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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 17 to 63, which comprises the interim condensed consolidated balance sheet of Chongqing Machinery & Electric Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") as at 30 June 2011 and the related interim condensed consolidated statements of comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting". Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 26 August 2011

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET *(CONTINUED)*

30 June 2011

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

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

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

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

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

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

UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2011

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

		Unaudited					
		Attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital	Other reserves	Retained earnings	Total		
	Note	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2010		3,684,640	(882,299)	1,243,051	4,045,392	73,880	4,119,272
Profit for the period		—	—	345,646	345,646	6,874	352,520
Other comprehensive income							
Changes in fair value of available-for-sale financial assets, net of tax		—	(1,654)	—	(1,654)	—	(1,654)
Total comprehensive income for the period		—	(1,654)	345,646	343,992	6,874	350,866
Transactions with owners in their capacity as owners							
Dividends relating to 2009		—	—	(221,078)	(221,078)	(25,596)	(246,674)
Balance at 30 June 2010		3,684,640	(883,953)	1,367,619	4,168,306	55,158	4,223,464

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

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

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

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

1. GENERAL INFORMATION

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

The Company was established in the PRC on 27 July 2007 as a joint stock company with limited liability as part of the reorganisation of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. ("CQMEHG") in preparation for a listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited. CQMEHG is a state-owned enterprise established in the PRC and has been directly under the administration and control of the State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government. The address of the Company's registered office is No. 155, Zhongshan Third Road, Yu Zhong District, Chongqing 400015, the PRC.

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

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

This condensed consolidated interim financial information has not been audited.

Key events

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

1. GENERAL INFORMATION *(CONTINUED)*

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

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

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

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

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2011 has been prepared in accordance with HKAS 34, "Interim Financial Reporting". The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2010, which have been prepared in accordance with HKFRSs.

3 ACCOUNTING POLICIES

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

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

(a) New and amended standards adopted by the Group

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

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

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

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

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

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

3 ACCOUNTING POLICIES *(CONTINUED)*

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

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

3 ACCOUNTING POLICIES *(CONTINUED)*

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

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

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

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

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

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

4. ESTIMATES

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

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

5. FINANCIAL RISK MANAGEMENT

5.1 Financial risk factors

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

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

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

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

5.2 Liquidity risk

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

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

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

Note:

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

5. FINANCIAL RISK MANAGEMENT *(CONTINUED)*

5.3 Fair value estimation

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

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

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

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

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

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

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

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

6. SEGMENT INFORMATION

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

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

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

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

6. SEGMENT INFORMATION *(CONTINUED)*

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

	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wires and cables	General machinery	Machinery tools	High-voltage transformers	All other segments	Total Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment revenue	970,810	479,335	174,002	1,193,341	578,087	1,109,401	–	720,676	5,225,652
Inter-segment revenue	–	–	–	(4,594)	–	–	–	(2,030)	(6,624)
Revenue from external customers	970,810	479,335	174,002	1,188,747	578,087	1,109,401	–	718,646	5,219,028
Operating profit	274,384	50,948	14,934	60,471	34,035	77,088	–	23,778	535,638
Finance income	3,814	116	951	2,588	1,809	1,119	–	4,210	14,607
Finance costs	700	(4,406)	(2,328)	(19,648)	(3,918)	(9,907)	–	(11,207)	(50,714)
Share of post-tax profits of associates	–	–	–	–	(2,943)	–	6,893	4,873	8,823
Profit before income tax									508,354
Income tax expense	(48,938)	(7,134)	(2,435)	(7,530)	(25,447)	(20,450)	–	(6,703)	(118,637)
Profit for the period									389,717

6. SEGMENT INFORMATION *(CONTINUED)*

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

	Engines *RMB'000*	Gear boxes *RMB'000*	Hydroelectric generation equipment *RMB'000*	Electrical wires and cables *RMB'000*	General machinery *RMB'000*	Machinery tools *RMB'000*	High-voltage transformers *RMB'000*	All other segments *RMB'000*	Total Group *RMB'000*
Other items									
Depreciation on property, plant and equipment and investment properties	5,374	12,777	3,982	9,032	15,643	17,003	—	13,087	76,898
Amortisation of lease prepayments and intangible assets	1,520	1,603	457	670	3,271	3,344	—	205	11,070
Write down of inventories	42	—	—	—	—	—	—	14,243	14,285
Provision for/(reversal of) impairment on trade and other receivables	342	—	3,061	781	5,438	(3,039)	—	(35)	6,548
Additions to non-current assets (other than financial instruments and deferred tax assets)	11,994	11,359	10,287	6,506	33,748	58,761	—	21,027	153,682

6. SEGMENT INFORMATION *(CONTINUED)*

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

	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wires and cables	General machinery	Machinery tools	High-voltage transformers	All other segments	Total Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment revenue	706,316	420,411	146,124	1,014,248	525,624	897,097	—	562,467	4,272,287
Inter-segment revenue	—	—	—	(7,276)	—	—	—	(1,905)	(9,181)
Revenue from external customers	706,316	420,411	146,124	1,006,972	525,624	897,097	—	560,562	4,263,106
Operating profit	200,562	59,660	5,669	21,615	17,821	59,532	—	8,403	373,262
Finance income	2,057	435	1,600	1,898	1,685	347	—	5,069	13,091
Finance costs	72	(3,091)	(2,989)	(11,725)	(7,777)	(8,457)	—	(12,309)	(46,276)
Share of post-tax profits of associates	—	—	—	—	3,746	—	22,110	7,987	33,843
Profit before income tax									373,920
Income tax expense	(24,478)	(2,091)	(32)	(2,036)	17,268	(3,320)	—	(6,711)	(21,400)
Profit for the period									352,520

6. SEGMENT INFORMATION *(CONTINUED)*

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

	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wires and cables	General machinery	Machinery tools	High-voltage transformers	All other segments	Total Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Other items									
Depreciation on property, plant and equipment and investment properties	5,233	11,514	3,608	7,187	10,523	14,968	—	11,690	64,723
Amortisation of lease prepayments and intangible assets	1,520	1,603	444	670	2,037	1,062	—	246	7,582
Write down of inventories	—	—	—	279	—	1,734	—	91	2,104
Provision for/(reversal of) impairment on trade and other receivables	1,539	3,405	(1,684)	(289)	14,168	2,170	—	292	19,601
Additions to non-current assets (other than financial instruments and deferred tax assets)	7,642	2,162	3,903	16,539	31,751	42,727	—	53,125	157,849

6. SEGMENT INFORMATION *(CONTINUED)*

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

Total assets	Engines	Gear boxes	Hydroelectric generation equipment	Electrical wires and cables	General machinery	Machinery tools	High-voltage transformers	All other segments	Total Group
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
30 June 2011	**1,024,294**	**1,083,777**	**759,039**	**1,191,756**	**2,435,819**	**2,057,089**	**157,773**	**2,063,776**	**10,773,323**
Total assets include:									
Investments in associates	**—**	**—**	**—**	**—**	**72,456**	**—**	**157,773**	**179,046**	**409,275**
31 December 2010	967,157	1,067,857	724,642	1,076,233	2,319,720	1,921,871	185,650	1,909,107	10,172,237
Total assets include:									
Investments in associates	—	—	—	—	79,769	—	185,650	132,524	397,943

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

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

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

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

Notes:

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

8. INVESTMENTS IN ASSOCIATES

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

8. INVESTMENTS IN ASSOCIATES *(CONTINUED)*

Note:

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

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

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

9. TRADE AND OTHER RECEIVABLES

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

9. TRADE AND OTHER RECEIVABLES *(CONTINUED)*

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

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

10. SHARE CAPITAL

	Number of Shares *'000*	Domestic shares *RMB'000*	H shares *RMB'000*	Total shares *RMB'000*
Registered, issued and fully paid				
At 30 June 2011 and 1 January 2011 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640
At 30 June 2010 and 1 January 2010 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640

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

11. BORROWINGS

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

11. BORROWINGS *(CONTINUED)*

Movements in borrowings are analysed as follows:

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

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

11. BORROWINGS *(CONTINUED)*

The Group had the following undrawn borrowing facilities:

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

12. LONG-TERM EMPLOYEE BENEFIT OBLIGATIONS

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

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

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

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

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

Note:

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

13. PROVISION FOR WARRANTY

Provision for warranty represents the warranty costs for after-sale services of certain vehicle parts and components, which are estimated based on present after-sale service policies and prior years' experiences on the incurrence of such costs. Such provision for warranty was charged to 'cost of sales' in profit or loss.

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

14. TRADE AND OTHER PAYABLES

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

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

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

15. OPERATING PROFIT

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

	Six months ended 30 June	
	2011	2010
	RMB'000	*RMB'000*
Inventory write-down *(c)*	**14,285**	2,104
Provision for impairment on trade and other receivables *(d)*	**6,548**	19,601
Gains on investment in an associate *(Note 8)*	**(16,402)**	—
Gains on short-term investment at fair value through profit or loss *(Note 19)*	**(7,720)**	—
Reversal of expenses arising from long-term employee benefit obligation decrease *(Note 12)*	**(47,630)**	—
Gains on disposal of property, plant and equipment	**(1,002)**	(548)

Notes:

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

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

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

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

16. INCOME TAX EXPENSE

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

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

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year.

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

17. EARNINGS PER SHARE

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

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

18. DIVIDENDS

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

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

19. NOTE TO INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

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

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

(a) Acquisition of additional interests in subsidiaries

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

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

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

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

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

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

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

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

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

21. CONTINGENCIES

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

22. COMMITMENTS

(a) Capital commitments

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

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

(b) Operating lease commitments

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

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

23. RELATED PARTY TRANSACTIONS

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

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

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties during the six months ended 30 June 2010 and 2011, respectively.

23. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(a) Significant related party transactions

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

Note:

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

23. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(b) Balances with related parties

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

23. RELATED PARTY TRANSACTIONS *(CONTINUED)*

(c) Key management compensation

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

(d) Transactions with government-related entities in PRC

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

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

24. EVENTS OCCURRING AFTER THE BALANCE SHEET DATE

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

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