlled by Cheah Company Limited, which in turn is wholly controlled by Hang Seng Bank Trustee International Limited (as trustee of The CH Cheah Family Trust). Cheah Cheng Hye is the founder of the said trust while To Hau Yin is the spouse of Cheah Cheng Hye. The interest in 64,394,000 H shares mentioned above relates to the same block of shares in the Company.

Save as disclosed above, the directors are not aware of any persons holding any interests or short positions in the shares or underlying shares which were required to be recorded in the register pursuant to section 336 of the SFO as at 30 June 2010.

COMPLIANCE WITH THE MODEL CODE FOR THE SECURITIES TRANSACTIONS

The Company has adopted the Model Code for the Securities Transactions by Directors of Listed Issuers (the “Model Code”) set out in Appendix 10 of the Listing Rules for the code of securities transactions by all directors of the Company. After making specific enquiry of all directors and Supervisors of the Company, the Board is pleased to announce that all the directors of the Company have strictly complied with the provisions set out in the Model Code for the six months ended 30 June 2010.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the Period, the Company has adopted complied with the code provisions under the Code on Corporate Governance Practices set out in the Appendix 14 of the Listing Rules.

PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY

During the six months ended 30 June 2010, neither the Group nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend.

AUDIT COMMITTEE

The audit committee has jointly reviewed with management and the Group’s international auditor, PricewaterhouseCoopers, the accounting standards, laws and regulations adopted by the Company and discussed internal control and financial reporting matters (including the review of this interim results) of the Group. The audit committee considered that this interim result is in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE

As at the date of this report, the executive Directors of the Company are Mr. Xie Hua Jun, Mr. He Yong, Mr. Liao Shaohua and Mr. Chen Xianzheng; the non-executive Directors are Mr. Huang Yong, Mr. Yu Gang, 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.

As at the date of this report, the members of the Supervisory Committee of the Company are Mr. Duan Rongsheng, Ms. Liao Rong, Ms. Wang Rongxue, Mr. Liu Xing, Mr. Wang Xuqi and Mr. Chen Qing.

PUBLICATION OF INTERIM RESULTS ON THE WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

The interim results announcement is published on the Company's website (http://www.chinacqme.com) and the Stock Exchange (http://www.hkex.com.hk). The interim report will also be available at the Company's and the Stock Exchange's websites on or about 31 August 2010 and will be dispatched to shareholders of the Company thereafter by the means of receipt of corporate communication they selected.

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

Chongqing, the PRC, 30 August 2010

*   *For identification purposes only*