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**Chongqing Machinery & Electric Co., Ltd.\***  
**重慶機電股份有限公司**

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

(Stock Code: 02722)

**ANNOUNCEMENT OF INTERIM RESULTS**  
**FOR THE SIX MONTHS ENDED 30 JUNE 2011**

**FINANCIAL HIGHLIGHTS**

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

- Revenue of the Group for the six months ended 30 June 2011 amounted to approximately RMB5,219.0 million, representing an increase of around 22.4% from the corresponding period last year.
- Gross profit of the Group for the six months ended 30 June 2011 amounted to approximately RMB991.9 million, representing an increase of around 19.8% from the corresponding period last year.
- Profit attributable to the owners of the Company for the six months ended 30 June 2011 was approximately RMB387.1 million, representing an increase of around 12.0% from the corresponding period last year.
- Basic earnings per share for the six months ended 30 June 2011 was approximately RMB0.11.

The board of directors (the "Board") of Chongqing Machinery & Electric Co., Ltd.\* (the "Company") is pleased to announce the interim results of the Group for the six months ended 30 June 2011 (the "Period"). The Group's interim results have not been audited but have been reviewed by the audit committee and the Company's auditor, PricewaterhouseCoopers.

# UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2011

	Note	Unaudited Six months ended 30 June	
		2011 RMB'000	2010 RMB'000
Revenue	4	5,219,028	4,263,106
Cost of sales		(4,227,166)	(3,435,180)
<b>Gross profit</b>		<b>991,862</b>	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
<b>Operating profit</b>	10	<b>535,638</b>	373,262
Finance income		14,607	13,091
Finance costs		(50,714)	(46,276)
Share of post-tax profits of associates		8,823	33,843
<b>Profit before income tax</b>		<b>508,354</b>	373,920
Income tax expense	11	(118,637)	(21,400)
<b>Profit for the period</b>		<b>389,717</b>	352,520
<b>Other comprehensive income:</b>			
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)	—
<b>Other comprehensive income for the period, net of tax</b>		<b>(311)</b>	(1,654)
<b>Total comprehensive income for the period</b>		<b>389,406</b>	350,866

**Unaudited**  
**Six months ended 30 June**

	<i>Note</i>	<b>2011</b> <b><i>RMB'000</i></b>	2010 <i>RMB'000</i>
<b>Profit attributable to:</b>			
— Owners of the Company		<b>387,063</b>	345,646
— Non-controlling interests		<b>2,654</b>	6,874
		<b>389,717</b>	352,520
<b>Total comprehensive income attributable to:</b>			
— Owners of the Company		<b>386,752</b>	343,992
— Non-controlling interests		<b>2,654</b>	6,874
		<b>389,406</b>	350,866
<b>Earnings per share for profit attributable to owners of the Company (<i>expressed in RMB per share</i>)</b>			
— Basic and diluted	12	<b>0.11</b>	0.09

# UNAUDITED INTERIM CONDENSED CONSOLIDATED BALANCE SHEET

As at 30 June 2011

	<i>Note</i>	Unaudited 30 June 2011 <i>RMB'000</i>	Audited 31 December 2010 <i>RMB'000</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	5	1,841,126	1,812,713
Investment properties	5	37,611	21,718
Lease prepayments	5	268,183	270,516
Intangible assets	5	269,436	274,467
Investments in associates		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
		<u>2,922,317</u>	<u>2,907,784</u>
<b>Current assets</b>			
Inventories		1,757,096	1,612,628
Trade and other receivables	6	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
		<u>7,851,006</u>	<u>7,264,453</u>
<b>Total assets</b>		<b><u>10,773,323</u></b>	<b><u>10,172,237</u></b>
<b>EQUITY</b>			
<b>Equity attributable to owners of the Company</b>			
Share capital		3,684,640	3,684,640
Other reserves		(872,126)	(847,198)
Retained earnings		1,764,846	1,672,554
		<u>4,577,360</u>	<u>4,509,996</u>
<b>Non-controlling interests</b>		<b>48,645</b>	<b>64,212</b>
<b>Total equity</b>		<b><u>4,626,005</u></b>	<b><u>4,574,208</u></b>

		<b>Unaudited</b>	Audited
		<b>30 June</b>	31 December
		<b>2011</b>	2010
	<i>Note</i>	<b>RMB'000</b>	<b>RMB'000</b>
<b>LIABILITIES</b>			
<b>Non-current liabilities</b>			
Borrowings	7	<b>497,810</b>	481,359
Deferred income		<b>506,403</b>	513,017
Deferred income tax liabilities		<b>27,006</b>	29,311
Long-term employee benefit obligations	8	<b>82,567</b>	131,788
		<u><b>1,113,786</b></u>	<u>1,155,475</u>
<b>Current liabilities</b>			
Trade and other payables	9	<b>3,471,972</b>	3,226,915
Dividends payable		<b>286,720</b>	—
Amounts due to customers for contract work		<b>29,064</b>	24,785
Current income tax liabilities		<b>71,492</b>	55,385
Borrowings	7	<b>1,101,212</b>	1,061,592
Current portion of long-term employee benefit obligations	8	<b>12,559</b>	14,078
Provision for warranty		<b>60,513</b>	59,799
		<u><b>5,033,532</b></u>	<u>4,442,554</u>
<b>Total liabilities</b>		<u><b>6,147,318</b></u>	<u>5,598,029</u>
<b>Total equity and liabilities</b>		<u><b>10,773,323</b></u>	<u>10,172,237</u>
<b>Net current assets</b>		<u><b>2,817,474</b></u>	<u>2,821,899</u>
<b>Total assets less current liabilities</b>		<u><b>5,739,791</b></u>	<u>5,729,683</u>

# 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	Other reserves	Retained earnings	Total			
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
	<b>Balance at 1 January 2011</b>	3,684,640	(847,198)	1,672,554	4,509,996	64,212	4,574,208
	<b>Profit for the period</b>	—	—	387,063	387,063	2,654	389,717
	<b>Other comprehensive income</b>						
	Changes in fair value of available-for-sale financial assets, net of tax	—	393	—	393	—	393
	Currency translation differences	—	(704)	—	(704)	—	(704)
	<b>Total comprehensive income for the period</b>	—	(311)	387,063	386,752	2,654	389,406
	<b>Transactions with owners in their capacity as owners</b>						
	Dividends relating to 2010	—	—	(294,771)	(294,771)	(1,444)	(296,215)
13	Changes in ownership interests in subsidiaries without change of control	—	(24,617)	—	(24,617)	(16,777)	(41,394)
	<b>Transactions with owners</b>	—	(24,617)	(294,771)	(319,388)	(18,221)	(337,609)
	<b>Balance at 30 June 2011</b>	<u>3,684,640</u>	<u>(872,126)</u>	<u>1,764,846</u>	<u>4,577,360</u>	<u>48,645</u>	<u>4,626,005</u>
	<b>Balance at 1 January 2010</b>	3,684,640	(882,299)	1,243,051	4,045,392	73,880	4,119,272
	<b>Profit for the period</b>	—	—	345,646	345,646	6,874	352,520
	<b>Other comprehensive income</b>						
	Changes in fair value of available-for-sale financial assets, net of tax	—	(1,654)	—	(1,654)	—	(1,654)
	<b>Total comprehensive income for the period</b>	—	(1,654)	345,646	343,992	6,874	350,866
	<b>Transactions with owners in their capacity as owners</b>						
	Dividends relating to 2009	—	—	(221,078)	(221,078)	(25,596)	(246,674)
	<b>Balance at 30 June 2010</b>	<u>3,684,640</u>	<u>(883,953)</u>	<u>1,367,619</u>	<u>4,168,306</u>	<u>55,158</u>	<u>4,223,464</u>

# UNAUDITED INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2011

	Unaudited	
	Six months ended 30 June	
	2011	2010
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Cash flows from operating activities</b>		
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)
	<u>13,606</u>	<u>(35,119)</u>
Net cash generated from/(used in) operating activities		
<b>Cash flows from investing activities</b>		
Purchase of short-term investments at fair value through profit or loss	(2,120,000)	—
Proceeds from return of short-term investments at fair value through profit or loss	2,127,720	—
Purchase of available-for-sale financial assets	—	(394)
Purchases of property, plant and equipment	(115,603)	(133,346)
Proceeds on disposal of property, plant and equipment	4,486	3,904
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
Acquisition of subsidiaries, net of cash acquired	—	(196,031)
Additional investment to associates	—	(10,912)
Proceeds from return of investments	—	2,782
	<u>(58,811)</u>	<u>(220,593)</u>
Net cash used in investing activities		
<b>Cash flows from financing activities</b>		
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	(41,394)	—
	<u>5,059</u>	<u>206,618</u>
Net cash generated from financing activities		
<b>Net decrease in cash and cash equivalents</b>	<b>(40,146)</b>	<b>(49,094)</b>
Cash and cash equivalents at the beginning of the period	2,118,810	2,187,362
Exchange gains/(losses)	937	(6,923)
	<u>2,079,601</u>	<u>2,131,345</u>
<b>Cash and cash equivalents at end of the period</b>	<b>2,079,601</b>	<b>2,131,345</b>

## NOTES:

### 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.

### 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.

- 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.

*(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. 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.

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	All other segments RMB'000	Total Group 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	<u>970,810</u>	<u>479,335</u>	<u>174,002</u>	<u>1,188,747</u>	<u>578,087</u>	<u>1,109,401</u>	<u>—</u>	<u>718,646</u>	<u>5,219,028</u>
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
<b>Profit before income tax</b>									<u>508,354</u>
Income tax expense	(48,938)	(7,134)	(2,435)	(7,530)	(25,447)	(20,450)	—	(6,703)	(118,637)
<b>Profit for the period</b>									<u><u>389,717</u></u>
<b>Other items</b>									
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)	<u>11,994</u>	<u>11,359</u>	<u>10,287</u>	<u>6,506</u>	<u>33,748</u>	<u>58,761</u>	<u>—</u>	<u>21,027</u>	<u>153,682</u>

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

	Engines RMB'000	Gear boxes RMB'000	Hydroelectric generation equipment RMB'000	Electrical wires and cables RMB'000	General machinery RMB'000	Machinery tools RMB'000	High-voltage transformers RMB'000	All other segments RMB'000	Total Group RMB'000
Total segment revenue	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	<u>706,316</u>	<u>420,411</u>	<u>146,124</u>	<u>1,006,972</u>	<u>525,624</u>	<u>897,097</u>	<u>—</u>	<u>560,562</u>	<u>4,263,106</u>
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	<u>33,843</u>
<b>Profit before income tax</b>									373,920
Income tax expense	(24,478)	(2,091)	(32)	(2,036)	17,268	(3,320)	—	(6,711)	<u>(21,400)</u>
<b>Profit for the period</b>									<u><u>352,520</u></u>
<b>Other items</b>									
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)	<u>7,642</u>	<u>2,162</u>	<u>3,903</u>	<u>16,539</u>	<u>31,751</u>	<u>42,727</u>	<u>—</u>	<u>53,125</u>	<u>157,849</u>

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

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

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

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

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

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).

## 6. Trade and other receivables

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

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:

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

## 7. Borrowings

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

Movements in borrowings are analysed as follows:

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

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

The Group had the following undrawn borrowing facilities:

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

## 8. Long-term employee benefit obligations

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

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

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

	<b>Six months ended 30 June</b>	
	<b>2011 RMB'000</b>	2010 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)	<u>(47,630)</u>	<u>—</u>
At end of the period	<b><u>95,126</u></b>	<b><u>155,372</u></b>

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 10).

## 9. Trade and other payables

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

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:

	<b>30 June 2011 RMB'000</b>	31 December 2010 RMB'000
<b>Trade and bills payable</b>		
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
	<u>1,987,514</u>	<u>1,959,662</u>

## 10. 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:

	<b>Six months ended 30 June</b>	
	<b>2011 RMB'000</b>	2010 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	(16,402)	—
Gains on short-term investment at fair value through profit or loss	(7,720)	—
Reversal of expenses arising from long-term employee benefit obligation decrease (Note 8)	(47,630)	—
Gains on disposal of property, plant and equipment	(1,002)	(548)
	<u>(1,002)</u>	<u>(548)</u>

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.



## 11. Income tax expense

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

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

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.

## 12. Earnings per share

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

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

## 13. 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).

# MANAGEMENT'S DISCUSSION AND ANALYSIS (INCLUDING FINANCIAL REVIEW)

## RESULTS OVERVIEW

### SALES

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

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

The growth in sales of commercial vehicle parts and components, power equipment, general machinery and CNC machine tools during the Period was mainly boosted by domestic demand and accelerated product mix adjustment, which drove the revenue of our four major business segments to grow at rapid pace as compared with the same period last year.

### GROSS PROFIT

The gross profit for the six months ended 30 June 2011 was approximately RMB991.9 million, an increase of approximately RMB164.0 million or approximately 19.8%, as compared with approximately RMB827.9 million for the same period last year, accounting for approximately 19.0% of revenue. Overall gross profit margin decreased by 0.4 percentage points as compared with the same period last year, which is mainly due to substantial increases in prices of raw materials for producing commercial vehicle parts and components and power equipment such as copper and steel. On the contrary, the gross profit margin of CNC machine tools and general machinery business recorded an increase as a result of product mix adjustment. We expect that the raw material prices will continue to rise in the second half of 2011, and efforts will be made to keep the gross profit margin of the Group stable.

### OTHER INCOME AND GAINS

The other income and gains for the six months ended 30 June 2011 were approximately RMB47.5 million, an increase of approximately RMB26.3 million or approximately 124.1%, as compared with approximately RMB21.2 million for the same period last year. Contributors to such increase included approximately RMB16.6 million from the gain on the amount of fair value of equity investment over the net book value of assets transferred plus relevant tax incurred to a newly formed joint venture company by Chongqing CAFF Automotive Braking & Steering System Co., Ltd.; approximately RMB7.7 million from the short term return of investments and approximately RMB1.1 million from increase of tax subsidies.

### SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for the six months ended 30 June 2011 were approximately RMB503.7 million, an increase of approximately RMB27.8 million or approximately 5.8%, as compared with approximately RMB475.9 million for the same period last year. The selling and administrative expenses accounted for approximately 9.7% of sales, a decrease from 11.2% for the same period last year, mainly due to the rapid growth in revenue during the Period, which diluted the percentage of selling and administrative expenses.

During the Period, our selling costs decreased by approximately RMB11.3 million, mainly due to the effective control on sales costs.

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

## OPERATING PROFIT

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

## NET FINANCE COSTS

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

## SHARE OF POST-TAX PROFITS OF ASSOCIATES

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

## INCOME TAX EXPENSES

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

## PROFIT ATTRIBUTABLE TO OWNERS OF THE COMPANY

Profit attributable to owners of the Company for the Period was approximately RMB387.1 million, an increase of approximately RMB41.5 million or approximately 12.0% as compared with approximately RMB345.6 million for the same period last year. Earnings per share increased from RMB0.09 to approximately RMB0.11 per share as compared with the same period last year.

## BUSINESS PERFORMANCE

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

	Revenue		Gross Profit		Segment Results	
	Period ended 30 June 2011	2010	Period ended 30 June 2011	2010	Period ended 30 June 2011	2010
	<i>(RMB in millions, except for percentage)</i>					
<b>Commercial vehicle parts and components</b>						
<b>Domestic</b>						
Engines	<b>970.8</b>	706.3	<b>335.0</b>	249.2	<b>274.4</b>	200.6
Gear boxes	<b>479.3</b>	420.4	<b>114.6</b>	119.9	<b>50.9</b>	59.7
Other products	<b>374.8</b>	346.3	<b>58.4</b>	68.9	<b>31.9</b>	26.6
Total	<b>1,824.9</b>	1,473.0	<b>508.0</b>	438.0	<b>357.2</b>	286.9
% of total	<b>35.0%</b>	34.6%	<b>51.2%</b>	52.9%	<b>66.7%</b>	76.9%

<b>Power equipment</b>						
<b>Domestic</b>						
Hydroelectric generation equipment	<b>174.0</b>	146.1	<b>47.4</b>	33.1	<b>14.9</b>	5.7
Electrical wires and cables	<b>1,188.7</b>	1,007.0	<b>56.5</b>	55.7	<b>60.5</b>	21.6
Other products	<b>343.9</b>	214.3	<b>7.5</b>	7.2	<b>0.8</b>	2.5
Total	<b>1,706.6</b>	1,367.4	<b>111.4</b>	96.0	<b>76.2</b>	29.8
% of total	<b>32.7%</b>	32.1%	<b>11.2%</b>	11.6%	<b>14.2%</b>	8.0%
<b>General machinery</b>						
<b>Domestic</b>	<b>578.1</b>	525.6	<b>164.0</b>	146.8	<b>34.0</b>	17.8
Total	<b>578.1</b>	525.6	<b>164.0</b>	146.8	<b>34.0</b>	17.8
% of total	<b>11.1%</b>	12.3%	<b>16.5%</b>	17.7%	<b>6.3%</b>	4.8%
<b>CNC machine tools</b>						
<b>Domestic</b>	<b>989.6</b>	897.1	<b>161.9</b>	147.1	<b>73.5</b>	59.5
<b>Overseas</b>	<b>119.8</b>	—	<b>46.5</b>	—	<b>3.5</b>	—
Total	<b>1,109.4</b>	897.1	<b>208.4</b>	147.1	<b>77.0</b>	59.5
% of total	<b>21.2%</b>	21.0%	<b>21.1%</b>	17.8%	<b>14.4%</b>	15.9%
<b>Headquarters</b>						
Total	<b>—</b>	—	<b>0.1</b>	—	<b>(8.8)</b>	(20.7)
% of total	<b>—%</b>	—%	<b>—%</b>	—%	<b>(1.6%)</b>	(5.6%)
Total	<b>5,219.0</b>	4,263.1	<b>991.9</b>	827.9	<b>535.6</b>	373.3

### Commercial vehicle parts and components

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

During the Period, gross profit for the commercial vehicle parts and components segment was approximately RMB508.0 million, an increase of approximately RMB70.0 million or 16.0% as compared with approximately RMB438.0 million for the same period last year. Gross profit margin decreased to approximately 27.8% for the six months ended 30 June 2011 from approximately 29.7% for the six months ended 30 June 2010, primarily due to substantial increases in prices of raw materials such as copper and steel, which resulted in a decrease of 1.9 percentage points in gross profit margin of the business as compared with the same period last year.

Overall, the result for the commercial vehicle parts and components segment for the six months ended 30 June 2011 was approximately RMB357.2 million, an increase of approximately RMB70.3 million or 24.5%, as compared with approximately RMB286.9 million for the same period last year.

## **Power equipment**

Revenue from the power equipment segment for the six months ended 30 June 2011 was approximately RMB1,706.6 million, an increase of approximately RMB339.2 million or 24.8%, as compared with approximately RMB1,367.4 million for the same period last year, primarily due to a substantial increase of approximately RMB181.7 million, or 18.0% in revenue from electrical wires and cables business. Another contributor was the revenue growth of other products by approximately RMB129.6 million or 60.5%.

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

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

## **General machinery**

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

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

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

## **CNC machine tools**

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

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

Overall, the result for the CNC machine tools segment for the six months ended 30 June 2011 was approximately RMB77.0 million, an increase of approximately RMB17.5 million or 29.4% as compared with approximately RMB59.5 million for the same period last year.

## **CASH FLOW**

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

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

## **ASSETS AND LIABILITIES**

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

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

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

## **CURRENT RATIO**

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

## **INDEBTEDNESS**

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

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



## **SIGNIFICANT EVENTS**

- (I) The 2010 annual general meeting of the Company was held on 6 June 2011, at which the following matters were considered and approved:
- 1) the annual proposed caps of the price payable by the Parent Company and its associates to the Group under the Master Supplemental Sales Agreement for the financial years ended 31 December 2011, 2012 and 2013 were revised upward to RMB155.0 million, RMB185.0 million and RMB210.0 million, respectively;
  - 2) the annual proposed caps of the price payable by the Group to the Parent Company and its associates under the Master Supplemental Supplies Agreement for the financial years ended 31 December 2011, 2012 and 2013 were revised upward to RMB410.0 million, RMB480.0 million and RMB550.0 million, respectively;
  - 3) To give a mandate to the Board to allot, issue and deal with additional Domestic Shares and/or the H Shares (both subject to cap) and to make offers, agreements and/or options in respect thereof;
  - 4) To authorize the Board to issue and dispose of corporate bonds with an aggregate nominal value of up to RMB1.0 billion in the PRC and to authorize the Board to delegate two directors namely Mr. Yu Gang and Mr. Chen Xianzheng to jointly deal with, at their full discretion, all matters relating to the issue of corporate bonds. Official approval of the corporate bond issue was obtained from CSRC on 22 July 2011;
  - 5) The Company renewed the RMB37.0 million loan guarantee provided to Chongqing Pigeon ; and
  - 6) The Company renewed the RMB50.44 million loan guarantee provided to CAFF.

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

## **(II) SUBSEQUENT EVENTS**

- 1) On 1 August 2011, the Company incorporated Precision Technologies Group Limited (“PTG”) under the Company Act 2006 of England and Wales in the City of Rochdale. The Company’s capital contribution was the aggregate prices of the equity interest owned by the Company in five British companies and one German company, and therefore PTG is the de facto capital contributor of the six companies.
- 2) On 16 August 2011, the Company set up the European Innovation Centre of Chongqing M&E, European Marketing Centre of Chongqing M&E and Chongqing Machine Tool & European Machine Tool R&D Centre as unincorporated bodies in the City of Rochdale, Britain.
- 3) On 23 August 2011, the Company issued RMB1.0 billion of corporate bond with a coupon rate of 6.59% and maturing in 5 years by way of online public offering (RMB50.0 million) to public investors and offline offering (RMB950.0 million) to institutional investors through booking building.

## **CONTINGENT LIABILITIES**

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

## **CAPITAL EXPENDITURE**

During the Period, the total capital expenditure of the Group was approximately RMB153.7 million, which was principally used for expansion of plants, enhancement of production technology, upgrading of production equipment and improvement to production capacity (for the six months ended 30 June 2010: approximately RMB157.8 million).

## **RISK OF FOREIGN EXCHANGE**

The Group uses Renminbi as the reporting currency. During the Period, the Chinese government' revaluation of renminbi to allow the currency to appreciate is expected to increase the competitiveness of our export products and benefit the Group in material import which is expected to lower down our production cost.

In addition, as at 30 June 2011, the Group's bank deposits comprise approximately HK\$97.6 million, approximately US\$0.9 million, GBP1.0 million and approximately EUR0.23 million (31 December 2010: approximately HK\$93.0 million), the Group's borrowing is approximately US\$20.6 million (31 December 2010: approximately US\$20.6 million). Save as the above, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

## **EMPLOYEES**

As at 30 June 2011, the Group had 17,031 employees (30 June 2010:17,403 employees). The Group will continue to strengthen the six mechanisms in respect of "selection, cultivation, utilization, retaining, backup and dismissal" of talents as well as the internal talents development and upgrade program. Meanwhile, the Group will formulate core team building plans for talents with management skills, professional skills and hi-tech skills, and improve incentive schemes that link with the performance reviews of our management and employees and ensure a harmonious relationship between employee and employer to contribute to the harmony of society.

## **OTHER INFORMATION**

### **COMPLIANCE WITH THE MODEL CODE FOR THE SECURITIES TRANSACTIONS**

The Company has adopted the Model Code for the Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules for the code of securities transactions by all directors of the Company. After making specific enquiry of all directors and Supervisors of the Company, the Board is pleased to announce that all the directors of the Company have strictly complied with the provisions set out in the Model Code for the six months ended 30 June 2011.

### **COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES**

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

### **PURCHASE, SALE OR REDEMPTION OF SECURITIES OF THE COMPANY**

During the six months ended 30 June 2011, neither the Group nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

### **INTERIM DIVIDEND**

The Board of Directors does not recommend the payment of interim dividend.

### **AUDIT COMMITTEE**

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



## **BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE**

As at the date of this report, the executive Directors of the Company are Mr. Xie Hua Jun, Mr. Yu Gang, Mr. Liao Shaohua, Mr. Chen Xianzheng; the non-executive Directors are Mr. Huang Yong, Mr. Wang Jiyu, Mr. Liu Liangcai, Mr. Yang Jingpu; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang, Mr. Kong Weiliang.

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

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

The interim results announcement is published on the Company's website (<http://www.chinacqme.com>) and the Stock Exchange (<http://www.hkex.com.hk>). The interim report will also be available at the Company's and the Stock Exchange's websites on or about 26 August 2011 and will be dispatched to shareholders of the Company thereafter by the means of receipt of corporate communication they selected.

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

Chongqing, the PRC  
26 August 2011

*As at the date of this announcement, the executive Directors are Mr. Xie Hua Jun, Mr. Yu Gang, Mr. Liao Shaohua and Mr. Chen Xianzheng; the non-executive Directors are Mr. Huang Yong, Mr. Wang Jiyu, Mr. Yang Jingpu and Mr. Liu Liangcai; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang.*

\* *for identification purposes only*