重慶機電股份有限公司
CHONGQING MACHINERY & ELECTRIC CO., LTD.*

CQME

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

Stock Code: 02722

2011 Interim Report

* For identification purposes only

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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Xie Hua Jun *(Chairman)*
Mr. Yu Gang
Mr. Liao Shaohua
Mr. Chen Xianzheng

Non-executive Directors

Mr. Huang Yong
Mr. Wang Jiyu
Mr. Liu Liangcai
Mr. Yang Jingpu

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
Mr. Wang Xuqi
Mr. Chen Qing

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. Kong Weiliang
Mr. Liu Liangcai

Remuneration Committee

Mr. Ren Xiaochang *(Chairman)*
Mr. Lo Wah Wai
Mr. Wang Jiyu

Nomination Committee

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

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

AUTHORIZED REPRESENTATIVES

Mr. Chen Xianzheng

Mr. Wang Xiaojun

QUALIFIED ACCOUNTANT

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

INTERNATIONAL AUDITOR

PricewaterhouseCoopers

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. and its subsidiaries (collectively the "Group") announce the highlights of the unaudited consolidated financial information set out below.

- Revenue of the Group for the six months ended 30 June 2011 amounted to approximately RMB5,219.0 million, representing an increase of around 22.4% from the corresponding period last year.

- Gross profit of the Group for the six months ended 30 June 2011 amounted to approximately RMB991.9 million, representing an increase of around 19.8% from the corresponding period last year.

- Profit attributable to the owners of the Company for the six months ended 30 June 2011 was approximately RMB387.1 million, representing an increase of around 12.0% from the corresponding period last year.

- Basic earnings per share for the six months ended 30 June 2011 was approximately RMB0.11.

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 2011 (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 2011 amounted to approximately RMB5,219.0 million, representing an increase of around 22.4% from RMB4,263.1 million for the corresponding period last year.

Profit attributable to the owners of the Company for the six months ended 30 June 2011 amounted to approximately RMB387.1 million, representing an increase of around 12.0% from RMB345.6 million for the corresponding period last year.

Earnings per share for the six months ended 30 June 2011 was approximately RMB0.11 (first half of 2010: RMB0.09). As at 30 June 2011, total assets of the Group amounted to approximately RMB10,773.3 million (31 December 2010: RMB10,172.2 million), while total liabilities amounted to approximately RMB6,147.3 million (31 December 2010: RMB5,598.0 million). Total owners' equity was approximately RMB4,626.0 million (31 December 2010: RMB4,574.2 million), of which approximately RMB4,577.4 million (31 December 2010: RMB4,510.0 million) was attributable to the owners of the Company. Net asset value per share was approximately RMB1.26 (31 December 2010: RMB1.24).

RESULTS *(CONTINUED)*

In the first half of 2011, the global economic development remained unbalanced. With lingering effects of European debt crisis and downgraded US sovereign credit rating, the global financial market turmoil was exacerbating. As developed countries such as the US and Japan adopted quantitative easing policies, inflationary pressure across the world was mounting. The PRC government implemented a proactive fiscal policy and monetary policy to stabilise the market, raised reserve requirement ratios as well as deposit and loan interest rates in tandem to tighten monetary liquidity, which prevented excessive inflation and severe economic bubbles. These measures, though resulted in the slowdown of domestic economic growth in the short run, was beneficial to the long-term development of China's macroeconomy. During the Period, the Group achieved sustained growth in revenue from the four major business segments as compared with the same period last year through closely following the macroeconomic development, making great efforts to expand market and secure orders as well as optimizing product mix.

The Group continued to explore new products and industries in line with development of the four major core business, improve capabilities in technical R&D and product technical innovation to maintain its international competitive strength and leading position in the domestic market. Full-year results of the Group are expected to grow steadily.

DEVELOPMENT STRATEGY

The Group continued to work hard for the strategic development objectives for the year by implementing the business philosophy of "dedication, innovation, openness and acceleration" with restructuring as the main line, opening-up and innovation as the driving force, diligence and dedication as guarantee, and the acceleration of growth as general requirement. As beneficiaries of the "Twelfth Five-Year Plan", such industries as infrastructure construction, power, transportation, water conservancy and environmental protection are expected to grow rapidly. The Group will accelerate expansion of business scale and promote transformation and upgrading.

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

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

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

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

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

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

BUSINESS OUTLOOK

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

In the first half of 2011, there has been a overall slowdown in China's automobile industry, with production and sales dropping from a relatively high level at the beginning of the period as a result of the government's macroeconomic regulation and credit tightening. However, the Group took advantage of the increased demand for engines from the electric power, engineering machinery and shipbuilding markets, and sales of Cummins M11, QSK19 and NT-series engines as well as KTA50-series engines surged to hit the sales high for achievement of best historical record; market shares of series S3-120 and QJ1112 energy-saving environmental-friendly gear boxes and series S6-100 and S6-160 gear boxes for large and medium-sized passenger vehicles kept increasing; the braking and steering systems business grew steadily, driven by sales growth of automobiles in 2010. As a result, this business segment maintained strong revenue growth and posted a rise of approximately 23.9% over the same period last year. The Group has received sufficient orders for Cummins-series engines in 2011 and export keeps growing. The Group expects that the overall business of the commercial vehicle parts and components segment will continue to sustain steady growth in 2011.

During the Period, Chongqing CAFF Automotive Braking & Steering Systems Co. Ltd. ("CAFF"), a wholly owned subsidiary of the Company, entered into a joint venture agreement on 19 January 2011 with Knorr-Bremse Asia Pacific (Holding) Ltd ("Knorr-Bremse"), a company affiliated to the Germany-based Knorr-Bremse Group Company, pursuant to which a joint venture company, Knorr-Bremse CAFF Systems for Commercial Vehicles Chongqing Ltd. (克諾爾卡福商用車系統(重慶)有限公司), was incorporated on 23 February 2011 with a registered capital of EUR14,609,000. The joint venture company, which is owned as to 34.0% and 66.0% by CAFF and Knorr-Bremse respectively, is engaged principally in the assembly, parts manufacturing, sale, application engineering and after-sale service of valve products (brakes, chassis, transmission and air treatment valves), air dryers and clutch servo system for the Commercial Vehicles (for details, please refer to the announcement of the Company dated 18 January 2011). This joint venture has commenced production. Such move would help the Group upgrade its technology and products in commercial vehicle parts and components business and achieve sustainable development.

BUSINESS OUTLOOK *(CONTINUED)*

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

Embracing the idea of energy saving and emission reduction and aiming for lightweight transmission in line with market needs for development, Qijiang Gear Transmission Co., Ltd ("Qijiang Gear Transmission"), a wholly owned subsidiary of the Company, successfully developed QJ805 transmission with all-aluminum alloy hulks, which were installed on passengers cars used at World Horticultural Expo 2011 in Xi'an.

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

In the first half of 2011, the Group made great efforts to overcome the adverse impact of tight energy supply. Measures such as strengthening production process control, improving production efficiency and expanding export, combined with the commencement of production of the non-ferrous metal powder technical innovation (Phase I) project, pushed the revenue of the power equipment business to grow by approximately 24.8% over the same period last year. As the State promotes the strategy of new energy development, accelerates the development of power transmission and transformation, hydropower, nuclear power and wind power as well as the upgrade of rural power grids and construction of smart power grids, this business segment of the Group, with obvious latecomer advantages, is expected to keep growing in 2011.

During the Period, according to the development trend of the electric wires and cables markets around Chongqing, Chongqing Pigeon Electric Wires & Cables Co., Ltd.（重慶鴿牌電線電纜有限公司）("Chongqing Pigeon"), a controlled subsidiary of the Company, selected Guizhou as a pilot location to establish a JV company, Guizhou Pigeon Changtong Electric Wires & Cables Co., Ltd.(貴州鴿牌長通電線電纜有限公司). The JV company has a registered capital of RMB10.0 million and is controlled as to 51.0% by Chongqing Pigeon. Two special wires and cables production lines, with an annual output of 140,000 kilowatts of environmentally friendly special wires and cables, were newly established and put into operation in June.

BUSINESS OUTLOOK *(CONTINUED)*

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

During the Period, on 25 May 2011, the Company acquired 19.3125% equity interest in Chongqing Pigeon held by its natural person shareholders for RMB 40.731 million, raising the Company's stake in Chongqing Pigeon from 54.6875% to 74.0%.

On 8 June 2011, the Company acquired 1.31% equity interest in Chongqing Huahao Smelting Co., Ltd. held by Qijiang Chuanxing Plastic Ware Factory and the Technical Service of the Staff Technology Association of Chongqing Smelter Factory for RMB663,000, bringing the Company's equity interest in Chongqing Huahao Smelting Co., Ltd. up from 98.69% to 100.0%. Procedures for registration of change with the industry and commerce administration was completed on 4 August 2011.

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

In the first half of 2011, according to the new energy development strategy of the State, the Group accelerated the development of nuclear power and wind power products as well as product adjustment; and achieved steady growth in orders and sales of industrial fans, refrigeration machines and wind power rotor blades; developed the newly secondary pumps for million-kilowatts pressurized water reactor nuclear power station; and the centrifugal upward injection pumps went into production achieved economic benefits. Water pressure test pumps were exported abroad and the gas compressors business grew rapidly. All the above factors drove the revenue of the general machinery business to grow by approximately 10.0% over the same period last year. In 2011,with sufficient orders for industrial fans, refrigeration machines, industrial pumps, gas compressors and wind power rotor blades, the overall business of this segment is expected to rebound.

BUSINESS OUTLOOK *(CONTINUED)*

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

During the Period, the Group continued to put more efforts into independent R&D on high-end product technology, optimize product mix and improve product quality. Currently, the KLDAQH-C-series centrifugal ammonia compressor units, independently developed by the Company and currently being the largest centrifugal ammonia compressor in China, have passed all technical parameters tests and successfully commenced pilot operation. Containment spray pumps and low pressure safety injection pumps as secondary pumps for nuclear power station, which assure the critical equipment for nuclear power plants security, are now at the stage of trial production, with technical performance index at the world advanced level of the same equipment; the trial manufacture of high-rotating-speed, long-diameter decanter centrifuges has been completed; centrifugal high-temperature water source heat pump units, with huge market potential, have been put into operation.

During the Period, the technical upgrade project for heavy duty pumps commercialization, the project of compressors for recovered gas generated from marine oil exploitation and the technical upgrade project of large special centrifugal fans, supported by the State strategies in respect of revitalization and technical upgrade of national key industries, were granted a total of RMB14.5 million of funding appropriated from the central budget funds.

BUSINESS OUTLOOK *(CONTINUED)*

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

In the first half of 2011, despite the adverse effect of sales slowdown in China's automobile market and credit tightening, this business segment still enjoyed rapid revenue increase of approximately 23.7% over the same period last year and boosted by demand from the industries of wind power equipment, engineering machinery, port machinery and mining machinery, drove to strong growth in sales of CNC gear machine tools, CNC lathes and new products as well as remarkable business expansion of Precision Technologies Group Limited ("PTG") (a British subsidiary of the Group). In 2011, the Group will focus on securing orders, keep stepping up efforts for new products development, accelerate the construction of the large precise CNC machine tool production base to gain competitive edges. The CNC machine tools business is expected to grow steadily as a whole in 2011.

During the Period, the Group launched Y4232CNC series CNC gear shaving machine and YK8425 CNC roll machines at world advanced levels as well as YX3132CNC4 4-axle 4-linkage CNC gear hobbing machine, YE3120CNC7 7-axle 4-linkage CNC high-speed dry-cutting automatic gear hobbing machine and YS3126CNC6 CNC high-speed dry-cutting gear hobbing machine at national advanced levels, all of which meet specific needs of customers and have huge market potential; Y31200CNC6 CNC high-efficiency large gear hobbing machine was listed in Chongqing municipal science and technology planning program; the DT series high-speed high-precision CNC lathes R&D and industrialized application project was listed in 2011 Chongqing municipal key research program.

BUSINESS OUTLOOK *(CONTINUED)*

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

The Group's R&D and industrialized project of large CNC gear processing equipment for wind power generation, supported by the State strategies in respect of revitalization and technical upgrade of national key industries, received funding of RMB8.5 million; the machine tools remanufacturing technology package and industry project received funding of RMB6.18 million allocated from central budgetary fund for the "Twelfth Five-year" national science & technology support plan. The technical cooperation project introducing the grinding technology of British company PTG received funding of RMB1.0 million from Chongqing Municipal Government as an international cooperation project of the city in 2010.

The Group continued to promote the green manufacturing and re-manufacturing technology strategy for machine tools and accelerate the research and development, restructuring and innovation of its high-end technology. On 18 January 2011, the Board of the Company approved the construction of a large precise CNC machine tool production base and the environmental-friendly relocation in Chongqing Nanan District. The estimated investment for Phase I is approximately RMB942.0 million. Upon completion of the project, the manufacturing technique of CNC machine tools will be boosted to a leading position in China and advanced level in the world, thus promoting R&D on and production of large gear hobbing machines over 3.2 meters and precision CNC grinding machines and screw grinding machines, thus creating favourable conditions for Machine Tools Group to achieve its strategic target, namely taking a place in the top manufacturers of international gear equipment manufacturing industry. For details, please refer to the Company's announcement dated 18 January 2011.

SUMMARY

In the first half of 2011, China took stringent measure to rein in inflation. Against this macroeconomic backdrop, China's GDP growth rate still hit 9.6%. The management of the Group sized up the market situation and implemented various measures, such as strengthening lean management, improving operation quality, mastering market laws, securing orders, expanding export and developing new financing channels, to ensure the continuous improvement of the overall performance in the first half of the year, thus laying a solid foundation for achievement of the full-year objectives of the Group and the four major business segments. In the second half of the year, the Group will pay close attention to the macroeconomic situation, conduct better analysis and judgement, monitor more effectively the economic development and strive to bring better return to our investors. The Group is expected to maintain its revenue growth momentum in the second half of the year.

Lastly, on behalf of the Board, I would like to extend my heartfelt gratitude to our shareholders for their lasting support. My sincere appreciation also goes to our directors and all our staff for their contributions and efforts.

Xie Hua Jun
Executive Director Chairman

Chongqing, the PRC, 26 August 2011

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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 17 to 63, which comprises the interim condensed consolidated balance sheet of Chongqing Machinery & Electric Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2011 and the related interim 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, 26 August 2011

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong
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	Note	Unaudited 30 June 2011 RMB'000	Audited 31 December 2010 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	7	1,841,126	1,812,713
Investment properties	7	37,611	21,718
Lease prepayments	7	268,183	270,516
Intangible assets	7	269,436	274,467
Investments in associates	8	409,275	397,943
Deferred income tax assets		78,394	115,898
Available-for-sale financial assets		4,364	4,317
Other non-current assets		13,928	10,212
		2,922,317	2,907,784
Current assets			
Inventories		1,757,096	1,612,628
Trade and other receivables	9	3,424,954	2,901,478
Amounts due from customers for contract work		170,350	158,521
Restricted cash		419,005	473,016
Cash and cash equivalents		2,079,601	2,118,810
		7,851,006	7,264,453
Total assets		10,773,323	10,172,237

	Note	**Unaudited 30 June 2011 RMB'000**	Audited 31 December 2010 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	10	**3,684,640**	3,684,640
Other reserves		**(872,126)**	(847,198)
Retained earnings		**1,764,846**	1,672,554
		4,577,360	4,509,996
Non-controlling interests		**48,645**	64,212
Total equity		**4,626,005**	4,574,208
LIABILITIES			
Non-current liabilities			
Borrowings	11	**497,810**	481,359
Deferred income		**506,403**	513,017
Deferred income tax liabilities		**27,006**	29,311
Long-term employee benefit obligations	12	**82,567**	131,788
		1,113,786	1,155,475

	Note	**Unaudited 30 June 2011 *RMB'000***	Audited 31 December 2010 *RMB'000*
Current liabilities			
Trade and other payables	14	**3,471,972**	3,226,915
Dividends payable		**286,720**	—
Amounts due to customers for contract work		**29,064**	24,785
Current income tax liabilities		**71,492**	55,385
Borrowings	11	**1,101,212**	1,061,592
Current portion of long-term employee benefit obligations	12	**12,559**	14,078
Provision for warranty	13	**60,513**	59,799
		5,033,532	4,442,554
Total liabilities		**6,147,318**	5,598,029
Total equity and liabilities		**10,773,323**	10,172,237
Net current assets		**2,817,474**	2,821,899
Total assets less current liabilities		**5,739,791**	5,729,683

The accompanying notes are an integral part of this unaudited interim condensed consolidated financial information.

		Unaudited	
		Six months ended 30 June	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Revenue	6	**5,219,028**	4,263,106
Cost of sales		**(4,227,166)**	(3,435,180)
Gross profit		**991,862**	827,926
Distribution costs		**(146,902)**	(158,160)
Administrative expenses		**(356,773)**	(317,747)
Other gains, net		**30,058**	7,511
Other income		**17,393**	13,732
Operating profit	15	**535,638**	373,262
Finance income		**14,607**	13,091
Finance costs		**(50,714)**	(46,276)
Share of post-tax profits of associates	8	**8,823**	33,843
Profit before income tax		**508,354**	373,920
Income tax expense	16	**(118,637)**	(21,400)
Profit for the period		**389,717**	352,520

		Unaudited	
		Six months ended 30 June	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Other comprehensive income:			
Fair value gains/(losses) on available-for-sale financial assets		**47**	(2,205)
Income tax relating to available-for-sale financial assets		**346**	551
Currency translation differences		**(704)**	—
Other comprehensive income for the period, net of tax		**(311)**	(1,654)
Total comprehensive income for the period		**389,406**	350,866
Profit attributable to:			
— Owners of the Company		**387,063**	345,646
— Non-controlling interests		**2,654**	6,874
		389,717	352,520
Total comprehensive income attributable to:			
— Owners of the Company		**386,752**	343,992
— Non-controlling interests		**2,654**	6,874
		389,406	350,866
Earnings per share for profit attributable to owners of the Company *(expressed in RMB per share)*			
— Basic and diluted	17	**0.11**	0.09

The accompanying notes are an integral part of this unaudited interim condensed consolidated financial information.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

		Unaudited					
		Attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital	Other reserves	Retained earnings	Total		
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2011		3,684,640	(847,198)	1,672,554	4,509,996	64,212	4,574,208
Profit for the period		—	—	387,063	387,063	2,654	389,717
Other comprehensive income							
Changes in fair value of available-for-sale financial assets, net of tax		—	393	—	393	—	393
Currency translation differences		—	(704)	—	(704)	—	(704)
Total comprehensive income for the period		—	(311)	387,063	386,752	2,654	389,406
Transactions with owners in their capacity as owners							
Dividends relating to 2010	18	—	—	(294,771)	(294,771)	(1,444)	(296,215)
Changes in ownership interests in subsidiaries without change of control	20	—	(24,617)	—	(24,617)	(16,777)	(41,394)
Transactions with owners		—	(24,617)	(294,771)	(319,388)	(18,221)	(337,609)
Balance at 30 June 2011		3,684,640	(872,126)	1,764,846	4,577,360	48,645	4,626,005

		Unaudited					
		Attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital	Other reserves	Retained earnings	Total		
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2010		3,684,640	(882,299)	1,243,051	4,045,392	73,880	4,119,272
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 for the period		—	(1,654)	345,646	343,992	6,874	350,866
Transactions with owners in their capacity as owners							
Dividends relating to 2009		—	—	(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 accompanying notes are an integral part of this unaudited interim condensed consolidated financial information.

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

		Unaudited	
		Six months ended 30 June	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Cash flows from operating activities			
Cash generated from operations		**136,003**	60,849
Income tax paid		**(66,985)**	(55,486)
Interest paid		**(55,412)**	(39,059)
Transaction costs in relation to acquisition of subsidiaries		**—**	(1,423)
Net cash generated from/(used in) operating activities		**13,606**	(35,119)
Cash flows from investing activities			
Purchase of short-term investments at fair value through profit or loss	19	**(2,120,000)**	—
Proceeds from return of short-term investments at fair value through profit or loss	19	**2,127,720**	—
Purchase of available-for-sale financial assets		**—**	(394)
Purchases of property, plant and equipment		**(115,603)**	(133,346)
Purchase of intangible assets		**(2,613)**	(589)
Increase in lease prepayments		**(1,147)**	—
Dividends received		**35,036**	100,902
Interest received		**13,310**	13,091
Proceeds on disposal of property, plant and equipment		**4,486**	3,904
Acquisition of subsidiaries, net of cash acquired		**—**	(196,031)
Additional investment to associates		**—**	(10,912)
Proceeds from return of investments		**—**	2,782
Net cash used in investing activities		**(58,811)**	(220,593)

		Unaudited	
		Six months ended 30 June	
		2011	2010
	Note	***RMB'000***	*RMB'000*
Cash flows from financing activities			
Proceeds from borrowings		**643,431**	678,797
Repayments of borrowings		**(578,661)**	(443,798)
Payments of finance lease obligations		**(4,417)**	(2,785)
Dividends paid to non-controlling interests		**(13,900)**	(25,596)
Transactions with non-controlling interests	20	**(41,394)**	—
Net cash generated from financing activities		**5,059**	206,618
Net decrease in cash and cash equivalents		**(40,146)**	(49,094)
Cash and cash equivalents at the beginning of the period		**2,118,810**	2,187,362
Exchange gains/(losses)		**937**	(6,923)
Cash and cash equivalents at end of the period		**2,079,601**	2,131,345

The accompanying notes are an integral part of this unaudited interim condensed consolidated financial information.

1. GENERAL INFORMATION

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

The Company was established in the PRC on 27 July 2007 as a joint stock company with limited liability as part of the reorganisation of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. ("CQMEHG") in preparation for a listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited. CQMEHG is a state-owned enterprise established in the PRC and has been directly under the administration and control of the State-Owned Assets Supervision and Administration Commission of Chongqing 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.

This condensed consolidated interim financial information is presented in Chinese Renminbi ("RMB"), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 26 August 2011.

This condensed consolidated interim financial information has not been audited.

Key events

Effective from 1 January 2011, the Group's obligations arising from certain defined benefit plan has been reduced pursuant to the notice issued by local government authorities. Further details are given in Note 12.

1. GENERAL INFORMATION *(CONTINUED)*

On 23 February 2011, the Group and Knorr-Bremse Asia Pacific (Holdings) Ltd. together established a new company, which is engaged principally in the manufacturing and sales of valve products, air dryers and clutch actuation products for commercial vehicles. This new company is considered as an associate of the Group, and further details are given in Note 8.

On 22 July 2011, the Group obtained the approval of public issuance of corporate bonds in the PRC from China Securities Regulatory Commission. Further details are given in Note 24.

On 27 July 2011, the Ministry of Finance, the General Administration of Customs, and the State Administration of Taxation of the PRC jointly issued a notice regarding the favourable income tax policy in support the development in Western China. Further details are given in Note 16.

On 1 August 2011, the Company established a new wholly-owned subsidiary in United Kingdom. Further details are given in Note 24.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with 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 2010, which have been prepared in accordance with HKFRSs.

3 ACCOUNTING POLICIES

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2010, 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.

(a) New and amended standards adopted by the Group

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

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

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

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

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

  It also clarifies and simplifies the definition of a related party.

3 ACCOUNTING POLICIES *(CONTINUED)*

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

- Amendment to HKAS 34 "Interim financial reporting" is effective for annual periods beginning on or after 1 January 2011. It emphasises the existing disclosure principles in HKAS34 and adds further guidance to illustrate how to apply these principles. Greater emphasis has been placed on the disclosure principles for significant events and transactions. Additional requirements cover disclosure of changes to fair value measurement (if significant), and the need to update relevant information from the most recent annual report. The change in accounting policy only results in additional disclosures.

3 ACCOUNTING POLICIES *(CONTINUED)*

(b) The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2011 and have not been early adopted:

- HKFRS 1 (Amendment) "Disclosure - transfers of financial assets", and HKFRS 7 (Amendment) "Severe hyperinflation and removal of fixed dates for first-time adopters", both effective for annual periods beginning on or after 1 July 2011.

- HKAS 12 (Amendment) "Deferred tax: recovery of underlying assets", effective for annual periods beginning on or after 1 January 2012.

- HKAS 1 (Amendment) "Presentation of financial statements", effective for annual periods beginning on or after 1 July 2012.

- HKAS 19 (Amendment) "Employee benefits", HKFRS 9 "Financial instruments", HKFRS 10 "Consolidated financial statements", HKFRS 11 "Joint arrangements", HKFRS 12 "Disclosure of interests in other entities", and HKFRS 13 "Fair value measurements", all effective for annual periods beginning on or after 1 January 2013.

The Group is in the process of making an assessment of the impact of these new/revised standards.

4. ESTIMATES

The preparation of interim financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial statements, the significant judgments made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2010, with the exception of changes in estimates that are required in determining the provision for income taxes, write down of inventories and impairment on trade and other receivables.

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial statements do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as at 31 December 2010.

There have been no changes in the risk management department since year end or in any risk management policies.

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

5.2 Liquidity risk

Compared to the year end of 2010, there was no material change in the contractual undiscounted cash out flows for financial liabilities.

The contractual maturities of the Group's non-derivative financial liabilities were as follows:

	Less than 6 months	6-12 months	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contractual cash flows	Carrying amount liabilities
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 30 June 2011							
Non-derivatives							
Trade and other payables(i)	**2,365,592**	**—**	**—**	**—**	**—**	**2,365,592**	**2,365,592**
Borrowings (excluding finance leases)	**667,758**	**519,271**	**315,068**	**216,555**	**—**	**1,718,652**	**1,598,526**
Finance lease liabilities	**117**	**117**	**235**	**52**	**—**	**521**	**496**
Total non-derivatives	**3,033,467**	**519,388**	**315,303**	**216,607**	**—**	**4,084,765**	**3,964,614**
At 31 December 2010							
Non-derivatives							
Trade and other payables(i)	2,287,655	—	—	—	—	2,287,655	2,287,655
Borrowings (excluding finance leases)	662,392	447,998	237,583	283,435	869	1,632,277	1,538,038
Finance lease liabilities	2,903	1,735	235	183	—	5,056	4,913
Total non-derivatives	2,952,950	449,733	237,818	283,618	869	3,924,988	3,830,606

Note:

(i) Trade and othe payables include trade and bills payable, and other payables *(Note 14)*.

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

5.3 Fair value estimation

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).

- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).

- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

At 30 June 2011, all available-for-sale financial assets are measured at level 1 (2010: level 1) fair value.

During the six months ended 30 June 2011, there were no transfers between levels of the fair value hierarchy used in measuring the fair value of the Group's financial assets.

During the six months ended 30 June 2011, there were no significant changes in the business or economic circumstances that affect the fair value of the Group's financial assets.

During the six months ended 30 June 2011, there were no reclassifications of financial assets.

6. 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 profit or loss in the condensed consolidated statement of comprehensive income.

6. SEGMENT INFORMATION *(CONTINUED)*

The segment results for the six months ended 30 June 2011 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	970,810	479,335	174,002	1,193,341	578,087	1,109,401	–	720,676	5,225,652
Inter-segment revenue	–	–	–	(4,594)	–	–	–	(2,030)	(6,624)
Revenue from external customers	970,810	479,335	174,002	1,188,747	578,087	1,109,401	–	718,646	5,219,028
Operating profit	274,384	50,948	14,934	60,471	34,035	77,088	–	23,778	535,638
Finance income	3,814	116	951	2,588	1,809	1,119	–	4,210	14,607
Finance costs	700	(4,406)	(2,328)	(19,648)	(3,918)	(9,907)	–	(11,207)	(50,714)
Share of post-tax profits of associates	–	–	–	–	(2,943)	–	6,893	4,873	8,823
Profit before income tax									508,354
Income tax expense	(48,938)	(7,134)	(2,435)	(7,530)	(25,447)	(20,450)	–	(6,703)	(118,637)
Profit for the period									389,717

6. SEGMENT INFORMATION *(CONTINUED)*

The segment results for the six months ended 30 June 2011 are as follows: *(Continued)*

	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*
Other items									
Depreciation on property, plant and equipment and investment properties	5,374	12,777	3,982	9,032	15,643	17,003	–	13,087	76,898
Amortisation of lease prepayments and intangible assets	1,520	1,603	457	670	3,271	3,344	–	205	11,070
Write down of inventories	42	–	–	–	–	–	–	14,243	14,285
Provision for/(reversal of) impairment on trade and other receivables	342	–	3,061	781	5,438	(3,039)	–	(35)	6,548
Additions to non-current assets (other than financial instruments and deferred tax assets)	11,994	11,359	10,287	6,506	33,748	58,761	–	21,027	153,682

6. 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	(24,478)	(2,091)	(32)	(2,036)	17,268	(3,320)	—	(6,711)	(21,400)
Profit for the period									352,520

6. SEGMENT INFORMATION *(CONTINUED)*

The segment results for the six months ended 30 June 2010 are as follows: *(Continued)*

	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*
Other items									
Depreciation on property, plant and equipment and investment properties	5,233	11,514	3,608	7,187	10,523	14,968	—	11,690	64,723
Amortisation of lease prepayments and intangible assets	1,520	1,603	444	670	2,037	1,062	—	246	7,582
Write down of inventories	—	—	—	279	—	1,734	—	91	2,104
Provision for/(reversal of) impairment on trade and other receivables	1,539	3,405	(1,684)	(289)	14,168	2,170	—	292	19,601
Additions to non-current assets (other than financial instruments and deferred tax assets)	7,642	2,162	3,903	16,539	31,751	42,727	—	53,125	157,849

6. SEGMENT INFORMATION *(CONTINUED)*

The segment assets as at 30 June 2011 and 31 December 2010 are as follows:

Total assets	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*
30 June 2011	**1,024,294**	**1,083,777**	**759,039**	**1,191,756**	**2,435,819**	**2,057,089**	**157,773**	**2,063,776**	**10,773,323**
Total assets include:									
Investments in associates	**—**	**—**	**—**	**—**	**72,456**	**—**	**157,773**	**179,046**	**409,275**
31 December 2010	967,157	1,067,857	724,642	1,076,233	2,319,720	1,921,871	185,650	1,909,107	10,172,237
Total assets include:									
Investments in associates	—	—	—	—	79,769	—	185,650	132,524	397,943

7. 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:

	Property, plant and equipment *RMB'000*	Investment properties *RMB'000*	Lease prepayments *RMB'000*	Intangible assets *RMB'000*
Six months ended 30 June 2011				
Opening net book amount at 1 January 2011	**1,812,713**	**21,718**	**270,516**	**274,467**
Transfers	**(17,266)**	**17,266**	**—**	**—**
Additions	**149,922**	**—**	**1,147**	**2,613**
Investment in an associate *(Note 8)*	**(25,234)**	**—**	**—**	**(54)**
Disposals	**(3,484)**	**—**	**—**	**—**
Depreciation/amortisation	**(75,525)**	**(1,373)**	**(3,480)**	**(7,590)**
Closing net book amount at 30 June 2011	**1,841,126**	**37,611**	**268,183**	**269,436**
Six months ended 30 June 2010				
Opening net book amount at 1 January 2010	1,659,174	24,108	274,741	84,910
Acquisition of subsidiaries	41,998	—	—	181,681
Additions	157,260	—	—	589
Disposals	(3,356)	—	—	—
Depreciation/amortisation	(63,528)	(1,195)	(3,230)	(4,352)
Closing net book amount at 30 June 2010	1,791,548	22,913	271,511	262,828

7. PROPERTY, PLANT AND EQUIPMENT, INVESTMENT PROPERTIES, LEASE PREPAYMENTS AND INTANGIBLE ASSETS *(CONTINUED)*

Notes:

(a) As at 30 June 2011, bank borrowings amounting to approximately RMB271,890,000 (31 December 2010: RMB289,490,000) were secured by certain of the Group's property, plant and equipment, investment properties and land use rights with an aggregate carrying value of approximately RMB138,186,000, RMB20,522,000 and RMB95,990,000, respectively (31 December 2010: RMB150,065,000, RMB21,718,000 and RMB111,378,000, respectively).

8. INVESTMENTS IN ASSOCIATES

	Six months ended 30 June 2011 *RMB'000*
At 1 January 2011	397,943
Addition *(a)*	44,231
Share of post-tax profits of associates	8,823
Dividend declared	(41,722)
At 30 June 2011	409,275

8. INVESTMENTS IN ASSOCIATES *(CONTINUED)*

Note:

(a) The addition represented the Group's investment in Knorr-Bremse CAFF Systems for Commercial Vehicles (Chongqing) Limited ("Knorr-CAFF"), which was established in Chongqing, the PRC, on 23 February 2011 by Chongqing CAFF Automotive Braking & Steering System Co. Ltd. ("CAFF"), a wholly owned subsidiary of the Company, and Knorr-Bremse Asia Pacific (Holding) Ltd., an affiliated company of the Knorr-Bremse Group Company, a limited liability company incorporated in Germany. The registered capital of Knorr-CAFF is EUR14,609,000 (approximately RMB131,645,000), which is owned beneficially as 34% by CAFF and 66% by Knorr-Bremse Asia Pacific (Holding) Ltd.. CAFF has made this investment by injecting certain equipment and software with net book value of approximately RMB25,288,000 (Note 7) as at the transferring date. The difference between the net book value of such assets transferred plus relevant tax of RMB2,541,000 incurred, and the fair value of the equity interest obtained, was recorded in the profit or loss during the six months ended 30 June 2011 (Note 15).

The Group's share of the assets and liabilities, revenue and results of associates, all of which are unlisted, are as follows:

	Six months ended 30 June 2011 *RMB'000*
Assets	999,810
Liabilities	(590,535)
Revenues	486,304
Share of post-tax profit	8,823

9. TRADE AND OTHER RECEIVABLES

	30 June 2011 **RMB'000**	31 December 2010 *RMB'000*
Trade and bills receivable	**3,092,844**	2,701,706
Less: provision for impairment of trade receivables	**(253,381)**	(249,038)
Trade and bills receivable - net	**2,839,463**	2,452,668
Other receivables	**614,478**	477,649
Less: provision for impairment of other receivables	**(28,987)**	(28,839)
Other receivables - net	**585,491**	448,810
	3,424,954	2,901,478

9. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

The general credit period granted to customers is up to 90 days. As at 30 June 2011 and 31 December 2010, the ageing analysis of the trade and bills receivables was as follows:

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Trade and bills receivable		
Less than 30 days	**1,070,952**	674,344
31 days to 90 days	**839,417**	820,827
91 days to 1 year	**766,848**	770,569
1 year to 2 years	**166,700**	187,392
2 years to 3 years	**55,491**	91,457
Over 3 years	**193,436**	157,117
	3,092,844	2,701,706

10. SHARE CAPITAL

	Number of Shares	Domestic shares	H shares	Total shares
	'000	*RMB'000*	*RMB'000*	*RMB'000*
Registered, issued and fully paid				
At 30 June 2011 and 1 January 2011 (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

All the domestic shares and H shares are rank pari passu in all aspects.

11. BORROWINGS

	30 June 2011 RMB'000	31 December 2010 RMB'000
Non-current		
Long-term bank borrowings	497,501	480,934
Finance lease liabilities	309	425
Total non-current borrowings	497,810	481,359
Current		
Short-term bank borrowings	1,101,025	1,057,104
Finance lease liabilities	187	4,488
Total current borrowings	1,101,212	1,061,592
Total borrowings	1,599,022	1,542,951

11. BORROWINGS *(CONTINUED)*

Movements in borrowings are analysed as follows:

	RMB'000
Six months ended 30 June 2011	
Opening amount at 1 January 2011	1,542,951
Additions	643,431
Deductions	(587,360)
Closing amount as at 30 June 2011	1,599,022
Six months ended 30 June 2010	
Opening amount at 1 January 2010	1,199,825
Additions	678,797
Deductions	(446,583)
Closing amount as at 30 June 2010	1,432,039

Interest expense on borrowings for the six months ended 30 June 2011 is approximately RMB55,412,000 (2010: RMB35,115,000).

11. BORROWINGS *(CONTINUED)*

The Group had the following undrawn borrowing facilities:

	30 June 2011 RMB'000	31 December 2010 *RMB'000*
Fixed rate		
— expiring within 1 year	**314,579**	95,591
— expiring beyond 1 year	**28,000**	169,130
	342,579	264,721

12. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

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

	30 June 2011 RMB'000	31 December 2010 *RMB'000*
Present value of defined benefits obligations	**99,117**	153,061
Unrecognised actuarial loss	**(3,991)**	(7,195)
Liability in the balance sheet	**95,126**	145,866
Less: current portion	**(12,559)**	(14,078)
	82,567	131,788

12. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS *(CONTINUED)*

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

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
At beginning of the period	**145,866**	157,909
For the period		
— Interest costs	**1,874**	2,889
— Actuarial loss	**1,517**	1,589
— Payment	**(6,501)**	(7,015)
— Deduction *(a)*	**(47,630)**	—
At end of the period	**95,126**	155,372

Note:

(a) Pursuant to the notice jointly issued by Chongqing Human Resources and Social Security Bureau and Chongqing Finance Bureau (Yu Ren She Fa [2010] No. 290), part of the Group's obligations arising from certain defined benefit plan has been reduced effective from 1 January 2011, which resulted in a decrease of long-term employee benefit obligations of approximately RMB47,630,000. Such decrease was credited into profit or loss during the six months ended 30 June 2011 (Note 15).

13. PROVISION FOR WARRANTY

Provision for warranty 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 'cost of sales' in profit or loss.

	RMB'000
Six months ended 30 June 2011	
Opening net book amount at 1 January 2011	**59,799**
Additional provisions	**12,754**
Utilised during the period	**(12,040)**
Closing net book amount at 30 June 2011	**60,513**
Six months ended 30 June 2010	
Opening net book amount at 1 January 2010	19,462
Additional provisions	9,457
Utilised during the period	(6,782)
Closing net book amount at 30 June 2010	22,137

14. TRADE AND OTHER PAYABLES

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Trade and bills payable	**1,987,514**	1,959,662
Other taxes payables	**104,404**	115,520
Other payables	**369,476**	327,993
Accrued payroll and welfare	**211,164**	192,191
Advances from customers	**795,574**	628,514
Advances from government	**3,840**	3,035
	3,471,972	3,226,915

As at 30 June 2011 and 31 December 2010, the ageing analysis of the trade and bills payable (including amounts due to related parties of trading in nature) was as follows:

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
Trade and bills payable		
Less than 30 days	**799,417**	697,355
31 days than 90 days	**840,466**	585,372
91 days to 1 year	**267,092**	541,700
1 year to 2 years	**39,764**	56,596
2 years to 3 years	**14,093**	26,963
Over 3 years	**26,682**	51,676
	1,987,514	1,959,662

15. 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	
	2011	2010
	RMB'000	*RMB'000*
Inventory write-down *(c)*	**14,285**	2,104
Provision for impairment on trade and other receivables *(d)*	**6,548**	19,601
Gains on investment in an associate *(Note 8)*	**(16,402)**	—
Gains on short-term investment at fair value through profit or loss *(Note 19)*	**(7,720)**	—
Reversal of expenses arising from long-term employee benefit obligation decrease *(Note 12)*	**(47,630)**	—
Gains on disposal of property, plant and equipment	**(1,002)**	(548)

Notes:

(a) 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.

(b) Assets that are subject to depreciation/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.

(c) The inventory write-down of RMB14,285,000 mainly relates to some products which are not likely to recover its carrying value through sales.

(d) Financial assets were reviewed for impairment as at 30 June 2011. The impairment charge of RMB6,548,000 on trade and other receivables mainly relates to certain customers which are in difficult financial situations.

16. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Current income tax	**83,092**	57,289
Deferred income tax	**35,545**	(35,889)
	118,637	21,400

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.

On 27 July 2011, the Ministry of Finance, the General Administration of Customs, and the State Administration of Taxation of the PRC jointly issued Cai Shui [2011] No. 58 (the "Notice") in respect of favourable corporate income tax policy applicable to qualified enterprises located in western China. The directors of the Company are of the opinion that those group entities previously entitled to the 15% preferential income tax rate during the period from 2001 to 2010, will continued to be qualified under the new policy for the 15% preferential income tax rate from 2011 to 2020. Accordingly, the estimated average annual tax rate for 2011 is 15%. The adjusting deferred tax in connection with the tax rate adjustment from 25% to 15% amounting to RMB40,746,000 has been recorded in profit or loss as of 30 June 2011.

17. EARNINGS PER SHARE

	Six months ended 30 June	
	2011	2010
Profit attributable to owners of the Company *(RMB'000)*	**387,063**	345,646
Weighted average number of ordinary shares in issue *(thousand)*	**3,684,640**	3,684,640
Basic and diluted earnings per share *(RMB per share)*	**0.11**	0.09

Diluted earnings per share is same as basic earnings per share as there are no potential dilutive ordinary shares outstanding for all periods presented.

18. DIVIDENDS

A dividend that relates to the year ended 31 December 2010 of approximately RMB294,771,000 (RMB0.08 per share) was approved at the Annual General Meeting on 6 June 2011 and was recorded as a liability as at 30 June 2011 in this condensed consolidated interim financial information.

The Company's Board of Director did not recommended the payment of an interim dividend for the six months ended 30 June 2011 (2010: Nil).

19. NOTE TO INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

During the six months ended 30 June 2011, the Company invested in certain financial instruments from commercial banks in order to earn a higher interest than that from traditional time deposits. Such financial products are all with short-term maturity from one to three months. The total cash outflows and inflows in respect of such investments during the period are approximately RMB2,120 million and RMB2,128 million, respectively. As at the 30 June 2011, the Company held no such investment balance.

20. CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL

(a) Acquisition of additional interests in subsidiaries

On 25 May 2011, the Company acquired an additional 19.31% of the share capital of Chongqing Pigeon Electric Wire & Cable Co., Ltd. for a purchase consideration of RMB40,731,000. The carrying amount of the non-controlling interests in Chongqing Pigeon Electric Wire & Cable Co., Ltd. on the date of acquisition was RMB16,145,000. The Group recognised a decrease in non-controlling interests of RMB16,145,000, and a decrease in equity attributable to owners of the Company of RMB24,586,000.

On 8 June 2011, the Company acquired an additional 1.31% of the shares capital of Chongqing Huahao Smelting Co., Ltd. for a purchase consideration of RMB663,000. The carrying amount of the non-controlling interests in Chongqing Huahao Smelting Co., Ltd. on the date of acquisition was RMB632,000. The Group recognised a decrease in non-controlling interests of RMB632,000 and a decrease in equity attributable to owners of the Company of RMB31,000.

20. CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL *(CONTINUED)*

(a) Acquisition of additional interests in subsidiaries *(Continued)*

The effects of changes in the ownership interests of Chongqing Pigeon Electric Wire & Cable Co., Ltd. and Chongqing Huahao Smelting Co., Ltd. on the equity attributable to owners of the Company during the period are summarised as follows:

	30 June 2011 *RMB'000*	30 December 2010 *RMB'000*
Carrying amount of non-controlling interests acquired	**16,777**	—
Consideration paid to non-controlling interests	**(41,394)**	—
Excess of consideration paid recognised within equity	**(24,617)**	—

20. CHANGES IN OWNERSHIP INTERESTS IN SUBSIDIARIES WITHOUT CHANGE OF CONTROL *(CONTINUED)*

(b) Effects of changes in ownership interests in subsidiaries without change of control on the equity attributable to owners of the Company for the six months ended 30 June 2011

	Six months ended 30 June 2011 *RMB'000*
Total comprehensive income for the period attributable to owners of the Company	386,752
Changes in equity attributable to owners of the Company arising from:	
— Acquisition of additional interests in subsidiary	(24,617)
Net effect for changes in ownership interests in subsidiaries without change of control on equity attributable to owners of the Company	362,135

21. CONTINGENCIES

As at 30 June 2011, the Group had no material contingencies.

22. COMMITMENTS

(a) Capital commitments

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

	30 June 2011 *RMB'000*	30 December 2010 *RMB'000*
Property, plant and equipment	**118,547**	174,962
Intangible assets	**795**	4,750
	119,342	179,712

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	30 June 2011 *RMB'000*	31 December 2010 *RMB'000*
No later than 1 year	**8,519**	8,101
Later than 1 year and no later than 5 years	**32,940**	32,403
Later than 5 years	**61,800**	65,850
	103,259	106,354

23. RELATED PARTY TRANSACTIONS

The Company's parent company is CQMEHG, a state-owned enterprise established in the PRC and is controlled by the PRC Government that owns a significant portion of the productive assets in the PRC.

In accordance with HKAS 24 (Revised), "Related Party Disclosures", government-related entities and their subsidiaries, directly or indirectly controlled, jointly controlled or significantly influenced by the PRC government are defined as related parties of the Group. On that basis, related parties include CQMEHG and its subsidiaries (other than the Group), other government-related entities and their subsidiaries, other entities and corporations in which the Company is able to control or exercise significant influence and key management personnel of the Company and CQMEHG as well as their close family members.

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 during the six months ended 30 June 2010 and 2011, respectively.

23. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Transactions with fellow subsidiaries of the Company		
Revenue		
— Revenue from sales of goods	**83,528**	50,718
Expenses		
— Purchase of materials	**131,344**	91,451
— Management fees	**—**	347
— Leasing of equipment	**—**	188
Transactions with jointly controlled entities of the Company*(i)*		
Revenue		
— Revenue from sales of goods	**79,418**	60,302
Transactions with associates of the Company		
Revenue		
— Revenue from sales of goods	**5,257**	5,065
Expenses		
— Purchase of materials	**14,056**	11,994
Transactions with shareholders of jointly controlled entities		
Revenue		
— Revenue from sales of goods	**24,565**	20,474
Expenses		
— Management fees and technical fees	**1,229**	1,280

Note:

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

23. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties

	30 June 2011 *RMB'000*	30 December 2010 *RMB'000*
Trade and other receivables		
Trade receivables due from		
— Fellow subsidiaries and associates	**51,470**	52,370
— Jointly controlled entities	**1,035**	791
— Associates	**363**	3,100
— Shareholders of jointly controlled entities	**3,557**	199
Other receivables due from		
— CQMEHG	**694**	247
— Fellow subsidiaries	**15,280**	323
— Jointly controlled entities	**—**	130
— Associates	**6,270**	3,304
Prepayments due from		
— CQMEHG	**—**	573
— Fellow subsidiaries	**34,318**	25,426
	112,987	86,463
Trade and other payables		
Trade payables due to		
— Fellow subsidiaries and associates	**32,408**	122,107
— Associates	**3,563**	3,881
— Shareholders of jointly controlled entities	**738**	503
Other payables due to		
— CQMEHG	**17,228**	11,453
— Fellow subsidiaries	**13,587**	21,162
— Shareholders of jointly controlled entities	**409**	876
	67,933	159,982

23. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) Key management compensation

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Basic salaries, housing allowances, other allowances and benefits-in-kind	**791**	735
Contributions to pension plans	**244**	91
Discretionary bonuses	**615**	981
	1,650	1,807

(d) Transactions with government-related entities in PRC

Apart from transactions mentioned above, transactions with other government-related entities include but are not limited to sales and purchases of goods and other assets; use of public utilities; and bank deposits and bank borrowings.

These transactions are conducted in the ordinary course of the Group's business on terms similar to those that would have been entered into with non- government-related entities. The Group has also established its pricing strategy and approval processes for material transactions. Such pricing strategy and approval processes do not depend on whether the counterparties are government-related entities or not. Having due regard to the substance of the relationships, the Group is of the opinion that none of these transactions are material related party transactions that require separate disclosure.

24. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 22 July 2011, the Company received from the China Securities Regulatory Commission (the "CSRC") the "Approval of the Corporate Bond Public Issue of Chongqing Machinery & Electric Co., Ltd." (《關於核准重慶機電股份有限公司公開發行公司債券的批覆》) (Zheng Jian Xu Ke [2011] No.1133) which approved the issuance of corporate bond public an aggregate nominal value of up to RMB1 billion (inclusive) to the public in the PRC by the Company. As at the date of this report, the Company has issued RMB1 billion corporate bonds with annual interest rate of 6.59% and maturing in 5 years.

On 1 August 2011, the Company established Precision Technologies Group Limited ("PTG") under the Company Act 2006 of England and Whales in the City of Rochdale in United Kingdom. The Company injected the capital by transferring all its interests in five British subsidiaries and one Germany subsidiary (the "PTG Six Entities"). As a result, PTG was inserted as the intermediary holding company of PTG Six Entities.

RESULTS OVERVIEW

SALES

For the six months ended 30 June 2011, the Group's total revenue amounted to approximately RMB5,219.0 million, representing an increase of 22.4% as compared with approximately RMB4,263.1 million for the same period last year.

Overall, revenue of commercial vehicle parts and components were approximately RMB1,824.9 million (35.0% of total revenue), an increase of approximately 23.9%; revenue of power equipment were approximately RMB1,706.6 million (32.7% of total revenue), an increase of approximately 24.8%; revenue of general machinery were approximately RMB578.1 million (11.1% of total revenue), an increase of approximately 10.0%; and revenue of CNC machine tools were approximately RMB1,109.4 million (21.2% of total revenue), an increase of approximately 23.7%.

The growth in sales of commercial vehicle parts and components, power equipment, general machinery and CNC machine tools during the Period was mainly boosted by domestic demand and accelerated product mix adjustment, 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 2011 was approximately RMB991.9 million, an increase of approximately RMB164.0 million or approximately 19.8%, as compared with approximately RMB827.9 million for the same period last year, accounting for approximately 19.0% of revenue. Overall gross profit margin decreased by 0.4 percentage points as compared with the same period last year, which is mainly due to substantial increases in prices of raw materials for producing commercial vehicle parts and components and power equipment such as copper and steel. On the contrary, the gross profit margin of CNC machine tools and general machinery business recorded an increase as a result of product mix adjustment. We expect that the raw material prices will continue to rise in the second half of 2011, and efforts will be made to 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 2011 were approximately RMB47.5 million, an increase of approximately RMB26.3 million or approximately 124.1%, as compared with approximately RMB21.2 million for the same period last year. Contributors to such increase included approximately RMB16.6 million from the gain on the amount of fair value of equity investment over the net book value of assets transferred plus relevant tax incurred to a newly formed joint venture company by Chongqing CAFF Automotive Braking & Steering System Co., Ltd.; approximately RMB7.7 million from the short term return of investments and approximately RMB1.1 million from increase of tax subsidies.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for the six months ended 30 June 2011 were approximately RMB503.7 million, an increase of approximately RMB27.8 million or approximately 5.8%, as compared with approximately RMB475.9 million for the same period last year. The selling and administrative expenses accounted for approximately 9.7% of revenue, a decrease from 11.2% 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 decreased by approximately RMB11.3 million, mainly due to the effective control on sales costs.

In addition, the administrative expenses increased by approximately RMB39.0 million, mainly due to higher assets depreciation, R&D expenses, impairment loss in inventories and staff salary, as compared with the same period last year.

OPERATING PROFIT

The operating profit for the six months ended 30 June 2011 was approximately RMB535.6 million, an increase of approximately RMB162.3 million or approximately 43.5%, as compared with approximately RMB373.3 million for the same period last year. Eliminating the one-off gains included in other income and gains, operating profit increased by approximately RMB136.2 million, or approximately 38.7%, over last year.

RESULTS OVERVIEW *(CONTINUED)*

NET FINANCE COSTS

The net finance costs for the six months ended 30 June 2011 was approximately RMB36.1 million, an increase of approximately RMB2.9 million or approximately 8.7%, as compared with approximately RMB33.2 million for the six months ended 30 June 2010. This was mainly due to the increase in loans and rise of interest rate for the Period.

SHARE OF POST-TAX PROFITS OF ASSOCIATES

The Company's share of post-tax profits of associates for the six months ended 30 June 2011 was approximately RMB8.8 million, a substantial decrease of approximately RMB25.0 million or approximately 74.0%, as compared with approximately RMB33.8 million for the same period last year, which was mainly due to the significant decrease in profits of our associated company Chongqing ABB Power Transformer Co., Ltd.

INCOME TAX EXPENSES

The corporate income tax expenses for the six months ended 30 June 2011 were approximately RMB118.6 million, an increase of approximately RMB97.2 million, or approximately 454.2%, as compared with approximately RMB21.4 million for the same period last year, mainly due to the increase in the taxable income and the changes in deferred tax resulting from change in tax rate.

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company for the Period was approximately RMB387.1 million, an increase of approximately RMB41.5 million or approximately 12.0% as compared with approximately RMB345.6 million for the same period last year. Earnings per share increased from RMB0.09 to approximately RMB0.11 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	
	2011	2010	**2011**	2010	**2011**	2010
	(RMB in millions, except for percentage)					
Commercial vehicle parts and components						
Domestic						
Engines	**970.8**	706.3	**335.0**	249.2	**274.4**	200.6
Gear boxes	**479.3**	420.4	**114.6**	119.9	**50.9**	59.7
Other products	**374.8**	346.3	**58.4**	68.9	**31.9**	26.6
Total	**1,824.9**	1,473.0	**508.0**	438.0	**357.2**	286.9
% of total	**35.0%**	34.6%	**51.2%**	52.9%	**66.7%**	76.9%
Power equipment						
Domestic						
Hydroelectric generation equipment	**174.0**	146.1	**47.4**	33.1	**14.9**	5.7
Electrical wires and cables	**1,188.7**	1,007.0	**56.5**	55.7	**60.5**	21.6
Other products	**343.9**	214.3	**7.5**	7.2	**0.8**	2.5
Total	**1,706.6**	1,367.4	**111.4**	96.0	**76.2**	29.8
% of total	**32.7%**	32.1%	**11.2%**	11.6%	**14.2%**	8.0%

RESULTS OVERVIEW *(CONTINUED)*

BUSINESS PERFORMANCE *(Continued)*

	Revenue		Gross Profit		Segment Results	
	Period ended 30 June		Period ended 30 June		Period ended 30 June	
	2011	2010	**2011**	2010	**2011**	2010
	(RMB in millions, except for percentage)					
General machinery						
Domestic	**578.1**	525.6	**164.0**	146.8	**34.0**	17.8
Total	**578.1**	525.6	**164.0**	146.8	**34.0**	17.8
% of total	**11.1%**	12.3%	**16.5%**	17.7%	**6.3%**	4.8%
CNC machine tools						
Domestic	**989.6**	897.1	**161.9**	147.1	**73.5**	59.5
Overseas	**119.8**	—	**46.5**	—	**3.5**	—
Total	**1,109.4**	897.1	**208.4**	147.1	**77.0**	59.5
% of total	**21.2%**	21.0%	**21.1%**	17.8%	**14.4%**	15.9%
Headquarters						
Total	**—**	—	**0.1**	—	**(8.8)**	(20.7)
% of total	**—%**	—%	**—%**	—%	**(1.6%)**	(5.6%)
Total	**5,219.0**	4,263.1	**991.9**	827.9	**535.6**	373.3

RESULTS OVERVIEW *(CONTINUED)*

Commercial vehicle parts and components

Revenue from the commercial vehicle parts and components segment for the six months ended 30 June 2011 was approximately RMB1,824.9 million, an increase of approximately RMB351.9 million or 23.9%, as compared with approximately RMB1,473.0 million for the same period last year. Revenue from the engine business and gear box business increased by approximately RMB264.5 million or 37.4% and approximately RMB58.9 million or 14.0% as compared with the same period last year respectively while revenue from other products also increased by approximately RMB28.5 million or 8.2%.

During the Period, gross profit for the commercial vehicle parts and components segment was approximately RMB508.0 million, an increase of approximately RMB70.0 million or 16.0% as compared with approximately RMB438.0 million for the same period last year. Gross profit margin decreased to approximately 27.8% for the six months ended 30 June 2011 from approximately 29.7% for the six months ended 30 June 2010, primarily due to substantial increases in prices of raw materials such as copper and steel, which resulted in a decrease of 1.9 percentage points in gross profit margin of the business 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 2011 was approximately RMB357.2 million, an increase of approximately RMB70.3 million or 24.5%, as compared with approximately RMB286.9 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 2011 was approximately RMB1,706.6 million, an increase of approximately RMB339.2 million or 24.8%, as compared with approximately RMB1,367.4 million for the same period last year, primarily due to a substantial increase of approximately RMB181.7 million, or 18.0% in revenue from electrical wires and cables business. Another contributor was the revenue growth of other products by approximately RMB129.6 million or 60.5%.

During the Period, gross profit for the power equipment segment was approximately RMB111.4 million, an increase of approximately RMB15.4 million or 16.0% as compared with approximately RMB96.0 million for the same period last year. Gross profit margin sightly decrease to 6.5% for the six months ended 30 June 2011 from 7.0% for the six months ended 30 June 2010, primarily due to substantial increase in prices of raw material which resulted in an decrease of 0.5 percentage point in gross profit margin as compared with the same period last year.

Overall, the result for the power equipment segment for the six months ended 30 June 2011 was approximately RMB76.2 million, an increase of approximately RMB46.4 million or 155.7% as compared with approximately RMB29.8 million for the same period last year.

General machinery

Revenue from the general machinery segment for the six months ended 30 June 2011 was approximately RMB578.1 million, an increase of approximately RMB52.5 million or 10.0% as compared with approximately RMB525.6 million for the same period last year, primarily due to the continuous rapid increase in revenue of industrial fans, refrigeration machines, industrial pumps, gas compressors and wind power rotor blades business as boosted by the sufficient orders.

RESULTS OVERVIEW *(CONTINUED)*

General machinery *(Continued)*

During the Period, gross profit for the general machinery segment was approximately RMB164.0 million, an increase of approximately RMB17.2 million or 11.7% as compared with approximately RMB146.8 million for the same period last year. Gross profit margin increased to approximately 28.4% for the six months ended 30 June 2011 from approximately 27.9% for the same period of 2010. The increase in the gross profit margin of the segment was primarily due to change in product mix, which resulted in an increase of 0.5 percentage point in gross profit margin as compared with the same period last year.

Overall, the result for the general machinery segment for the six months ended 30 June 2011 was approximately RMB34.0 million, an increase of approximately RMB16.2 million or 91.0%, as compared with approximately RMB17.8 million for the same period last year.

CNC machine tools

Revenue from the CNC machine tools segment for the six months ended 30 June 2011 was approximately RMB1,109.4 million, an increase of approximately RMB212.3 million or 23.7% as compared with approximately RMB897.1 million for the same period last year, primarily due to remarkable increases in sales of CNC gear machine tools, CNC lathes and new products by approximately RMB92.5 million or approximately 10.3% as boosted by demand from the domestic industries of wind power equipment, engineering machinery, port machinery and mining machinery. In addition, contributions of approximately RMB119.8 million in operating revenue from our British PTG's subsidary also drove the rapid growth in revenue of this business segment.

RESULTS OVERVIEW *(CONTINUED)*

CNC machine tools *(Continued)*

During the Period, gross profit for the CNC machine tools segment was approximately RMB208.4 million, an increase of approximately RMB61.3 million or 41.7% as compared with approximately RMB147.1 million for the same period last year. Gross profit margin increased to 18.8% for the six months ended 30 June 2011 from 16.4% for the same period of 2010, primarily due to change in product mix and combination of businesses of our British PTG's subsidiary, which resulted in an increase of 2.4 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 2011 was approximately RMB77.0 million, an increase of approximately RMB17.5 million or 29.4% as compared with approximately RMB59.5 million for the same period last year.

CASH FLOW

The Group's cash and bank deposits (including the restricted cash) aggregated to approximately RMB2,498.6 million as at 30 June 2011 (31 December 2010: approximately RMB2,591.8 million), a decrease of approximately RMB93.2 million or approximately 3.6%.

During the Period, the Group had a net cash inflow from operating activities of approximately RMB13.6 million (30 June 2010: a net cash outflow of approximately RMB35.1 million), a net cash outflow from investing activities of approximately RMB58.8 million (30 June 2010: a net cash outflow of approximately RMB220.6 million), and a net cash inflow from financing activities of approximately RMB5.1 million (30 June 2010: a net cash inflow of approximately RMB206.6 million).

ASSETS AND LIABILITIES

As at 30 June 2011, the Group had total assets of approximately RMB10,773.3 million, an increase of approximately RMB601.1 million as compared with approximately RMB10,172.2 million as at 31 December 2010. The total current assets were approximately RMB7,851.0 million, increased by approximately RMB586.5 million as compared with approximately RMB7,264.5 million as at 31 December 2010, accounting for approximately 72.9% of the total assets (31 December 2010: approximately 71.4%). However, total non-current assets were approximately RMB2,922.3 million, representing an increase of approximately RMB14.5 million as compared with approximately RMB2,907.8 million as at 31 December 2010, and accounting for approximately 27.1% of the total assets (31 December 2010: approximately 28.6%).

As at 30 June 2011, total liabilities of the Group amounted to approximately RMB6,147.3 million, an increase of approximately RMB549.3 million as compared with approximately RMB5,598.0 million as at 31 December 2010. Total current liabilities were approximately RMB5,033.5 million, representing an increase of approximately RMB590.9 million as compared with approximately RMB4,442.6 million as at 31 December 2010, and accounting for 81.9% of the total liabilities (31 December 2010: approximately 79.4%). However, total non-current liabilities were approximately RMB1,113.8 million, representing a decrease of approximately RMB41.7 million as compared with approximately RMB1,155.5 million as at 31 December 2010, and accounting for approximately 18.1% of the total liabilities (31 December 2010: approximately 20.6%).

As at 30 June 2011, net current assets of the Group amounted to approximately RMB2,817.5 million, a decrease of approximately RMB4.4 million as compared with approximately RMB2,821.9 million as at 31 December 2010.

CURRENT RATIO

Current ratio of the Group as at 30 June 2011 was 1.56:1 (31 December 2010: approximately 1.64:1).

INDEBTEDNESS

As at 30 June 2011, the Group had an aggregate bank and other borrowings of approximately RMB1,599.0 million, representing an increase of approximately RMB56.0 million as compared with approximately RMB1,543.0 million as at 31 December 2010.

Borrowings repayable by the Group within one year were approximately RMB1,101.2 million, representing an increase of approximately RMB39.6 million as compared with approximately RMB1,061.6 million as at 31 December 2010. Borrowings repayable after one year were approximately RMB497.8 million, representing an increase of approximately RMB16.4 million as compared with approximately RMB481.4 million as at 31 December 2010.

SIGNIFICANT EVENTS

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

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

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

SIGNIFICANT EVENTS *(CONTINUED)*

(I) The 2010 annual general meeting of the Company was held on 6 June 2011, at which the following matters were considered and approved: *(Continued)*

3) 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;

4) To authorize the Board to issue and dispose of corporate bonds with an aggregate nominal value of up to RMB1.0 billion in the PRC and to authorize the Board to delegate two directors namely Mr. Yu Gang and Mr. Chen Xianzheng to jointly deal with, at their full discretion, all matters relating to the issue of corporate bonds. Official approval of the corporate bond issue was obtained from CSRC on 22 July 2011;

5) The Company renewed the RMB37.0 million loan guarantee provided to Chongqing Pigeon ; and

6) The Company renewed the RMB50.44 million loan guarantee provided to CAFF.

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

SIGNIFICANT EVENTS *(CONTINUED)*

(II) SUBSEQUENT EVENTS

1) On 1 August 2011, the Company incorporated Precision Technologies Group Limited ("PTG") under the Company Act 2006 of England and Whales in the City of Rochdale. The Company's capital contribution was the aggregate prices of the equity interest owned by the Company in five British companies and one German company, and therefore PTG is the de facto capital contributor of the six companies.

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

3) On 23 August 2011, the Company issued RMB1.0 billion of corporate bond with a coupon rate of 6.59% and maturing in 5 years by way of online public offering (RMB50.0 million) to public investors and offline offering (RMB950.0 million) to institutional investors through booking building.

CONTINGENT LIABILITIES

As at 30 June 2011, the Group had no significant contingent liabilities.

CAPITAL EXPENDITURE

During the Period, the total capital expenditure of the Group was approximately RMB153.7 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 2010: approximately RMB157.8 million).

RISK OF FOREIGN EXCHANGE

The Group uses Renminbi as the reporting currency. During the Period, the Chinese government' revaluation of renminbi to allow the currency to appreciate 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 2011, the Group's bank deposits comprise approximately HK$97.6 million, approximately US$0.9 million, GBP1.0 million and approximately EUR0.23 million (31 December 2010: approximately HK$93.0 million), the Group's borrowing is approximately US$20.6 million (31 December 2010: approximately US$20.6 million). Save as the above, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

EMPLOYEES

As at 30 June 2011, the Group had 17,031 employees (30 June 2010:17,403 employees). The Group will continue to strengthen the six mechanisms in respect of "selection, cultivation, utilization, retaining, backup and dismissal" of talents as well as the internal talents development and upgrade program. Meanwhile, the Group will formulate core team building plans for talents with management skills, professional skills and hi-tech skills, and 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	100.00

There was no movement in the share capital of the Company during the six months ended 30 June 2011, details of which are set out in Note 10 to the consolidated financial statements.

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

As at 30 June 2011, 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.

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

As at 30 June 2011, 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

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
FIL Limited	99,780,000(L)	Investment manager		9.07 (L)	2.71 (L)
National Council for Social Security Fund	95,287,470(L)	Beneficial owner		8.66 (L)	2.59 (L)
GE Asset Management Incorporated	88,226,976(L)	Investment manager		8.02 (L)	2.39 (L)
The Bank of New York Mellon (formerly known as The Bank of New York)	87,276,000(L) 0(P)	Interest of Custodian	(3)	7.93 (L) 0 (P)	2.37 (L) 0 (P)
The Bank of New York Mellon Corporation	87,276,000(L) 87,276,000(P)	Interest in controlled corporations	(3)	7.93 (L) 7.93 (P)	2.37 (L) 2.37 (P)
The Hamon Investment Group Pte Limited	76,698,000(L)	Investment manager	(4)	6.97 (L)	2.08 (L)
Templeton Asset Management Limited	66,626,600(L)	Investment manager		6.06 (L)	1.81 (L)
UBS AG	65,842,365(L)	Beneficial owner, interest in controlled corporation and person having a security interest in shares	(5)	5.98 (L)	1.79(L)
Hang Seng Bank Trustee International Limited	64,394,000 (L)	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 (L)	Interest of child under 18 and/or spouse	(6)	5.85 (L)	1.75 (L)
Cheah Cheng Hye	64,394,000 (L)	Founder of discretionary trust	(6)	5.85 (L)	1.75 (L)
Value Partners Group Limited	64,394,000 (L)	Interest in controlled corporations	(6)	5.85 (L)	1.75 (L)
Value Partners Limited	64,394,000 (L)	Investment manager	(6)	5.85 (L)	1.75 (L)
Cheah Company Limited	64,394,000 (L)	Interest in controlled corporations	(6)	5.85 (L)	1.75 (L)
Cheah Capital Management Limited	64,394,000 (L)	Interest in controlled corporations	(6)	5.85 (L)	1.75 (L)

(L): Long Position

(P): Lending Pool

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

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

Note:

1. Chongqing Machinery and Electronic Holding (Group) Co., Ltd. and Chongqing Yufu Asset Management 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 and 232,132,514 domestic shares of the Company respectively.

2. Chongqing Construction Engineering Group Co., Ltd. is held as to 96.18% by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government through its three wholly-owned subsidiaries and as to 3.82% by the Ministry of Finance of the People's Republic of China through China Huarong Asset Management Company, a wholly-owned subsidiary of the Ministry. Therefore, State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government and the Ministry of Finance of the People's Republic of China are deemed to be interested in 232,132,514 domestic shares of the Company held by Chongqing Construction Engineering Group Co.,Ltd.

   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.

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

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

Note: *(Continued)*

4. The Hamon Investment Group Pte Limited was interested in 76,698,000 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	4,242,000
Hamon U.S. Investment Advisors Limited	100	58,164,000
Hamon Investment Management Limited	100	14,292,000

5. UBS AG was interested in 65,842,365 H shares of the Company, among which 51,722,365 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 Fund Services (Luxembourg) S.A.	100	226,000
UBS Global Asset Management (Americas) Inc.	100	43,782,409
UBS Global Asset Management (Australia) Ltd	100	597,956
UBS Global Asset Management Trust Company	100	786,000
UBS Global Asset Management (Japan) Ltd	100	5,932,000
UBS Global Asset Management (UK) Ltd	100	398,000

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

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

Note: (Continued)

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 2011.

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 2011.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the Period, the Company has 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 2011, neither the Group nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

INTERIM DIVIDEND

The Board of Directors 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. Yu Gang, Mr. Liao Shaohua, Mr. Chen Xianzheng; the non-executive Directors are Mr. Huang Yong, Mr. Wang Jiyu, Mr. Liu Liangcai, Mr. Yang Jingpu; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, 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 26 August 2011 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, 26 August 2011

* *For identification purposes only*