



重慶機電股份有限公司

CHONGQING MACHINERY & ELECTRIC CO., LTD.*

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

Stock Code: 02722

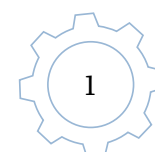


2012 Interim Report

** 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

Mr. Jin Jingyu

(Appointed on 18 June 2012)

SUPERVISORS

Mr. Duan Rongsheng

Mr. Zhang Xinzhi

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*)

QUALIFIED ACCOUNTANT

Mr. Kam Chun Ying, Francis

(*Certified Public Accountant*)

AUTHORIZED REPRESENTATIVES AND CONTACT INFORMATION

Mr. Chen Xianzheng

No. 60 Middle Section of Huangshan Avenue

New North Zone, Chongqing City, the PRC

Postal code: 401123

Tel.: (86) 023-63075686

Mr. Wang Xiaojun

Suite 2008, 20th Floor, Jardine House, No. 1

Connaught Place, Central, Hong Kong

Tel.: 852 21670000

ALTERNATE AUTHORIZED REPRESENTATIVE AND CONTACT INFORMATION

Mr. Lo Wah Wai

33rd Floor, Shui On Centre,

No. 6-8 Harbour Road, Wanchai,

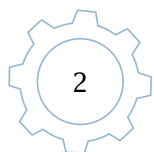
Hong Kong

Tel.: 852 28022191

REGISTERED ADDRESS

No. 60 Middle Section of Huangshan Avenue

New North Zone, Chongqing City, the PRC



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

COMMITTEES UNDER THE BOARD OF DIRECTORS

Members of the Audit Committee

Mr. Lo Wah Wai (*Chairman*)
Mr. Kong Weiliang
Mr. Jin Jingyu
(Appointed on 11 July 2012)
Mr. Liu Liangcai

Members of the Remuneration Committee

Mr. Ren Xiaochang (*Chairman*)
Mr. Lo Wah Wai
Mr. Jin Jingyu
(Appointed on 11 July 2012)
Mr. Wang Jiyu

Members of the Nomination Committee

Mr. Xie Hua Jun (*Chairman*)
(Appointed on 11 July 2012)
Mr. Kong Weiliang
Mr. Ren Xiaochang
Mr. Jin Jingyu
(Appointed on 11 July 2012)
Mr. Huang Yong

Members of the Strategic Committee

Mr. Xie Hua Jun (*Chairman*)
Mr. Yu Gang
Mr. Liao Shaohua
Mr. Chen Xianzheng
Mr. Huang Yong
Mr. Ren Xiaochang
Mr. Kong Weiliang
Mr. Jin Jingyu
(Appointed on 11 July 2012)

INTERNATIONAL AUDITORS

PricewaterhouseCoopers

LEGAL ADVISORS TO THE COMPANY

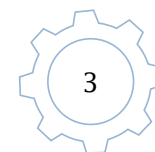
Jun He Law Offices (*As to Hong Kong Laws*)
Beijing Kaiwen Law Firm Chongqing Branch
(*As to PRC Laws*)

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2008, 20th Floor, Jardine House,
No. 1 Connaught Place, Central, Hong Kong

WEBSITE

www.chinacqme.com



CORPORATE INFORMATION (CONTINUED)

PRINCIPAL BANKERS

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

SHARE INFORMATION

Listing Place

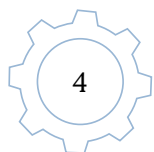
The Stock Exchange of Hong Kong Limited
(the “Stock Exchange”)

Stock Code

02722

FINANCIAL YEAR END

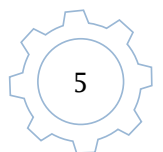
31 December



FINANCIAL HIGHLIGHTS

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

- Revenue of the Group for the six months ended 30 June 2012 amounted to approximately RMB5,475.1 million, representing an increase of around 4.9% over the corresponding period last year.
- Gross profit of the Group for the six months ended 30 June 2012 amounted to approximately RMB897.1 million, representing a decrease of around 9.6% from the corresponding period last year.
- Profit attributable to the shareholders of the Company for the six months ended 30 June 2012 was approximately RMB303.7 million, representing a decrease of around 21.5% from the corresponding period last year.
- Basic earnings per share for the six months ended 30 June 2012 was approximately RMB0.08.



CHAIRMAN'S STATEMENT

Dear Shareholders,

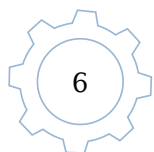
The board of directors of the Company is pleased to announce the interim results of the Group for the six months ended 30 June 2012 (the "Period"). The Group's interim results have not been audited but have been reviewed by the audit committee and the Company's auditor, PricewaterhouseCoopers.

RESULTS

Total revenue of the Group for the six months ended 30 June 2012 amounted to approximately RMB5,475.1 million, representing an increase of around 4.9% from RMB5,219.0 million for the corresponding period last year.

Profit attributable to the owners of the Company for the six months ended 30 June 2012 amounted to approximately RMB303.7 million, representing a decrease of around 21.5% from RMB387.1 million for the corresponding period last year.

Earnings per share for the six months ended 30 June 2012 was approximately RMB0.08 (first half of 2011: RMB0.11). As at 30 June 2012, total assets of the Group amounted to approximately RMB12,227.6 million (31 December 2011: RMB11,760.0 million), while total liabilities amounted to approximately RMB7,171.4 million (31 December 2011: RMB6,793.1 million). Total owners' equity was approximately RMB5,056.2 million (31 December 2011: RMB4,966.9 million), of which approximately RMB5,007.6 million (31 December 2011: RMB4,924.9 million) was attributable to the owners of the Company. Net asset value per share was approximately RMB1.37 (31 December 2011: RMB1.35).



CHAIRMAN'S STATEMENT (CONTINUED)

In the first half of 2012, with the world economic situation getting increasingly complicated, the European debt crisis still unresolved, and the American economy stalling in its recovery, China was confronted with increasing risk of slower economic growth and economic downturn. Accordingly, China's economic growth slowed down for six straight quarters, with the growth rate of its GDP for the second quarter of this year falling below 8.0% for the first time to 7.6%. Amid a situation even grimmer than in 2008, the Group needed to tackle such adverse factors as "insufficient demands, declining orders, increasing competition, and falling prices" during the Period. However, facing up to such challenges, the Group, with elaborate plans, enthusiastic work attitudes, down-to-earth approaches, and through efforts on procuring orders, innovating technologies and enhancing synergy, gradually reversed such an unfavourable trend, reduced the adverse impact of the external economic climate, and achieved a stabilizing momentum as a whole, though still failing to attain the preset economic indicator targets. The four major core business sectors of the Group continued to maintain their competitive edges with sustained growth in revenue; but other indicators were affected to varying degrees as a combined result of multiple adverse factors and a descending economy. Overall, the Group is of the opinion that with the Chinese government launching a series of policies and measures on "stabilizing growth" in the second half of 2012, whose incentive effect on the economy will gradually materialize, the external macroeconomic environment is expected to outperform the first half of this year.

DEVELOPMENT STRATEGY

By virtue of the business philosophy of "dedication, innovation, open-up and speed-up" and guided by the scientific outlook on development, the Group will stick to the "Twelfth Five-Year Plan" as well as the "project" driven approach, forge ahead with the mission of "optimizing structure, ensuring growth, enhancing efficiency", keep opening up and pursue innovation, transform the mode of economic development, and work hard to create an equipment manufacturing enterprise with international competitiveness.

Work Priorities for the Second Half of 2012

- (1) Market exploration
- (2) Project construction
- (3) Mergers and acquisition as well as reorganization



CHAIRMAN'S STATEMENT (CONTINUED)

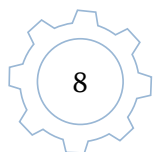
- (4) Products research and development
- (5) Synergy within the Group
- (6) Scientific management and control
- (7) Team building

BUSINESS REVIEW AND OUTLOOK

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

In the first half of 2012, China's automobile industry experienced slower growth on the whole, where the production and sales of the Group's commercial vehicle parts and components were both impacted by insufficient demands. The diesel engine business accelerated its products and market structure adjustment, with active efforts on tapping oil and gas fields, wide-bodied cars and other new markets. As sales of high-powered diesel engines further increased in a percentage of total sales, the diesel engine business recorded continued growth in the first half of the year and its gross profit margin was unchanged at a steady level. However, the gear box business and the steering system business, which is closely related to the commercial vehicle parts and components business, underwent relatively material declines as a result of rapid drops in market demands in the first half of the year, which in turn led to decreases in the revenue and operating profit of this segment in the first half of 2012.

Meanwhile, the Group also noted that the quarter-on-quarter change in various businesses of this segment was improving in the first half of the year, especially with rapid research and development of gear boxes for new trucks, and the successful introduction of the 5S400, 5S500 and 5S600 series of products into the new school buses market to realise bulk supplies thereof. The orders for our steering systems recovered quickly; design of the plan was already completed for the 200,000 units of phase 1 project of the production base for an annual output of 400,000 gear boxes for medium and heavy-duty vehicles, with relevant construction work expected to commence within this year. The Group expects this business segment will slow down its pace and experience a decline as a whole for 2012.



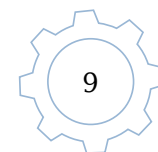
Power equipment (hydroelectric generation equipment, electrical wires, cables and other products)

In the first half of 2012, although this segment was influenced by continuous controls over the real estate market, falling prices in copper, a major raw material of the Group, and other factors, our hydroelectric generation equipment business successfully expanded in overseas markets and secured ample orders. The electrical wires and cables business set its footprint in the public rental housing market and explored new market in Guizhou. All this drove the rapid increase in the revenue of this segment in the first half of 2012, but its operating profit declined due to fierce competition and falling prices.

The C601 high-efficiency wheels for new impact hydroelectric generating sets (新型衝擊式水輪發電機組C601高效轉輪) of this segment, which was independently developed by the Group, was certified by the Chongqing municipal government as an achievement in new energy manufacturing technology. Technological breakthroughs were made in electrical cables for urban rail transit, which resulted in fast increases in orders. PPR and PVC plastic pipes under new business won market recognition and achieved mass production. Power consumption for technological transformation in respect of copper and copper based powder declined substantially. The Group expects this segment to maintain admirable performance in 2012.

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

In the first half of 2012, this segment suffered from insufficient demands and decreasing orders due to factors such as the reduction of investment projects and investment scale down by the state and industrial restructuring adjustment. However, by focusing on new markets and new sectors, the Group achieved substantial increases in the orders for wind power rotor blades and refrigeration machines, as well as breakthroughs and new orders in the oil and petrochemical new market. All this ensured favorable growth in the revenue of this segment in the first half of 2012, but the operating profit dropped as a result of increasing competition and falling selling prices.



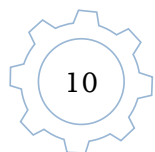
CHAIRMAN'S STATEMENT (CONTINUED)

At present, another new wind power rotor blades production base under this segment of the Group is well under construction and may commence production within this year. Large export orders (approximately RMB30 million) for industrial pumps were procured for the first time; with the gradual recovery of the nuclear pump market, orders for our water pressure test pumps increased. Our gas compressor business gained access to the aerospace market and secured bulk orders. The Group estimates that this segment is to further improve the quality of economic growth in 2012.

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

In the first half of 2012, this segment was subject to a general weakening in such closely-related industries as automobile, engineering machinery, general machinery and shipbuilding, along with material declines in the demand of the equipment manufacturing industry, which generated obvious impact on the machine tools industry in China. Although all its businesses were affected to varying degrees, this segment still outperformed the overall industry as a whole, and achieved steady increase in revenue in the first half of 2012. But the operating profit decreased due to increasing competition and dropping selling prices.

The Group accelerated adjustment of the product mix and intensified research and development of new products of this segment. The YW7232CNC all-purpose grinding machine jointly developed with Precision Technologies Group Limited (“PTG”) and the “YZ4232CNC5 automatic high-efficiency gear shaving machine” independently developed by ourselves successfully debuted at the China Nanjing International Machine Tool Show (中國南京國際機床博覽會) in April this year. The Group also secured bulk orders for our “gear-producing automatic production line for passenger car gear boxes”, and the export market recovered admirably. The Group estimates this segment is to further improve the quality of economic growth in 2012.



SUMMARY

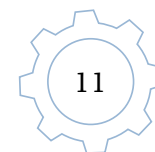
The Group is of the opinion that, after more than 30 years of high-speed growth, China's economy has gradually slowed down from a striking annual growth rate of 10% to a medium pace, and may maintain at around 8% for a long term in the future, as compared to the rapid growth rate of the previous three decades. That poses both opportunities and challenges, as the Group needs to focus on economic transformation and change of growth model to fulfil sustained development. Meanwhile, in a bid to prevent heightened pressure on a slowing economy and aggravating risks, the Chinese government recently proposed the strategic deployment of “stabilizing growth, expanding domestic demands and adjusting structures” and stressed to step up efforts to pre-adjust and fine-tune the monetary policy while sticking to a proactive fiscal policy. Economic growth rate is likely to stabilize in the third quarter of this year and mildly recover in the fourth quarter. With moderate and positive changes to take place in the external environment, together with further materialization of the state's policy impact, the stability of the economy is expected to improve. By adhering to its business philosophy of “dedication, innovation, open-up and speed-up”, the Group will endeavour to procure market orders, maintain its market competitiveness, implement scientific management and control, accelerate project construction, products research and development, synergy effect and team building. Meanwhile, it strives to innovate and improve such aspects as products, research and development, funds, talents, market, brand and corporate governance, and consolidate its dominant position in respect of commercial vehicle parts and components, power equipment, general machinery and CNC machine tools, so as to lay a favourable foundation for sustained development of the Company.

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

Xie Hua Jun

Chairman and Executive Director

Chongqing, the PRC, 24 August 2012



INDEPENDENT INTERIM REVIEW REPORT



羅兵咸永道

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION TO THE BOARD OF DIRECTORS OF CHONGQING MACHINERY & ELECTRIC CO., LTD.

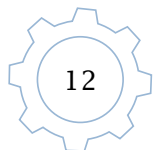
(incorporated in the People's Republic of China with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 14 to 56, 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 2012 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.

PricewaterhouseCoopers, 22/F, Prince's Building, Central, Hong Kong

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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.

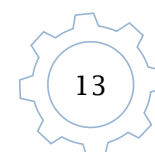
CONCLUSION

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

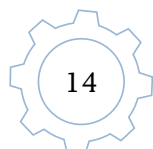
Hong Kong, 24 August 2012



UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2012

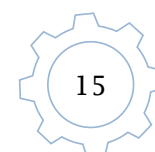
		Unaudited	Audited
		30 June	31 December
		2012	2011
	<i>Note</i>	RMB'000	<i>RMB'000</i>
ASSETS			
Non-current assets			
Property, plant and equipment	7	2,033,327	2,194,838
Investment properties	7	34,419	36,007
Lease prepayments	7	440,887	301,674
Intangible assets	7	268,943	268,520
Investments in associates	8	402,604	397,655
Deferred income tax assets		94,183	83,482
Available-for-sale financial assets		3,529	3,529
Other non-current assets		16,165	14,260
		<u>3,294,057</u>	<u>3,299,965</u>
Total non-current assets			
Current assets			
Inventories		1,876,280	1,788,669
Trade and other receivables	9	3,610,374	3,302,678
Amounts due from customers for contract work		293,308	283,991
Restricted cash		327,219	295,099
Cash and cash equivalents		2,826,354	2,789,570
		<u>8,933,535</u>	<u>8,460,007</u>
Total current assets			
		<u>12,227,592</u>	<u>11,759,972</u>
Total assets			



UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 June 2012

		Unaudited 30 June 2012 RMB'000	Audited 31 December 2011 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	10	3,684,640	3,684,640
Other reserves		(826,901)	(827,006)
Retained earnings		2,149,844	2,067,267
		5,007,583	4,924,901
Non-controlling interests		48,611	41,958
Total equity		5,056,194	4,966,859
LIABILITIES			
Non-current liabilities			
Borrowings	11	1,258,268	1,458,533
Deferred income		560,839	556,000
Deferred income tax liabilities		30,704	32,120
Long-term employee benefit obligations	12	71,925	76,781
Total non-current liabilities		1,921,736	2,123,434

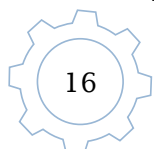


UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET (CONTINUED)

As at 30 June 2012

		Unaudited	Audited
		30 June	31 December
		2012	2011
	<i>Note</i>	RMB'000	RMB'000
Current liabilities			
Trade and other payables	14	3,585,708	3,281,339
Dividends payable		255,573	40,184
Amounts due to customers for contract work		2,748	7,852
Current income tax liabilities		63,537	63,976
Borrowings	11	1,273,779	1,211,158
Current portion of long-term employee benefit obligations	12	12,554	12,554
Provision for warranty	13	55,763	52,616
		<u>5,249,662</u>	<u>4,669,679</u>
Total current liabilities		<u>5,249,662</u>	<u>4,669,679</u>
Total liabilities		<u>7,171,398</u>	<u>6,793,113</u>
Total equity and liabilities		<u>12,227,592</u>	<u>11,759,972</u>
Net current assets		<u>3,683,873</u>	<u>3,790,328</u>
Total assets less current liabilities		<u>6,977,930</u>	<u>7,090,293</u>

The notes on pages 23 to 56 are an integral part of this interim condensed consolidated financial information.



UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2012

	Note	Unaudited	
		Six months ended 30 June	
		2012	2011
		RMB '000	RMB '000
Revenue	6	5,475,116	5,219,028
Cost of sales		(4,578,004)	(4,227,166)
Gross profit		897,112	991,862
Distribution costs		(146,672)	(146,902)
Administrative expenses		(369,189)	(356,773)
Other gains, net		28,345	30,058
Other income		24,281	17,393
Operating profit		433,877	535,638
Finance income		15,300	14,607
Finance costs		(85,968)	(50,714)
Share of post-tax profits of associates	8	9,189	8,823
Profit before income tax		372,398	508,354
Income tax expense	16	(62,089)	(118,637)
Profit for the period		310,309	389,717

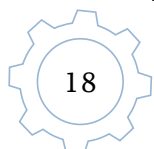


UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONTINUED)

For the six months ended 30 June 2012

	Note	Unaudited	
		Six months ended 30 June	
		2012	2011
		RMB '000	RMB '000
Other comprehensive income:			
Fair value gains on			
available-for-sale financial assets		—	47
Income tax relating to			
available-for-sale financial assets		—	346
Currency translation differences		<u>105</u>	<u>(704)</u>
Other comprehensive income for the period, net of tax		<u>105</u>	<u>(311)</u>
Total comprehensive income for the period		<u><u>310,414</u></u>	<u><u>389,406</u></u>
Profit attributable to:			
— Owners of the Company		<u>303,656</u>	387,063
— Non-controlling interests		<u>6,653</u>	2,654
		<u><u>310,309</u></u>	<u><u>389,717</u></u>
Total comprehensive income attributable to:			
— Owners of the Company		<u>303,761</u>	386,752
— Non-controlling interests		<u>6,653</u>	2,654
		<u><u>310,414</u></u>	<u><u>389,406</u></u>
Earnings per share for profit attributable to owners of the Company			
<i>(expressed in RMB per share)</i>			
— Basic and diluted	17	<u><u>0.08</u></u>	<u><u>0.11</u></u>

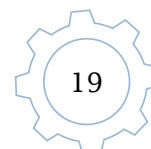
The notes on pages 23 to 56 are an integral part of this interim condensed consolidated financial information.



UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2012

	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 2012		<u>3,684,640</u>	<u>(827,006)</u>	<u>2,067,267</u>	<u>4,924,901</u>	<u>41,958</u>	<u>4,966,859</u>
Profit for the period		—	—	303,656	303,656	6,653	310,309
Other comprehensive income							
Currency translation differences		—	105	—	105	—	105
Total comprehensive income for the period		—	105	303,656	303,761	6,653	310,414
Transactions with owners in their capacity as owners							
Dividends relating to 2011	18	—	—	(221,079)	(221,079)	—	(221,079)
Transactions with owners		—	—	(221,079)	(221,079)	—	(221,079)
Balance at 30 June 2012		<u>3,684,640</u>	<u>(826,901)</u>	<u>2,149,844</u>	<u>5,007,583</u>	<u>48,611</u>	<u>5,056,194</u>



UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY (CONTINUED)

For the six months ended 30 June 2012

	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		<u>3,684,640</u>	<u>(847,198)</u>	<u>1,672,554</u>	<u>4,509,996</u>	<u>64,212</u>	<u>4,574,208</u>
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		<u>—</u>	<u>(311)</u>	<u>387,063</u>	<u>386,752</u>	<u>2,654</u>	<u>389,406</u>
Transactions with owners in their capacity as owners							
Dividends relating to 2010		—	—	(294,771)	(294,771)	(1,444)	(296,215)
Changes in ownership interests in subsidiaries without change of control		—	(24,617)	—	(24,617)	(16,777)	(41,394)
Transactions with owners		<u>—</u>	<u>(24,617)</u>	<u>(294,771)</u>	<u>(319,388)</u>	<u>(18,221)</u>	<u>(337,609)</u>
Balance at 30 June 2011		<u><u>3,684,640</u></u>	<u><u>(872,126)</u></u>	<u><u>1,764,846</u></u>	<u><u>4,577,360</u></u>	<u><u>48,645</u></u>	<u><u>4,626,005</u></u>

The notes on pages 23 to 56 are an integral part of this interim condensed consolidated financial information.



UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2012

	Note	Unaudited	
		Six months ended 30 June	
		2012	2011
		RMB '000	RMB '000
Cash flows from operating activities			
Cash generated from operations		358,760	136,003
Income tax paid		(53,660)	(66,985)
Interest paid		(83,897)	(55,412)
		<u>221,203</u>	<u>13,606</u>
Cash flows from investing activities			
Purchase of financial assets at fair value through profit or loss	19	(3,366,000)	(2,120,000)
Proceeds from the maturity of financial assets at fair value through profit or loss	19	3,382,034	2,127,720
Proceeds from government grants related to assets		33,800	—
Purchases of property, plant and equipment		(147,244)	(115,603)
Proceeds on disposal of property, plant and equipment		49,285	4,486
Purchase of intangible assets		(8,290)	(2,613)
Increase in lease prepayments		(4,221)	(1,147)
Dividends received		4,165	35,036
Interest received		15,300	13,310
		<u>(41,171)</u>	<u>(58,811)</u>



UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS (CONTINUED)

For the six months ended 30 June 2012

	Note	Unaudited	
		Six months ended 30 June	
		2012	2011
		RMB '000	RMB '000
Cash flows from financing activities			
Proceeds from borrowings		538,364	643,431
Repayments of borrowings		(675,332)	(578,661)
Payments of finance lease obligations		(676)	(4,417)
Dividends paid to non-controlling interests		(5,697)	(13,900)
Transactions with non-controlling interests		—	(41,394)
		<u> </u>	<u> </u>
Net cash (used in)/generated from financing activities		<u>(143,341)</u>	<u>5,059</u>
Net increase/(decrease) in cash and cash equivalents			
		36,691	(40,146)
Cash and cash equivalents at the beginning of the period		2,789,570	2,118,810
Exchange gains		93	937
		<u> </u>	<u> </u>
Cash and cash equivalents at end of the period		<u>2,826,354</u>	<u>2,079,601</u>

The notes on pages 23 to 56 are an integral part of this interim condensed consolidated financial information.



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2012

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. 60, Middle Section of Huangshan Avenue, New North Zone, Chongqing 401123, the PRC.

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

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 24 August 2012.

This condensed consolidated interim financial information has not been audited.



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2012 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 2011, 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 2011, as described in those annual financial statements.

(a) Change in accounting policy

In December 2010, the HKICPA amended HKAS 12, 'Income taxes', to introduce an exception to the principle for the measurement of deferred tax assets or liabilities arising on an investment property measured at fair value. HKAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment introduces a rebuttable presumption that an investment property measured at fair value is recovered entirely by sale. The amendment is applicable retrospectively to annual periods beginning on or after 1 January 2012 with early adoption permitted.

The Group has adopted this amendment retrospectively for the financial period ended 30 June 2012 and there is no impact on the financial statements as the Group does not have any investment properties measured at fair value.



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

3. ACCOUNTING POLICIES (CONTINUED)

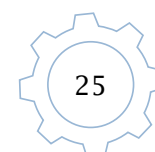
- (b) Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on this Group.

The following new standards and amendments to standards have been issued but are not effective for the financial year beginning 1 January 2012 and have not been early adopted:

HKFRS 9 'Financial instruments' addresses the classification, measurement and derecognition of financial assets and financial liabilities. The standard is not applicable until 1 January 2015 but is available for early adoption. When adopted, the standard will affect in particular the Group's accounting for its available-for-sale financial assets, as HKFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. In the current reporting period, the Group did not recognise any such gains in other comprehensive income.

There will be no impact on the Group's accounting for financial liabilities, as the new requirements only affect the accounting for financial liabilities that are designated at fair value through profit or loss, and the Group does not have any such liabilities. The derecognition rules have been transferred from HKAS 39 'Financial instruments: Recognition and measurement' and have not been changed. The Group has not yet decided when to adopt HKFRS 9.



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

3. ACCOUNTING POLICIES (CONTINUED)

HKFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The group is yet to assess HKFRS 10's full impact and intends to adopt HKFRS 10 no later than the accounting period beginning on or after 1 January 2013.

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

HKFRS 13 'Fair value measurement' aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across HKFRSs. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within HKFRSs. The group is yet to assess HKFRS 13's full impact and intends to adopt HKFRS 13 no later than the accounting period beginning on or after 1 January 2013.

HKAS 19 (Amendment) 'Employee benefits' eliminate the corridor approach and calculate finance costs on a net funding basis. The group is yet to assess the amendments to HKAS 19's impact.

There are no other HKFRSs or HK (IFRIC) interpretations that are not yet effective that would be expected to have a material impact on the group.



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

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 2011.

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 2011.

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

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

5. FINANCIAL RISK MANAGEMENT (CONTINUED)

5.2 Liquidity risk

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

	Less than 6 months RMB'000	6-12 months RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total contractual cash flows RMB'000	Carrying amount liabilities RMB'000
At 30 June 2012							
Non-derivatives							
Trade and other payables (i)	2,620,176	—	—	—	—	2,620,176	2,620,176
Borrowings							
(excluding finance leases)	697,719	620,654	151,261	115,753	—	1,585,387	1,517,899
Corporate bonds	32,950	32,950	65,900	1,140,587	—	1,272,387	994,051
Finance lease liabilities	787	786	20,264	—	—	21,837	20,097
Total non-derivatives	3,351,632	654,390	237,425	1,256,340	—	5,499,787	5,152,223
At 31 December 2011							
Non-derivatives							
Trade and other payables (i)	2,195,935	—	—	—	—	2,195,935	2,195,935
Borrowings							
(excluding finance leases)	755,374	516,478	177,312	316,327	—	1,765,491	1,655,993
Corporate bonds	32,950	32,950	65,900	1,197,700	—	1,329,500	993,451
Finance lease liabilities	800	787	21,050	—	—	22,637	20,247
Total non-derivatives	2,985,059	550,215	264,262	1,514,027	—	5,313,563	4,865,626

Note:

- (i) Trade and other 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 2012, all available-for-sale financial assets are measured at level 1 (2011: level 1) fair value.

During the six months ended 30 June 2012, 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 2012, 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 2012, there were no reclassifications of financial assets.

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

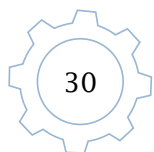
6. SEGMENT INFORMATION

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

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

The operating management committee assesses the performance of the operating segments based on a measure of operating profit. Interest income and 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.



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

6. SEGMENT INFORMATION (CONTINUED)

The segment results for the six months ended 30 June 2012 are as follows:

	Engines RMB'000	Gear boxes RMB'000	Hydroelectric generation equipment RMB'000	Electrical wires and cables RMB'000	General machinery RMB'000	Machinery tools RMB'000	High-voltage transformers RMB'000	Material sales RMB'000	All other segments RMB'000	Total Group RMB'000
Total segment revenue	984,264	382,840	215,051	1,252,536	242,733	554,437	—	1,117,116	1,104,062	5,853,039
Inter-segment revenue	—	—	—	(814)	—	—	—	(376,593)	(516)	(377,923)
Revenue from external customers	984,264	382,840	215,051	1,251,722	242,733	554,437	—	740,523	1,103,546	5,475,116
Operating profit	281,148	17,377	29,473	47,262	17,899	44,344	—	3,004	(6,630)	433,877
Finance income	4,113	254	1,196	491	1,190	1,219	—	47	6,790	15,300
Finance costs	(349)	(4,129)	(2,415)	(14,691)	(1,721)	(12,365)	—	(27)	(50,271)	(85,968)
Share of post-tax profits of associates	—	(157)	—	—	8,227	—	811	—	308	9,189
Profit before income tax										372,398
Income tax expense	(43,633)	(4,200)	(2,807)	(7,881)	(1,291)	(5,537)	—	(119)	3,379	(62,089)
Profit for the period										310,309

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

6. SEGMENT INFORMATION (CONTINUED)

The segment results for the six months ended 30 June 2012 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	Material sales RMB'000	All other segments RMB'000	Total Group RMB'000
Other items										
Depreciation on property, plant and equipment and investment properties	5,072	15,264	4,527	8,866	7,103	20,970	—	12	21,276	83,090
Amortisation of lease prepayments and intangible assets	1,533	1,603	492	355	2,168	3,429	—	—	1,960	11,540
Write down/(write back) of inventories	(207)	803	—	(3,571)	—	—	—	—	5,526	2,551
Provision for/ (reversal of) impairment on trade and other receivables	27	—	1,289	6	—	(2,902)	—	—	6,911	5,331
Additions to non-current assets (other than financial instruments and deferred tax assets)	9,577	18,470	4,274	4,167	14,088	54,107	—	43	23,713	128,439



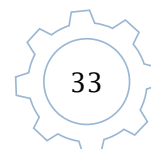
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

6. SEGMENT INFORMATION (CONTINUED)

The segment results for the six months ended 30 June 2011 are as follows:

	Engines <i>RMB'000</i>	Gear boxes <i>RMB'000</i>	Hydroelectric generation equipment <i>RMB'000</i>	Electrical wires and cables <i>RMB'000</i>	General machinery <i>RMB'000</i>	Machinery tools <i>RMB'000</i>	High-voltage transformers <i>RMB'000</i>	Material sales <i>RMB'000</i>	All other segments <i>RMB'000</i>	Total Group <i>RMB'000</i>
Total segment revenue	970,810	479,335	174,002	1,193,341	578,087	769,123	—	340,278	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	769,123	—	340,278	718,646	5,219,028
Operating profit	274,384	50,948	14,934	60,471	34,035	77,114	—	(26)	23,778	535,638
Finance income	3,814	116	951	2,588	1,809	1,115	—	4	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										<u>389,717</u>



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

6. SEGMENT INFORMATION (CONTINUED)

The segment results for the six months ended 30 June 2011 are as follows:

	Engines RMB'000	Gear boxes RMB'000	Hydroelectric generation equipment RMB'000	Electrical wires and cables RMB'000	General machinery RMB'000	Machinery tools RMB'000	High-voltage transformers RMB'000	Material sales 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	16,988	—	15	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



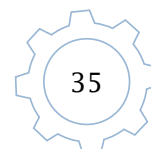
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

6. SEGMENT INFORMATION (CONTINUED)

The segment assets as at 30 June 2012 and 31 December 2011 are as follows:

	Hydroelectric		Electrical		General machinery	Machinery tools	High-voltage		All other segments	Total Group
	Engines	Gear boxes	generation equipment	wires and cables			transformers	Material sales		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
30 June 2012	<u>1,008,405</u>	<u>1,369,302</u>	<u>895,365</u>	<u>1,099,439</u>	<u>1,262,189</u>	<u>2,157,120</u>	<u>162,026</u>	<u>115,948</u>	<u>4,157,798</u>	<u>12,227,592</u>
Total assets include:										
Investments										
in associates	<u>—</u>	<u>913</u>	<u>—</u>	<u>—</u>	<u>82,747</u>	<u>—</u>	<u>162,026</u>	<u>—</u>	<u>156,918</u>	<u>402,604</u>
31 December 2011	<u>984,520</u>	<u>1,325,898</u>	<u>802,320</u>	<u>970,819</u>	<u>2,721,436</u>	<u>2,357,180</u>	<u>161,215</u>	<u>91,600</u>	<u>2,344,984</u>	<u>11,759,972</u>
Total assets include:										
Investments										
in associates	<u>—</u>	<u>1,070</u>	<u>—</u>	<u>—</u>	<u>74,902</u>	<u>—</u>	<u>161,215</u>	<u>—</u>	<u>160,468</u>	<u>397,655</u>



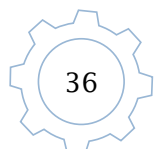
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

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 <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Lease prepayments <i>RMB'000</i>	Intangible assets <i>RMB'000</i>
Six months ended 30 June 2012				
Opening net book amount at 1 January 2012	2,194,838	36,007	301,674	268,520
Transfers	(138,666)	—	138,666	—
Additions	115,929	—	4,220	8,290
Disposals	(57,272)	—	—	—
Depreciation/amortisation	(81,502)	(1,588)	(3,673)	(7,867)
Closing net book amount at 30 June 2012	<u>2,033,327</u>	<u>34,419</u>	<u>440,887</u>	<u>268,943</u>
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	(25,234)	—	—	(54)
Disposals	(3,484)	—	—	—
Depreciation/amortisation	(75,525)	(1,373)	(3,480)	(7,590)
Closing net book amount at 30 June 2011	<u>1,841,126</u>	<u>37,611</u>	<u>268,183</u>	<u>269,436</u>



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

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

Note:

- (a) As at 30 June 2012, bank borrowings amounting to approximately RMB161,800,000 (31 December 2011: RMB203,081,000) 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 RMB101,851,000, RMB18,152,000 and RMB64,342,000, respectively, (31 December 2011: RMB203,081,000, RMB19,327,000 and RMB75,067,000, respectively).

8. INVESTMENTS IN ASSOCIATES

	Six months ended 30 June 2012 <i>RMB'000</i>
At 1 January 2012	397,655
Addition	375
Share of post-tax profits of associates	9,189
Dividend declared	<u>(4,615)</u>
At 30 June 2012	<u><u>402,604</u></u>

NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

8. INVESTMENTS IN ASSOCIATES (CONTINUED)

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 2012
	<i>RMB'000</i>
Assets	953,952
Liabilities	(551,348)
Revenues	428,479
Share of post-tax profit	9,189

9. TRADE AND OTHER RECEIVABLES

	30 June	31 December
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Trade and bills receivable	3,316,464	3,197,968
Less: provision for impairment of trade receivables	(254,001)	(247,554)
Trade and bills receivable - net	3,062,463	2,950,414
Other receivables	576,426	382,035
Less: provision for impairment of other receivables	(28,515)	(29,771)
Other receivables - net	547,911	352,264
	3,610,374	3,302,678



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

9. TRADE AND OTHER RECEIVABLES (*CONTINUED*)

The general credit period granted to customers is up to 90 days. As at 30 June 2012 and 31 December 2011, the ageing analysis of the trade and bills receivables were as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Trade and bills receivable		
Less than 30 days	945,350	787,037
31 days to 90 days	756,892	920,947
91 days to 1 year	1,110,858	1,023,290
1 year to 2 years	242,109	234,619
2 years to 3 years	81,607	62,563
Over 3 years	179,648	169,512
	<u>3,316,464</u>	<u>3,197,968</u>



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

10. SHARE CAPITAL

	Number of Shares '000	Domestic shares RMB'000	H shares RMB'000	Total shares RMB'000
Registered, issued and fully paid				
At 30 June 2012 and 1 January 2012 (nominal value of RMB1.00 each)	<u>3,684,640</u>	<u>2,584,453</u>	<u>1,100,187</u>	<u>3,684,640</u>
At 30 June 2011 and 1 January 2011 (nominal value of RMB1.00 each)	<u>3,684,640</u>	<u>2,584,453</u>	<u>1,100,187</u>	<u>3,684,640</u>

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



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

11. BORROWINGS

	30 June 2012 RMB'000	31 December 2011 RMB'000
Non-current		
Long-term bank borrowings	244,347	445,087
Corporate bonds	994,051	993,451
Finance lease liabilities	19,870	19,995
Total non-current borrowings	<u>1,258,268</u>	<u>1,458,533</u>
Current		
Short-term bank borrowings	1,273,552	1,210,906
Finance lease liabilities	227	252
Total current borrowings	<u>1,273,779</u>	<u>1,211,158</u>
Total borrowings	<u><u>2,532,047</u></u>	<u><u>2,669,691</u></u>



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

11. BORROWINGS (CONTINUED)

Movements in borrowings are analysed as follows:

	<i>RMB'000</i>
Six months ended 30 June 2012	
Opening amount at 1 January 2012	2,669,691
Additions	538,364
Deductions	<u>(676,008)</u>
Closing amount as at 30 June 2012	<u>2,532,047</u>
Six months ended 30 June 2011	
Opening amount at 1 January 2011	1,542,951
Additions	643,431
Deductions	<u>(587,360)</u>
Closing amount as at 30 June 2011	<u>1,599,022</u>

Interest expense on borrowings for the six months ended 30 June 2012 is approximately RMB86,061,000 (2011: RMB55,412,000).



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

11. BORROWINGS (CONTINUED)

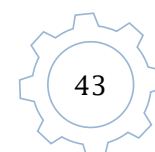
The Group had the following undrawn borrowing facilities:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Fixed rate		
— expiring within 1 year	354,195	152,982
— expiring beyond 1 year	117,806	122,683
	472,001	275,665

12. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
Present value of defined benefits obligations	87,642	90,974
Unrecognised actuarial loss	(3,163)	(1,639)
Liability in the balance sheet	84,479	89,335
Less: current portion	(12,554)	(12,554)
	71,925	76,781



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

12. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS (CONTINUED)

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

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
At beginning of the period	89,335	145,866
For the period		
— Interest costs	1,456	1,874
— Actuarial loss	408	1,517
— Payment	(6,720)	(6,501)
— Deduction (a)	—	(47,630)
At end of the period	84,479	95,126

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*).



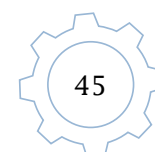
NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

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.

	<i>RMB'000</i>
Six months ended 30 June 2012	
Opening net book amount at 1 January 2012	52,616
Additional provisions	20,242
Utilised during the period	<u>(17,095)</u>
Closing net book amount at 30 June 2012	<u><u>55,763</u></u>
Six months ended 30 June 2011	
Opening net book amount at 1 January 2011	59,799
Additional provisions	12,754
Utilised during the period	<u>(12,040)</u>
Closing net book amount at 30 June 2011	<u><u>60,513</u></u>



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

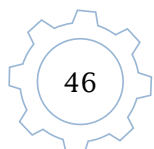
For the six months ended 30 June 2012

14. TRADE AND OTHER PAYABLES

	30 June 2012 RMB'000	31 December 2011 RMB'000
Trade and bills payable	2,279,811	1,867,930
Other taxes payables	114,047	101,652
Other payables	340,365	328,005
Interest payables	57,938	24,740
Accrued payroll and welfare	151,452	206,986
Advances from customers	636,683	746,459
Advances from government	5,412	5,567
	<u>3,585,708</u>	<u>3,281,339</u>

As at 30 June 2012 and 31 December 2011, the ageing analysis of the trade and bills payable (including amounts due to related parties of trading in nature) were as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
Trade and bills payable		
Less than 30 days	911,261	659,123
31 days than 90 days	788,726	662,431
91 days to 1 year	446,496	473,773
1 year to 2 years	57,646	37,343
2 years to 3 years	43,787	13,461
Over 3 years	31,895	21,799
	<u>2,279,811</u>	<u>1,867,930</u>



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

15. OPERATING PROFIT

The following items have been (credited)/charged to the operating profit during the period:

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Inventory write-down (a)	2,511	14,285
Provision for impairment on trade and other receivables (b)	5,331	6,548
Gains on investment in an associate	—	(16,402)
Gains on financial assets at fair value through profit or loss (<i>Note 19</i>)	(16,409)	(7,720)
Reversal of expenses arising from decrease in long-term employee benefit obligations (<i>Note 12</i>)	—	(47,630)
Gains on disposal of property, plant and equipment	(7,353)	(1,002)
	<u>(7,353)</u>	<u>(1,002)</u>

Notes:

- (a) The inventory write-down of RMB2,511,000 mainly relates to some products which are not likely to recover its carrying value through sales.
- (b) The impairment charge of RMB5,331,000 on trade and other receivables mainly relates to certain customers which are in difficult financial situations.



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

16. INCOME TAX EXPENSE

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

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Current income tax	73,760	83,092
Deferred income tax	<u>(11,671)</u>	<u>35,545</u>
	<u>62,089</u>	<u>118,637</u>

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 continue to be qualified under the new policy for the 15% preferential income tax rate from 2011 to 2020.



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

17. EARNINGS PER SHARE

	Six months ended 30 June	
	2012	2011
Profit attributable to owners of the Company (RMB'000)	303,656	387,063
Weighted average number of ordinary shares in issue (<i>thousand</i>)	<u>3,684,640</u>	<u>3,684,640</u>
Basic and diluted earnings per share (RMB per share)	<u>0.08</u>	<u>0.11</u>

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

18. DIVIDENDS

A dividend that relates to the year ended 31 December 2011 of approximately RMB221,079,000 (RMB0.06 per share) was approved at the Annual General Meeting on 18 June 2012 and was recorded as a liability as at 30 June 2012 in this interim condensed consolidated financial information.

The Company's Board of Director did not recommend the payment of an interim dividend for the six months ended 30 June 2012 (2011: Nil).



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

19. NOTE TO INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

During the six months ended 30 June 2012 and 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 RMB3,366 million and RMB3,382 million, respectively (2011: RMB2,120 million and RMB2,128 million, respectively). As at 30 June 2012, the Company did not hold any such investment.

20. CONTINGENCIES

As at 30 June 2012, the Group had no material contingencies.

21. COMMITMENTS

(a) Capital commitments

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

	30 June 2012 RMB'000	31 December 2011 RMB'000
Property, plant and equipment	104,929	145,919
Intangible assets	5,920	1,493
	110,849	147,412



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

21. COMMITMENTS (CONTINUED)

(b) Operating lease commitments

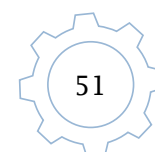
The future aggregate minimum lease payments under non-cancelable operating leases are as follows:

	30 June 2012 RMB'000	31 December 2011 RMB'000
No later than 1 year	35,684	17,028
Later than 1 year and no later than 5 years	30,526	26,185
Later than 5 years	29,597	42,304
	95,807	85,517

22. 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.

The Group has adopted HKAS 24 (Revised), "Related Party Disclosures" from 1 January 2011. In accordance with HKAS 24 (Revised), 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.



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

22. RELATED PARTY TRANSACTIONS (CONTINUED)

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 2011 and 2012, respectively.

(a) Significant related party transactions

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Transactions with fellow subsidiaries		
Revenue		
— Revenue from sales of goods	80,063	83,528
— Revenue from sales of property plant and equipment	46,341	—
— Revenue from provision of service	101	200
Expenses		
— Purchase of materials	128,793	131,344
— Services	249	143
— other expense	13,235	7,292
	<u>128,793</u>	<u>131,344</u>
Transactions with jointly controlled entities (i)		
Revenue		
— Revenue from sales of goods	82,248	79,418
	<u>82,248</u>	<u>79,418</u>
Transactions with associates		
Revenue		
— Revenue from sales of goods	2,590	5,257
Expenses		
— Purchase of materials	20,620	14,056
	<u>20,620</u>	<u>14,056</u>



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

22. RELATED PARTY TRANSACTIONS (CONTINUED)

(a) Significant related party transactions (Continued)

	Six months ended 30 June	
	2012	2011
	<i>RMB'000</i>	<i>RMB'000</i>
Transactions with shareholders of jointly controlled entities		
Revenue		
— Revenue from sales of goods	31,898	24,565
Expenses		
— Purchase of materials	3,107	4,348
— Management fees and technical fees	1,181	1,229
	31,898	24,565

Note:

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



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

22. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties

	30 June 2012 RMB'000	31 December 2011 RMB'000
Trade and other receivables		
Trade receivables due from		
— Fellow subsidiaries and associates	28,816	24,285
— Jointly controlled entities	3,768	3,574
— Associates	652	598
— Shareholders of jointly controlled entities	4,325	3,988
Other receivables due from		
— CQMEHG	137	177
— Fellow subsidiaries	28,582	2,411
— Jointly controlled entities	—	106
— Associates	5,203	5,534
Prepayments due from		
— Fellow subsidiaries	44,399	30,946
	115,882	71,619



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

22. RELATED PARTY TRANSACTIONS (CONTINUED)

(b) Balances with related parties (Continued)

	30 June 2012 RMB'000	31 December 2011 RMB'000
Trade and other payables		
Trade payables due to		
— Fellow subsidiaries and associates	38,911	38,337
— Associates	12,138	2,415
Other payables due to		
— CQMEHG	18,844	9,331
— Associates	46,700	31,036
— Fellow subsidiaries and associates	29,483	28,180
— Shareholders of jointly controlled entities	365	825
	146,441	110,124

(c) Key management compensation

	Six months ended 30 June	
	2012 RMB'000	2011 RMB'000
Basic salaries, housing allowances, other allowances and benefits-in-kind	901	791
Contributions to pension plans	358	244
Discretionary bonuses	1,753	615
	3,012	1,650



NOTES TO UNAUDITED INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

For the six months ended 30 June 2012

22. RELATED PARTY TRANSACTIONS (CONTINUED)

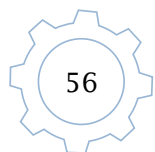
(d) Transactions with government-related entities in PRC

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.

23. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

On 5 July 2012, according to the Board's resolution, the Company injected RMB20,000,000 into its wholly-owned subsidiary, Chongqing Shengpu Materials Co., Ltd., to increase the registered capital from RMB1,405,000 to RMB21,405,000.



RESULTS OVERVIEW

SALES

For the six months ended 30 June 2012, the Group's total revenue amounted to approximately RMB5,475.1 million, representing an increase of approximately 4.9% as compared with approximately RMB5,219.0 million for the same period last year.

Overall, revenue of the commercial vehicle parts and components segment was approximately RMB1,574.1 million (approximately 28.8% of total revenue), a decrease of approximately 13.7%; revenue of the power equipment segment was approximately RMB1,962.2 million (approximately 35.8% of total revenue), an increase of approximately 15.0%; revenue of the general machinery segment was approximately RMB643.9 million (approximately 11.8% of total revenue), an increase of approximately 11.4%; and revenue of the CNC machine tools segment was approximately RMB1,294.9 million (approximately 23.6% of total revenue), an increase of approximately 16.7%.

The continued growth in sales of power equipment, general machinery and CNC machine tools during the Period was mainly boosted by our accelerated product mix adjustment and successful expansion of new markets, which ensured the steady growth in the revenue of such business segments as compared with the same period last year. However, the sales of commercial vehicle parts and components declined for the first time due to softening demands resulting from the overall slowdown in the growth rate of the automobile industry in the PRC.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(Including Financial Review)

RESULTS OVERVIEW (CONTINUED)

GROSS PROFIT

The gross profit for the six months ended 30 June 2012 was approximately RMB897.1 million, a decrease of approximately RMB94.8 million or approximately 9.6%, as compared with approximately RMB991.9 million for the same period last year, accounting for approximately 16.4% of revenue. Overall gross profit margin decreased by 2.6 percentage points as compared with the same period last year, which was mainly attributable to lower gross profit margin for general machinery and CNC machine tools business due to decrease in orders, falling selling prices and higher labour costs resulting from European debt crisis and China's slower economic growth. On the contrary, the gross profit margin of commercial vehicle parts and components business remained at the same level as the corresponding period last year, as driven by the steady growth of the diesel engine business; the gross profit margin of power equipment business recorded a slight increase as a result of higher sales volume and lower unit cost. We expect that the raw material prices will continue to rise in the second half of 2012 on the whole, and the gross profit margin of the Group will be managed at a stable level.

OTHER INCOME AND GAINS

The other income and gains for the six months ended 30 June 2012 were approximately RMB52.6 million, an increase of approximately RMB5.1 million or approximately 10.7%, as compared with approximately RMB47.5 million for the same period last year. Such increase was mainly attributable to higher government subsidies income.

SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for the six months ended 30 June 2012 were approximately RMB515.9 million, an increase of approximately RMB12.2 million or approximately 2.4%, as compared with approximately RMB503.7 million for the same period last year. The selling and administrative expenses accounted for approximately 9.4% of sales, a decrease from approximately 9.7% for the same period last year, mainly due to the growth in revenue during the Period, which diluted the percentage of selling and administrative expenses.



RESULTS OVERVIEW (CONTINUED)

SELLING AND ADMINISTRATIVE EXPENSES (Continued)

During the Period, our selling costs decreased by approximately RMB0.23 million as compared with the same period last year, mainly due to the effective control on sales costs. In addition, the administrative expenses increased by approximately RMB12.4 million as compared with the same period last year, mainly due to higher expenditure of salary for administrative staff and increased rentals for the office premises of our new headquarters.

OPERATING PROFIT

The operating profit for the six months ended 30 June 2012 was approximately RMB433.9 million, a decrease of approximately RMB101.7 million or approximately 19.0%, as compared with approximately RMB535.6 million for the same period last year. Eliminating the one-off gains included in other income and gains, operating profit decreased by approximately RMB106.8 million, or approximately 21.9%, from the corresponding period last year.

NET FINANCE COSTS

The net interest expense for the six months ended 30 June 2012 was approximately RMB70.7 million, a substantial increase of approximately RMB34.6 million or approximately 95.8%, as compared with approximately RMB36.1 million for the same period last year. This was mainly due to the interest accrued in the first half of this year on the bonds issued by the Company last year.

SHARE OF PROFITS OF ASSOCIATES

The Company's share of profits of associates for the six months ended 30 June 2012 was approximately RMB9.2 million, an increase of approximately RMB0.4 million or approximately 4.5%, as compared with approximately RMB8.8 million for the same period last year.

INCOME TAX EXPENSES

The corporate income tax expenses for the six months ended 30 June 2012 were approximately RMB62.1 million, a decrease of approximately RMB56.5 million, or approximately 47.6%, as compared with approximately RMB118.6 million for the same period last year, mainly due to the declining profit and changes to deferred income tax.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(Including Financial Review)

RESULTS OVERVIEW (CONTINUED)

PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company for the Period was approximately RMB303.7 million, a decrease of approximately RMB83.4 million or approximately 21.5% as compared with approximately RMB387.1 million for the same period last year. Earnings per share decreased from approximately RMB0.11 to approximately RMB0.08 per share as compared with the same period last year.

BUSINESS PERFORMANCE

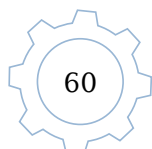
The table below sets forth the revenue, gross profit and segment results attributable to the Group's major business segments for the periods indicated:

	Revenue		Gross Profit		Segment Results	
	Period ended		Period ended		Period ended	
	30 June		30 June		30 June	
	2012	2011	2012	2011	2012	2011
	<i>(RMB in millions, except for percentage)</i>					

Commercial vehicle parts and components

Domestic

Engines	984.3	970.8	341.2	335.0	281.1	274.4
Gear boxes	382.8	479.3	74.8	114.6	17.4	50.9
Other products	207.0	374.8	21.5	58.4	(4.6)	31.9
Total	1,574.1	1,824.9	437.5	508.0	293.9	357.2
% of total	28.8%	35.0%	48.8%	51.2%	67.7%	66.7%



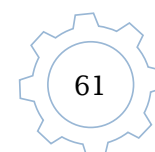
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(Including Financial Review)

RESULTS OVERVIEW (CONTINUED)

BUSINESS PERFORMANCE (Continued)

	Revenue		Gross Profit		Segment Results	
	Period ended		Period ended		Period ended	
	30 June		30 June		30 June	
	2012	2011	2012	2011	2012	2011
<i>(RMB in millions, except for percentage)</i>						
Power equipment						
Domestic						
Hydroelectric generation equipment	215.1	174.0	67.7	47.4	29.5	14.9
Electrical wires and cables	1,251.7	1,188.7	81.5	56.5	47.2	60.5
Other products	495.4	343.9	(2.6)	7.5	(12.7)	0.8
Total	<u>1,962.2</u>	<u>1,706.6</u>	<u>146.6</u>	<u>111.4</u>	<u>64.0</u>	<u>76.2</u>
% of total	<u>35.8%</u>	32.7%	<u>16.3%</u>	11.2%	<u>14.7%</u>	14.2%
General machinery						
Domestic						
Total	<u>643.9</u>	<u>578.1</u>	<u>153.6</u>	<u>164.0</u>	<u>31.5</u>	<u>34.0</u>
% of total	<u>11.8%</u>	11.1%	<u>17.1%</u>	16.5%	<u>7.3%</u>	6.3%



MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(Including Financial Review)

RESULTS OVERVIEW (CONTINUED)

BUSINESS PERFORMANCE (Continued)

	Revenue		Gross Profit		Segment Results	
	Period ended		Period ended		Period ended	
	30 June		30 June		30 June	
	2012	2011	2012	2011	2012	2011
<i>(RMB in millions, except for percentage)</i>						
CNC machine tools						
Domestic	1,174.8	989.6	114.0	161.9	39.6	73.5
Overseas	120.1	119.8	45.4	46.5	7.7	3.5
Total	1,294.9	1,109.4	159.4	208.4	47.3	77.0
% of total	23.6%	21.2%	17.8%	21.1%	10.9%	14.4%
Headquarters						
Total	—	—	—	0.1	(2.8)	(8.8)
% of total	—%	—%	—%	—%	(0.6%)	(1.6%)
Total	5,475.1	5,219.0	897.1	991.9	433.9	535.6



RESULTS OVERVIEW (CONTINUED)

Commercial vehicle parts and components

Revenue from the commercial vehicle parts and components segment for the six months ended 30 June 2012 was approximately RMB1,574.1 million, a decrease of approximately RMB250.8 million or approximately 13.7%, as compared with approximately RMB1,824.9 million for the same period last year. As compared with the same period last year, revenue from the diesel engine business increased by approximately RMB13.5 million or approximately 1.4%, and revenue from the gear box business decreased by approximately RMB96.5 million or approximately 20.1%, while revenue from other products also decreased by approximately RMB167.8 million or approximately 44.8%.

During the Period, gross profit for the commercial vehicle parts and components segment was approximately RMB437.5 million, a decrease of approximately RMB70.5 million or approximately 13.9% as compared with approximately RMB508.0 million for the six months ended 30 June 2011. Gross profit margin was approximately 27.8%, unchanged 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 2012 was approximately RMB293.9 million, a decrease of approximately RMB63.3 million or approximately 17.7%, as compared with approximately RMB357.2 million for the six months ended 30 June 2011.

Power equipment

Revenue from the power equipment segment for the six months ended 30 June 2012 was approximately RMB1,962.2 million, an increase of approximately RMB255.6 million or approximately 15.0%, as compared with approximately RMB1,706.6 million for the six months ended 30 June 2011, primarily due to a substantial increase of approximately RMB41.1 million, or approximately 23.6% in revenue from hydroelectric generation equipment business. Another contributor was the revenue growth of other products by approximately RMB151.5 million or approximately 44.1%.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(Including Financial Review)

RESULTS OVERVIEW (CONTINUED)

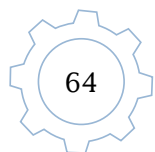
Power equipment (Continued)

During the Period, gross profit for the power equipment segment was approximately RMB146.6 million, an increase of approximately RMB35.2 million or approximately 31.6% as compared with approximately RMB111.4 million for the six months ended 30 June 2011. Gross profit margin slightly increased to 7.5% for the six months ended 30 June 2012 from 6.5% for the six months ended 30 June 2011, primarily due to higher sales volume and lower unit cost which resulted in an increase of 1 percentage point in the gross profit margin of this segment as compared with the same period last year.

Overall, the result for the power equipment segment for the six months ended 30 June 2012 was approximately RMB64.0 million, a decrease of approximately RMB12.2 million or approximately 16.0% as compared with approximately RMB76.2 million for the six months ended 30 June 2011.

General machinery

Revenue from the general machinery segment for the six months ended 30 June 2012 was approximately RMB643.9 million, an increase of approximately RMB65.8 million or approximately 11.4% as compared with approximately RMB578.1 million for the six months ended 30 June 2011, primarily due to the rapid increase in orders for wind power rotor blades and refrigeration machines, as well as product breakthroughs and new orders secured in new oil and petrochemical markets, which drove the continuous and steady growth in revenue of this segment.



RESULTS OVERVIEW (CONTINUED)

General machinery (Continued)

During the Period, gross profit for the general machinery segment was approximately RMB153.6 million, a decrease of approximately RMB10.4 million or approximately 6.3% as compared with approximately RMB164.0 million for the six months ended 30 June 2011. Gross profit margin decreased to approximately 23.9% for the six months ended 30 June 2012 from approximately 28.4% for the six months ended 30 June 2011, primarily due to lower selling prices which resulted in a decrease of 4.5 percentage points 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 2012 was approximately RMB31.5 million, a decrease of approximately RMB2.5 million or approximately 7.4%, as compared with approximately RMB34.0 million for the six months ended 30 June 2011.

CNC machine tools

Revenue from the CNC machine tools segment for the six months ended 30 June 2012 was approximately RMB1,294.9 million, an increase of approximately RMB185.5 million or approximately 16.7% as compared with approximately RMB1,109.4 million for the six months ended 30 June 2011, primarily due to remarkable increases in revenue from low-price aluminum ingot products of Chongqing Shengpu Materials Co., Ltd.. Meanwhile, revenue from our British PTG's subsidiary for the Period was approximately RMB120.1 million, an increase of approximately RMB0.3 million or approximately 0.3% as compared with approximately RMB119.8 million for the six months ended 30 June 2011, which also drove the steady growth in revenue of this business segment.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(Including Financial Review)

RESULTS OVERVIEW (CONTINUED)

CNC machine tools (Continued)

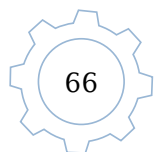
During the Period, gross profit for the CNC machine tools segment was approximately RMB159.4 million, a decrease of approximately RMB49.0 million or approximately 23.5% as compared with approximately RMB208.4 million for the six months ended 30 June 2011. Gross profit margin decreased to 12.3% for the six months ended 30 June 2012 from 18.8% for the six months ended 30 June 2011, primarily due to significant declines in the sales revenue from businesses with high gross profit, rising unit costs, and excessive growth of business with low gross profit, which resulted in a decrease of 6.5 percentage points in gross profit margin as compared with the same period last year.

Overall, the result for the CNC machine tools segment for the six months ended 30 June 2012 was approximately RMB47.3 million, a decrease of approximately RMB29.7 million or approximately 38.6% as compared with approximately RMB77.0 million for the six months ended 30 June 2011.

CASH FLOW

The Group's cash and bank deposits (including the restricted cash) aggregated to approximately RMB3,153.6 million as at 30 June 2012 (31 December 2011: approximately RMB3,084.7 million), an increase of approximately RMB68.9 million or approximately 2.2%.

During the Period, the Group had a net cash inflow from operating activities of approximately RMB221.2 million (30 June 2011: a net cash inflow of approximately RMB13.6 million), a net cash outflow from investing activities of approximately RMB41.2 million (30 June 2011: a net cash outflow of approximately RMB58.8 million), and a net cash outflow from financing activities of approximately RMB143.3 million (30 June 2011: a net cash inflow of approximately RMB5.1 million).



ASSETS AND LIABILITIES

As at 30 June 2012, the Group had total assets of approximately RMB12,227.6 million, an increase of approximately RMB467.6 million as compared with approximately RMB11,760.0 million as at 31 December 2011. The total current assets were approximately RMB8,933.5 million, increased by approximately RMB473.5 million as compared with approximately RMB8,460.0 million as at 31 December 2011, accounting for approximately 73.1% of the total assets (31 December 2011: approximately 71.9%). However, total non-current assets were approximately RMB3,294.1 million, representing a decrease of approximately RMB5.9 million as compared with approximately RMB3,300.0 million as at 31 December 2011, and accounting for approximately 26.9% of the total assets (31 December 2011: approximately 28.1%).

As at 30 June 2012, total liabilities of the Group amounted to approximately RMB7,171.4 million, an increase of approximately RMB378.3 million as compared with approximately RMB6,793.1 million as at 31 December 2011. Total current liabilities were approximately RMB5,249.7 million, representing an increase of approximately RMB580.0 million as compared with approximately RMB4,669.7 million as at 31 December 2011, and accounting for 73.2% of the total liabilities (31 December 2011: approximately 68.7%). However, total non-current liabilities were approximately RMB1,921.7 million, representing a decrease of approximately RMB201.7 million as compared with approximately RMB2,123.4 million as at 31 December 2011, and accounting for approximately 26.8% of the total liabilities (31 December 2011: approximately 31.3%).

As at 30 June 2012, net current assets of the Group amounted to approximately RMB3,683.8 million, a decrease of approximately RMB106.5 million as compared with approximately RMB3,790.3 million as at 31 December 2011.

CURRENT RATIO

Current ratio (the ratio of current assets over current liabilities) of the Group as at 30 June 2012 was 1.70:1 (31 December 2011: 1.81:1).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(Including Financial Review)

INDEBTEDNESS

As at 30 June 2012, the Group had an aggregate bank and other borrowings of approximately RMB2,532.0 million, representing a decrease of approximately RMB137.7 million as compared with approximately RMB2,669.7 million as at 31 December 2011.

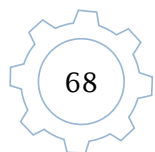
Borrowings repayable by the Group within one year were approximately RMB1,273.8 million, representing an increase of approximately RMB62.6 million as compared with approximately RMB1,211.2 million as at 31 December 2011. Borrowings repayable after one year were approximately RMB1,258.3 million, representing a decrease of approximately RMB200.2 million as compared with approximately RMB1,458.5 million as at 31 December 2011.

SIGNIFICANT EVENTS

(I) EVENTS WITHIN THE PERIOD

- (1) At the general meeting of the Company held on 18 June 2012, it was resolved to approve the appointment of Mr. Jin Jingyu as an independent non-executive Director of the second Board of the Company for a term of office till expiration of the current Board. Until then, the number of Board members was twelve, including four executive Directors, four non-executive Directors and four independent non-executive Directors.
- (2) As approved by the Board of the Company, on 25 June 2012, the Company entered into the amended land and buildings lease agreement with the Parent Company, and revised the annual caps for the connected transactions in relation to land and buildings lease for 2012 and 2013 to RMB35.0 million and RMB38.0 million respectively. For details, please refer to the announcement of the Board of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 25 June 2012.

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



SIGNIFICANT EVENTS (CONTINUED)

(II) SUBSEQUENT EVENTS

- (1) Four subsidiaries of the Company (namely, Chongqing Water Turbine Works Co., Ltd., Chongqing Tool Factory Co., Ltd., Chongqing Shenjian Automotive Drive Part Co., Ltd. and Chongqing Yinhe Forging & Founding Co., Ltd.) entered into an investment agreement with the Luohuang Industrial Park in Jiangjin District, Chongqing (中國重慶市江津區珞璜工業園), under which a land with a total area of 1,169 mu was proposed for environmental relocation of the four enterprises. For details, please refer to the announcement of the Board of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 11 July 2012.
- (2) The Company and some of its subsidiaries entered into a JV agreement with the Parent Company and some of its subsidiaries to establish a microlending company. The registered capital of the microlending company was RMB200.0 million to which the Company and its said subsidiaries contributed RMB90.0 million in total, representing 45.0% of all contributions. For details, please refer to the announcement of the Board of the Company published on the websites of the Hong Kong Stock Exchange and the Company on 25 July 2012.

CONTINGENT LIABILITIES

As at 30 June 2012, the Group had no significant contingent liabilities.

CAPITAL EXPENDITURE

During the Period, the total capital expenditure of the Group was approximately RMB128.4 million, which was principally used for expansion of plants, enhancement of production technologies, upgrading of production equipment and improvement on production capacity (for the six months ended 30 June 2011: approximately RMB153.7 million).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

(Including Financial Review)

RISK OF FOREIGN EXCHANGE

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

EMPLOYEES

As at 30 June 2012, the Group had 18,061 employees (30 June 2011:17,031 employees). The Group will continue to facilitate upgrading of technology-based talents, foster and recruit professionals with rich experience in technology and management, establish a differentiated remuneration-plus-performance allocation system, and strengthen safety training and monitoring to ensure employee safety and a harmonious relationship between employees and the employer.



OTHER INFORMATION

SHARE CAPITAL STRUCTURE

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

There was no movement in the share capital of the Company during the six months ended 30 June 2012, 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 2012, none of the directors, chief executive or supervisors of the Company had any interests or short positions in the shares, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules.



OTHER INFORMATION (CONTINUED)

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

As at 30 June 2012, 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	Capacity	Note	Percentage	Percentage
				of total issued domestic shares	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 Assets Management (Group) Co. Ltd. (formerly known as "Chongqing Yufu Asset Management Co., Ltd.")	232,132,514	Beneficial owner	(1)	8.98 (L)	6.30
Chongqing Construction Engineering Group Co., Ltd. (formerly known as "Chongqing Jiangong Group Co., Ltd.")	232,132,514	Beneficial owner	(2)	8.98 (L)	6.30
China Huarong Asset Management Co., Ltd.	195,962,467	Beneficial owner	(3)	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	(3)	7.58 (L)	5.32



OTHER INFORMATION (CONTINUED)

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

H shares of RMB\$1.00 each of the Company

Name of Substantial Shareholders	Number of shares	Capacity	<i>Note</i>	Percentage of total issued H shares	Percentage of total issued shares
Templeton Asset Management Limited	99,134,600 (L)	Investment manager		9.01 (L)	2.69 (L)
National Council for Social Security Fund	88,061,470 (L)	Beneficial owner		8.00 (L)	2.39 (L)
The Bank of New York Mellon (formerly known as "The Bank of New York")	87,276,000 (L)	Interest of Custodian		7.93 (L)	2.37 (L)
	0 (P)			0(P)	0(P)
The Bank of New York	87,276,000 (L)	Interest of corporation	(4)	7.93 (L)	2.37 (L)
Mellon Corporation	87,276,000 (P)	controlled by substantial Shareholder		7.93 (P)	2.37 (P)
FIL Limited	75,990,000 (L)	Investment manager		6.91 (L)	2.06 (L)
GE Asset Management Incorporated	75,973,334 (L)	Investment manager		6.91 (L)	2.06 (L)

(L): Long Position

(S): Short Position

(P): Lending Pool



OTHER INFORMATION (CONTINUED)

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS IN SHARES AND UNDERLYING SHARES (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.
3. 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.
4. 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.

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 2012.

COMPLIANCE WITH THE MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has complied with and adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules as the code for securities transactions by all directors of the Company. The Company has obtained the respective confirmations by all its directors that they have strictly complied with the provisions set out in the Model Code for the six months ended 30 June 2012.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

During the Period, the Company has adopted and complied with the code provisions under the Corporate Governance Code 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 2012, 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 dividends.

AUDIT COMMITTEE

The audit committee has jointly reviewed with the 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 the interim results) of the Group. The audit committee considered that the interim results are in compliance with the applicable accounting standards, laws and regulations, and the Company has made appropriate disclosures thereof.

THE BOARD OF DIRECTORS AND THE 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 and Mr. Jin Jingyu.

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



OTHER INFORMATION (CONTINUED)

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

The interim results announcement has been published on the websites of the Company (<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 29 August 2012 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
Chairman and Executive Director

Chongqing, the PRC
24 August 2012

