



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

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

Stock Code: 02722

2008 Interim Report



* For identification purposes only

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CORPORATE INFORMATION

Directors

Executive Directors

Mr. Sun Nengyi (*Chairman*)
Mr. He Yong
Mr. Liao Shaohua
Mr. Chen Xianzheng

Non-executive Directors

Mr. Huang Yong
Mr. Yu Gang
Mr. Yang Jingpu
Mr. Wu Jian

Independent Non-executive Directors

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

Committees under Board of Directors Member of the Audit Committee

Mr. Lo Wah Wai (*Chairman*)
Mr. Kong Weiliang
Mr. Wu Jian

Member of the Remuneration Committee

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

Member of the Nomination Committee

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

Supervisors

Mr. Duan Rongsheng
Mr. Ye Zusheng
Ms. Wang Rongxue
Ms. He Xiaoping
Mr. Wang Xuqi
Mr. Wu Chongjiang

Company Secretary

Mr. Wang Xiaojun

Authorized Representatives

Mr. Chen Xianzheng
Mr. Wang Xiaojun

Alternate Authorized Representative

Mr. Lo Wah Wai

Legal Representative

Mr. Sun Nengyi

Qualified Accountant

Mr. Kam Chun Ying, Francis

International Auditors

PricewaterhouseCoopers

Legal Advisors to the Company

X. J. Wang & Co.

(in association with Jun He Law Offices)
(As to Hong Kong Laws)

Beijing Kaiwen Law Firm Chongqing Branch
(As to PRC Laws)

CORPORATE INFORMATION (*CONTINUED*)

Compliance Advisor

Evolution Watterson Securities Limited

Registered Address and Place of Business

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

Principal Place of Business in Hong Kong

Suite 2208, 22nd Floor, Jardine House,
No. 1 Connaught Place, Central, Hong Kong

Telephone no.

(86) 23 6386 0102

Facsimile no.

(86) 23 6386 0137

Website

www.chinacqme.com

Principal Bankers

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

Hong Kong Share Registrar and Transfer Office

Computershare Hong Kong Investor
Services Limited
17th Floor, Hopewell Centre
No. 183 Queen's Road East
Wanchai
Hong Kong

Share Information

Listing Place

The Stock Exchange of Hong Kong Limited

Stock Code

02722

Financial Year End

31 December

FINANCIAL HIGHLIGHTS

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

- Revenue for the six months ended 30 June 2008 of the Group was RMB3,150 million, representing an increase of 25% over the corresponding period last year.
- Profit attributable to the equity holders of the Company for the six months ended 30 June 2008 was RMB274 million, representing an increase of 46% over the corresponding period last year.
- Basic earnings per share for the six months ended 30 June 2008 was RMB0.10.
- The Group strived for the expansion of core-business development and technological improvement on its business segments including commercial vehicle parts and components (“Commercial vehicles parts and components”), power equipment (“Power equipment”), general machinery (“General machinery”) and CNC machine tools (“CNC machine tools”) etc.
- The Group expects to continue seeking for more opportunities to realize sustainable growth of our business, develop products with high growth potential, expand production capacities to satisfy market demand and to develop new domestic and international markets.

CHAIRMAN'S STATEMENT

Dear Shareholders,

The Board of Directors of the Company is pleased to announce the interim results of the Group for the six months ended 30 June 2008 (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.

Performance Results

The revenue of the Group for the six months ended 30 June 2008 was RMB3,150 million, compared with RMB2,520 million for the same period last year, representing an increase of RMB630 million or 25%.

Profits attributable to equity holders of the Company for the six months ended 30 June 2008 was RMB274 million, compared with RMB188 million for the same period last year, representing an increase of RMB86 million or 46%.

Basic earnings per share for the six months ended 30 June 2008 was RMB0.10 (first half of 2007: RMB0.09).

As at 30 June 2008, the total assets of the Group amounted to RMB7,322 million (31 December 2007: RMB5,625 million), while total liabilities amounted to RMB4,104 million (31 December 2007: RMB3,713 million). The total shareholders' equity was RMB3,218 million (31 December 2007: RMB1,912 million), of which RMB3,180 million (31 December 2007: RMB1,865 million) was attributable to the equity holders of the Company. The net asset value per share was RMB0.87 (31 December 2007: RMB0.71).

Listed on the Stock Exchange

The Company was listed on the Main Board of the Stock Exchange on 13 June 2008 with the global offering of 1,004.9 million H shares, raising funds of approximately HK\$1,306 million.

CHAIRMAN'S STATEMENT (CONTINUED)

Development Strategy

To achieve the Group's business development, the Group developed and implemented the following development strategies:

- (I) develop products with high growth potential to strengthen the Company's competitiveness;
- (II) expand production capacity to meet market demand;
- (III) grow through forming joint ventures and making acquisitions;
- (IV) integrate operations to create synergies across business segments;
- (V) strengthen existing customer base and develop new markets domestically; and
- (VI) recruit and retain talented personnel.

Prospects

Commercial vehicle parts and components segment (diesel engines, braking and steering systems business)

In the first half of 2008, driven by the rapid growth of motor car industry in China, stimulating the vehicle industry maintained a rapid growth rate, the Commercial vehicles parts and component's industry maintained a rapid growth. The sales volume increased to 31.5% compared with the same period last year and the operating profit increased to 53.1% compared with the same period last year. This is mainly due to an increase in revenue of RMB143 million or 35.9% from the diesel engines business and an increase in revenue of RMB49 million or 28% from the braking and steering systems business. Being affected by the high inflation of raw materials, fuel and energy, lack of capital and a number of key factors, it is estimated that in the second half of 2008, the growth of Commercial vehicles parts and components industry will slow down. As the braking and steering system components business is closely related to the Commercial vehicle parts and components industry, it is expected it will also be affected. However, diesel engines business is not closely related to commercial vehicles business as a whole, in view of the high demand in the market currently, together with successful trial production of our new QSK high powered diesel engines. We expected that the performance of this business will be good.

CHAIRMAN'S STATEMENT (*CONTINUED*)

Prospects (*Continued*)

Power equipment segment (Hydroelectric generation equipment, High-voltage transformers, Electrical wires, cables and materials, Non-ferrous metal materials business)

In the first half of 2008, the business segment benefited from the PRC's national effort to improve electrical grid, promote clean energy, encourage hydroelectricity and other positive policies, resulting in hydroelectric turbine generators, power transmission, transformers sales grown by 7.5% compared with the same period last year, while operating profit growth increased by 26.8% against the same period last year. The growth is primarily attributable to an increase in revenue of RMB30 million or 21% from hydroelectric generation equipment and an increase in revenue of RMB60 million or 10% from electrical wires, cables and materials business. In the second half of 2008, hydro electric power equipment contract orders are expected to remain stable. High-voltage transformers business maintained high-speed growth with the implementation of electric porcelain production project, high productivity of non-ferrous metal materials businesses and other factors will drive the continuance of steady growth of this business segment.

General machinery segment (Industrial pumps, Gas compressors, Separation machines, Refrigeration machines and Industrial fans business)

In the first half of 2008, the business was driven by the development of re-cycle economy, environmental friendly economy, nuclear power, wind power by the PRC's government. The sales growth and the operating profit increased to 49% and 113% respectively, compared with the same period last year. The growth is primarily due to an increase in revenue of RMB81 million or 77% from the industrial fans business; an increase in revenue of RMB67 million or 59.6% from the industrial pumps business and an increase in revenue of RMB43 million or 60% from the separation machines business. With high demand in the current market, contract orders for different businesses will continue to remain rapid growth. In the second half year 2008, it is anticipated that the business will continue to maintain a rapid development momentum. The Company will carry out various measures including raising production capacity improving product structure; adjusting sales and marketing structure; enhancing brand building and strengthening internal innovation ability in order to enhance the profitability of business segment.

CHAIRMAN'S STATEMENT (CONTINUED)

Prospects (Continued)

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

In the first half of 2008, the business segment showed a relatively faster development. The sales growth and operating profit increased to 32% and 64% respectively, compared with the same period last year. It mainly benefited from the rapid development of the Chinese automobile, motorcycle and engineering machinery industry, in particular the drive from the high growth of the wind power industry to stimulating the high demand in the market for rapid development of large-sized high-precision CNC machine tools. The revenue from gear-producing machines business increased by RMB51 million or 30%; high precision complex metal cutting tools business increased by RMB7 million or 25.8%; and CNC lathes and machine centers business increased by RMB10 million or 16%, whilst the other businesses increased by RMB68 million or 28.6%.

In the second half of 2008, the business will continue with steady growth, driven particularly by the rapid growth of the wind power industries and the large sized CNC machine tools business will continue to show the strong growth trend. The Company will rely on technological innovation to improve productively in order to capture new market as well as rapid growth.

Conclusion

Despite the slowdown of economic and the impact of various unfavorable factors in the first half of 2008, the Group's business still managed to maintain a stable growth. Due to the diversified businesses of the Group, it has a strong ability to weather against market risks. It is expected that in the second half of 2008, the Group's business will maintain steady growth as a whole. The Company will utilize capital funds gradually to increase productivity of the Company; enhance competitiveness of core technologies; increase product mix and integrate operations to create synergies across business segments, in order to enhance the Company's profitability and protect the shareholders' benefits.

Sun Nengyi

Chairman and Executive Director

8 September 2008, Chongqing, the PRC



羅兵咸永道會計師事務所

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

**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 11 to 52, which comprises the condensed consolidated balance sheet of Chongqing Machinery & Electric Co., Ltd (the “Company”) and its subsidiaries (together, the “Group”) as at 30 June 2008 and the related condensed consolidated statements of 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 Main Board of 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, 8 September 2008

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Condensed Consolidated Interim Income Statement

	Note	Unaudited	
		Six months ended 30 June	
		2008	2007
		RMB'000	RMB'000
Revenue	4	3,150,419	2,519,822
Cost of sales		(2,573,853)	(2,069,256)
Gross profit		576,566	450,566
Selling and marketing expenses		(97,293)	(79,679)
Administrative expenses		(245,897)	(204,545)
Other gains, net		3,738	6,999
Other income		9,156	4,001
Operating profit	12	246,270	177,342
Finance income		11,385	6,446
Finance costs		(46,109)	(24,519)
Finance costs, net		(34,724)	(18,073)
Share of profit of associates		105,555	56,798
Profit before income tax		317,101	216,067
Income tax expense	13	(36,504)	(13,345)
Profit for the period		280,597	202,722

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Condensed Consolidated Interim Income Statement *(Continued)*

	Note	Unaudited	
		Six months ended 30 June	
		2008	2007
		RMB'000	RMB'000
Attributable to:			
Equity holders of the Company		273,915	187,645
Minority interest		6,682	15,077
		<u>280,597</u>	<u>202,722</u>
Earnings per share for profit			
attributable to the equity holders			
of the Company during the period			
(expressed in RMB per share)			
— Basic and diluted	14	<u>0.10</u>	<u>0.09</u>

The notes on pages 19 to 52 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Condensed Consolidated Interim Balance Sheet

		30 June	31 December
		2008	2007
	<i>Note</i>	RMB'000	<i>RMB'000</i>
		Unaudited	Audited
ASSETS			
Non-current assets			
Property, plant and equipment	5	1,150,575	997,436
Investment properties	5	27,693	28,888
Lease prepayments	5	375,895	378,387
Intangible assets	5	47,705	49,358
Investments in associates		573,776	474,291
Deferred income tax assets		70,383	67,137
Available-for-sale financial assets		5,236	9,761
Other non-current assets		1,140	1,518
		2,252,403	2,006,776
Current assets			
Inventories		1,086,559	1,002,102
Trade and other receivables	6	1,339,576	1,183,504
Amount due from customers for contract work		199,740	167,134
Restricted cash		320,853	229,795
Cash and cash equivalents		2,122,729	1,036,079
		5,069,457	3,618,614
Total assets		7,321,860	5,625,390

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Condensed Consolidated Interim Balance Sheet *(Continued)*

	Note	30 June 2008 RMB'000 Unaudited	31 December 2007 RMB'000 Audited
EQUITY			
Share capital	7	3,684,640	2,679,740
Reserves		(990,456)	(1,026,394)
Retained earnings		486,302	212,387
Minority interests		37,511	46,542
Total equity		3,217,997	1,912,275
LIABILITIES			
Non-current liabilities			
Borrowings	8	294,528	274,466
Deferred income		99,796	105,655
Deferred income tax liabilities		680	1,359
Retirement benefit obligations	9	131,920	131,750
		526,924	513,230

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Condensed Consolidated Interim Balance Sheet (Continued)

		30 June	31 December
		2008	2007
	<i>Note</i>	RMB'000	RMB'000
		Unaudited	Audited
Current liabilities			
Trade and other payables	10	2,885,207	2,569,070
Current income tax liabilities		62,775	60,812
Borrowings	8	601,247	544,288
Retirement benefit obligations	9	6,570	6,550
Provisions for warranty	11	21,140	19,165
		3,576,939	3,199,885
Total liabilities		4,103,863	3,713,115
Total equity and liabilities		7,321,860	5,625,390
Net current assets		1,492,518	418,729
Total assets less current liabilities		3,744,921	2,425,505

The notes on pages 19 to 52 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Condensed Consolidated Interim Statement of Changes in Equity

	Unaudited					
	Attributable to equity holders of the Company					
	Share capital <i>RMB'000</i>	Reserves <i>RMB'000</i>	(Accumulated deficit)/ retained earnings <i>RMB'000</i>	Total <i>RMB'000</i>	Minority interests <i>RMB'000</i>	Total equity <i>RMB'000</i>
At 1 January 2007	1,999,195	(717,202)	(35,428)	1,246,565	202,751	1,449,316
Profit for the period	—	—	187,645	187,645	15,077	202,722
Dividends	—	—	(86,776)	(86,776)	(863)	(87,639)
Extinguishment of debts by CQMEHG	—	47,958	—	47,958	—	47,958
Changes in fair value of available-for-sale financial assets	—	9,375	—	9,375	2,222	11,597
At 30 June 2007	<u>1,999,195</u>	<u>(659,869)</u>	<u>65,441</u>	<u>1,404,767</u>	<u>219,187</u>	<u>1,623,954</u>
At 1 January 2008	2,679,740	(1,026,394)	212,387	1,865,733	46,542	1,912,275
Profit for the period	—	—	273,915	273,915	6,682	280,597
Proceeds from issuance of new shares	1,004,900	149,315	—	1,154,215	—	1,154,215
Share issuance costs	—	(109,531)	—	(109,531)	—	(109,531)
Changes in fair value of available-for-sale financial assets	—	(3,846)	—	(3,846)	—	(3,846)
Dividends	—	—	—	—	(15,713)	(15,713)
At 30 June 2008	<u>3,684,640</u>	<u>(990,456)</u>	<u>486,302</u>	<u>3,180,486</u>	<u>37,511</u>	<u>3,217,997</u>

The notes on pages 19 to 52 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Condensed Consolidated Interim Cash Flow Statement

	Unaudited	
	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Cash flows from operating activities		
Cash generated from operations	173,407	96,301
Interest paid	(41,417)	(24,847)
Income tax paid	(37,787)	(38,853)
	<hr/>	<hr/>
Net cash generated from operating activities	94,203	32,601
Cash flows from investing activities		
Purchases of property, plant and equipment	(178,439)	(148,345)
Increase in lease prepayments	—	(5,938)
Purchase of intangible assets	(1,615)	(177)
Proceeds from disposal of property, plant and equipment	12,233	20,016
Interest received	11,385	6,446
Dividends received	1,290	14,700
	<hr/>	<hr/>
Net cash used in investing activities	(155,146)	(113,298)

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Condensed Consolidated Interim Cash Flow Statement *(Continued)*

	Unaudited	
	Six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
Cash flows from financing activities		
Proceeds from borrowings	464,266	270,475
Repayments of borrowings	(387,245)	(92,251)
Proceeds from issuance of new shares	1,154,215	—
Share issuance costs	(66,767)	—
Dividends paid to CQMEHG	—	(86,776)
Dividends paid to minority shareholders	(16,876)	(863)
	<u>1,147,593</u>	<u>90,585</u>
Net cash generated from financing activities	1,147,593	90,585
Net increase in cash and cash equivalents	1,086,650	9,888
Cash and cash equivalents at beginning of the period	<u>1,036,079</u>	<u>517,038</u>
Cash and cash equivalents at end of the period	<u>2,122,729</u>	<u>526,926</u>

The notes on pages 19 to 52 form an integral part of this condensed consolidated interim financial information.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information

1. General information

The Group is principally engaged in manufacturing and sales of Commercial vehicle parts and components, General machinery, CNC machine tools and Power equipment.

The Company was established in the People's Republic of China (the "PRC" or "China") on 27 July 2007 as a joint stock company with limited liability as part of a reorganisation (the "Reorganisation") of Chongqing Machinery and Electronic Holding (Group) Co., Ltd. ("CQMEHG" or the "Parent Company") 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 Company's registered office is situate at No. 155, Zhongshan Third Road, Yu Zhong District, Chongqing 400015, the PRC.

Prior to the establishment of the Company, the operations of Commercial vehicle parts and components, General machinery, CNC machine tools and Power equipment and other operations were carried out by various companies owned or controlled by CQMEHG (the "Predecessor Operations").

In accordance with the reorganisation agreement (the "Reorganisation Agreement") entered into amongst CQMEHG and Other Three Promoters (as defined below), CQMEHG underwent the Reorganisation and established the Company on 27 July 2007 (the "Effective Date of the Reorganisation") and details of the Reorganisation are as follows:

1. the Company issued 1,999,194,803 shares of par value of RMB1.00 each to CQMEHG in consideration for the following assets and liabilities (collectively referred to as the "Core Operations") transferred from CQMEHG to the Company:
 - (i) All operating assets and liabilities relating to manufacturing and sales of Commercial vehicle parts and components;

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION **(CONTINUED)**

Notes to the Condensed Consolidated Interim Financial Information (Continued)

1. General information (Continued)

- (ii) All operating assets and liabilities relating to manufacturing and sales of Power equipment;
 - (iii) All operating assets and liabilities relating to manufacturing and sales of General machinery; and
 - (iv) All operating assets and liabilities relating to manufacturing and sales of CNC machine tools.
2. the Company issued 198,192,123 shares of par value of RMB1.00 each to China Huarong Asset Management Corporation (“Huarong Company”; 中國華融資產管理有限公司) in exchange for 44.35% interests in Chongqing General Industry (Group) Co. Ltd. (“Chongqing General Industry”; 重慶通用工業（集團）有限責任公司). Immediately before the Effective Date of the Reorganisation, CQMEHG has held another 53.03% interests in Chongqing General Industry which formed part of the Core Operations.
3. the Company issued 241,176,614 shares of par value of RMB1.00 each to Chongqing Yufu Assets Management Co. Ltd. (“Yufu Company”; 重慶渝富資產經營管理有限公司) and 241,176,614 shares of par value of RMB1.00 each to Chongqing Jiangong Group Co. Ltd. (“Jiangong Company”; 重慶建工集團有限責任公司) for an aggregate cash consideration of approximately RMB482,353,000.

Huarong Company, Yufu Company and Jiangong Company are owned and controlled by the PRC government.

The shares issued in this connection totalling of 2,679,740,154 shares were the initial registered capital of the Company. CQMEHG in aggregate owned 74.6% interest in the Company, and Huarong Company, Yufu Company and Jiangong Company (collectively referred to as “Other Three Promoters”) in aggregate owned 25.4% interests in the Company.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

1. General information (Continued)

During the course of the Reorganisation, the equity interests of all entities of the Parent Company that their business activities are not similar to that of the Company's business (collectively referred as the "Excluded Operations") were not transferred to the Company. The Excluded Operations were retained by the Parent Company and accordingly were not included in the condensed consolidated interim financial information.

The H shares of the Company were listed on the Hong Kong Stock Exchange on 13 June 2008. Details of movements in the Company share capital are set out in Note 7 to the condensed consolidated interim financial information.

This condensed consolidated interim financial information was approved for issue on 8 September 2008.

2. Basis of preparation

The companies now comprising the Group as described in Note 1 above were under the control of the Parent Company both before and after the Reorganisation, therefore the Reorganisation is regarded as common control combination. Accordingly, the assets and liabilities transferred to the Company have been stated at historical carrying amounts, and the condensed interim financial information for the six months ended 30 June 2007 presents the results of operations and financial positions of the Core Operations as if they were transferred to the Company by the Parent Company as at the beginning of the period and had been in existence throughout the period from 1 January 2007 to 30 June 2007.

The condensed consolidated interim financial information for the half-year ended 30 June 2008 has been prepared in accordance with HKAS 34, "Interim financial reporting". The condensed consolidated interim financial information has not been audited, but has been reviewed by the Company's audit committee.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(CONTINUED)*

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

3. Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the Accountant's report set out in Appendix I to the Company's Prospectus dated 30 May 2008.

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

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group:

- HK(IFRIC) — Int 11, "HKFRS 2 — Group and treasury share transactions"
- HK(IFRIC) — Int 12, "Service concession arrangements"
- HK(IFRIC) — Int 14, "HKAS 19 — the limit on a defined benefit asset, minimum funding requirements and their interaction"

The following new standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- HKFRS 8, "Operating segments", effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, "Segment reporting", and requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail.
- HKAS 23 (amendment), "Borrowing costs", effective for annual periods beginning on or after 1 January 2009. The Group will apply HKAS 23 (Amended) from 1 January 2009 but it is not expected to have any material impact on the Group's accounts.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

3. Accounting policies (Continued)

- HKFRS 2 (amendment), “Share-based payment”, effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group currently has no share-based payment scheme.
- HKFRS 3 (amendment), “Business combinations” and consequential amendments to HKAS 27, “Consolidated and separate financial statements”, HKAS 28, “Investments in associates” and HKAS 31, “Interests in joint ventures”, effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation, and associates on joint ventures the Group.
- HKAS 1 (amendment), “Presentation of financial statements”, effective for annual periods beginning on or after 1 January 2009. Management is in the process of developing proforma accounts under the revised disclosure requirements of this standard.
- HKAS 32 (amendment), “Financial instruments: presentation”, and consequential amendments to HKAS 1, “Presentation of financial statements”, effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group as the Group, does not have any puttable instruments.
- HK(IFRIC) — Int 13, “Customer loyalty programmes”, effective for annual periods beginning on or after 1 July 2008. This is not relevant to the Group’s operations as the Group currently has no customer loyalty programme.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

4. Segment information

Primary reporting format — business segments

As at 30 June 2008, the Group is organised into four main business segments: (i) manufacture and sales of Commercial vehicle parts and components; (ii) manufacture and sales of Power equipment; (iii) manufacture and sales of General machinery; and (iv) manufacture and sales of CNC machine tools.

The segment results for the six months ended 30 June 2008 are as follows:

Business segment	Unaudited					
	Commercial vehicle parts and components	Power equipment	General machinery	CNC machine tools	Unallocated costs	Total Group
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Total segment revenue	885,916	1,047,989	556,717	666,907	—	3,157,529
Inter-segment revenue	—	(7,110)	—	—	—	(7,110)
Revenue	885,916	1,040,879	556,717	666,907	—	3,150,419
Operating profit/ segment results	146,745	52,638	32,045	40,842	(26,000)	246,270
Finance costs, net						(34,724)
Share of profit of associates	33,519	67,231	4,805	—	—	105,555
Profit before income tax						317,101
Income tax expense						(36,504)
Profit for the period						280,597

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

4. Segment information (Continued)

Primary reporting format — business segments (Continued)

The segment results for the six months ended 30 June 2008 are as follows: (Continued)

Business segment	Unaudited					Total Group RMB'000
	Commercial vehicle parts and components RMB'000	Power equipment RMB'000	General machinery RMB'000	CNC machine tools RMB'000	Unallocated costs RMB'000	
Depreciation on property, plant and equipment and investment properties	12,031	11,627	6,710	9,191	128	39,687
Amortisation of deferred income	—	(381)	(2,878)	(2,601)	—	(5,860)
Amortisation of lease prepayments and intangible assets	3,014	417	1,431	1,528	—	6,390
Write-down/(reversal of write-down) of inventories	901	—	(292)	727	—	1,336
Provision/(write-back) for impairment on trade and other receivables	927	(4,812)	1,253	(3,155)	—	(5,787)

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

4. Segment information (Continued)

Primary reporting format — business segments (Continued)

The segment results for the six months ended 30 June 2007 are as follows:

Business segment	Unaudited					Total Group RMB'000
	Commercial vehicle parts and components	Power equipment	General machinery	CNC machine tools	Unallocated costs	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Total segment revenue	674,157	968,059	373,004	504,602	—	2,519,822
Inter-segment revenue	—	—	—	—	—	—
Revenue	674,157	968,059	373,004	504,602	—	2,519,822
Operating profit/ segment results	95,501	41,512	14,654	25,675	—	177,342
Finance costs, net						(18,073)
Share of profit of associates	20,166	34,011	2,621	—	—	56,798
Profit before income tax						216,067
Income tax expense						(13,345)
Profit for the period						202,722

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

4. Segment information (Continued)

Primary reporting format — business segments (Continued)

The segment results for the six months ended 30 June 2007 are as follows: (Continued)

Business segment	Unaudited					Total Group RMB'000
	Commercial vehicle parts and components RMB'000	Power equipment RMB'000	General machinery RMB'000	CNC machine tools RMB'000	Unallocated costs RMB'000	
Depreciation on property, plant and equipment and investment properties	9,454	12,150	5,461	8,462	—	35,527
Amortisation of deferred income	—	(312)	(2,656)	(2,426)	—	(5,394)
Amortisation of lease prepayments and intangible assets	3,410	411	1,161	1,596	—	6,578
(Reversal of write-down)/ write-down of inventories	(1,752)	—	(492)	4,340	—	2,096
(Write-back)/provision for impairment on trade and other receivables	(1,682)	2,374	726	1,247	—	2,665

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

4. Segment information *(Continued)*

The segment assets and liabilities as at 30 June 2008 and capital expenditure for the six months then ended are as follows:

Business segment	Unaudited					
	Commercial vehicle parts and components	Power equipment	General machinery	CNC machine tools	Unallocated costs	Total Group
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Assets	1,248,434	1,484,966	1,702,876	970,569	1,341,239	6,748,084
Investments in associates	301,310	222,759	49,707	—	—	573,776
Total assets	1,549,744	1,707,725	1,752,583	970,569	1,341,239	7,321,860
Total liabilities	605,409	944,523	1,194,655	476,479	882,797	4,103,863
Capital expenditure <i>(Note 5)</i>	49,873	36,594	103,880	12,594	1,285	204,226

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

4. Segment information (Continued)

The segment assets and liabilities as at 31 December 2007 and capital expenditure for the six months ended 30 June 2007 are as follows:

Business segment	Audited					Total Group RMB'000
	Commercial vehicle parts and components	Power equipment	General machinery	CNC machine tools	Unallocated costs	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Assets	1,082,859	1,289,529	1,563,734	875,720	339,257	5,151,099
Investments in associates	272,767	156,707	44,817	—	—	474,291
Total assets	1,355,626	1,446,236	1,608,551	875,720	339,257	5,625,390
Total liabilities	533,920	785,375	1,117,697	389,497	886,626	3,713,115
	Unaudited					
Capital expenditure (Note 5)	41,731	31,026	44,991	30,774	—	148,522

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION **(CONTINUED)**

Notes to the Condensed Consolidated Interim Financial Information (Continued)

4. Segment information (Continued)

Segment assets consist primarily of property, plant and equipment, intangible assets, inventories, receivables and operating cash. They exclude items such as deferred taxation, cash and cash equivalents for the corporate use.

Segment liabilities comprise operating liabilities. They exclude items such as taxation and corporate borrowings.

Capital expenditure comprises additions to property, plant and equipment, investment properties, and intangible assets.

Secondary reporting format — geographical segments

During the six months ended 30 June 2007 and 30 June 2008, respectively, less than 10% of the Group's revenue and profit were derived from overseas sales and all the principal assets employed by the Group are located in the PRC. Accordingly, no analysis by geographical segments has been provided.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

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

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

	Unaudited				
	Property, plant and equipment <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Lease prepayments <i>RMB'000</i>	Intangible assets <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended					
30 June 2008					
Opening net book amount					
at 1 January 2008	997,436	28,888	378,387	49,358	1,454,069
Additions	202,611	—	630	1,615	204,856
Disposals	(10,980)	—	—	—	(10,980)
Depreciation/amortisation	(38,492)	(1,195)	(3,122)	(3,268)	(46,077)
Closing net book amount					
at 30 June 2008	<u>1,150,575</u>	<u>27,693</u>	<u>375,895</u>	<u>47,705</u>	<u>1,601,868</u>

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

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

	Unaudited				
	Property, plant and equipment <i>RMB'000</i>	Investment properties <i>RMB'000</i>	Lease prepayments <i>RMB'000</i>	Intangible assets <i>RMB'000</i>	Total <i>RMB'000</i>
Six months ended					
30 June 2007					
Opening net book amount					
at 1 January 2007	790,798	31,278	387,098	24,737	1,233,911
Additions	148,345	—	6,325	177	154,847
Disposals	(18,575)	—	—	—	(18,575)
Depreciation/amortisation	(34,332)	(1,195)	(3,068)	(3,510)	(42,105)
Closing net book amount					
at 30 June 2007	<u>886,236</u>	<u>30,083</u>	<u>390,355</u>	<u>21,404</u>	<u>1,328,078</u>

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

6. Trade and other receivables

	30 June 2008 RMB'000 Unaudited	31 December 2007 RMB'000 Audited
Trade and bills receivables	1,308,158	1,192,229
Less: provision for impairment of trade receivables	(247,919)	(253,009)
Trade and bills receivables — net	1,060,239	939,220
Other receivables	309,822	276,860
Less: provision for impairment of other receivables	(30,485)	(32,576)
Other receivables — net	279,337	244,284
	1,339,576	1,183,504

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

6. Trade and other receivables (Continued)

The general credit period granted to customers is up to 90 days. As at 30 June 2008 and 31 December 2007, the ageing analysis of the trade and bills receivables was as follows:

	30 June 2008 RMB'000 Unaudited	31 December 2007 RMB'000 Audited
Trade and bills receivables		
Less than 30 days	417,472	339,048
31 days to 90 days	303,103	248,872
91 days to 1 year	282,689	335,588
1 year to 2 years	92,530	72,238
2 years to 3 years	24,771	22,025
Over 3 years	187,593	174,458
	1,308,158	1,192,229

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

7. Share capital

	Number of Shares '000	Domestic shares RMB'000 Unaudited	H shares RMB'000 Unaudited	Total RMB'000 Unaudited
Registered, issued and fully paid At 27 July 2007 and 1 January 2008 (nominal value of RMB1.00 each share)	2,679,740	2,679,740	—	2,679,740
Domestic shares converted into H shares (Note (a))	—	(95,287)	95,287	—
Issue of new shares (Note (b))	<u>1,004,900</u>	<u>—</u>	<u>1,004,900</u>	<u>1,004,900</u>
At 30 June 2008 (nominal value of RMB1.00 each share)	<u><u>3,684,640</u></u>	<u><u>2,584,453</u></u>	<u><u>1,100,187</u></u>	<u><u>3,684,640</u></u>

- (a) The 95,287,000 H shares converted from Domestic shares (the "Transfer H Shares") were transferred by the Promoters to the National Council for Social Security Fund (the "NCSSF") of the PRC in compliance with the "Interim Administrative Regulations on the Reduction of State-owned Shares to Raise Social Security Funds" (the "Regulations"). Pursuant to the Regulations, holders of State-owned shares of a joint stock limited company in the PRC shall transfer part of their Domestic Shares to the NCSSF for no consideration equivalent to approximately 10% of the total number of H Shares to be issued. The Transfer H Shares rank pari passu with the new H shares in all respects offered for subscription.
- (b) On 13 June 2008, the Company issued 1,004,900,000 new shares with a par value of RMB1.00 each at price of HK\$1.30. These shares, together with the Transfer H Shares, were listed on the Main Board of the Stock Exchange on 13 June 2008. All these shares rank pari passu in respects with the then existing Domestic Shares.

The Company raised net proceeds of approximately RMB1,023,634,000 from the issuance of 1,004,900,000 new shares with a par value of RMB1.00 each at price of HK\$1.30 and resulting capital reserve was approximately RMB18,734,000.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

8. Borrowings

	30 June 2008 RMB'000 Unaudited	31 December 2007 RMB'000 Audited
Non-current		
Long-term bank borrowings	294,528	113,058
Other non-current borrowings	—	161,408
Total non-current borrowings	294,528	274,466
Current		
Short-term bank borrowings	567,560	504,242
Other current borrowings	33,687	40,046
Total current borrowings	601,247	544,288
Total borrowings	895,775	818,754

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

8. Borrowings (Continued)

Movements in borrowings is analysed as follows:

	RMB'000
	Unaudited
<hr/>	
Six months ended 30 June 2008	
Opening amount at 1 January 2008	818,754
New borrowings	464,266
Repayment of borrowings	(387,245)
	<hr/>
Closing amount at 30 June 2008	895,775
	<hr/>
Six months ended 30 June 2007	
Opening amount at 1 January 2007	584,452
New borrowings	270,475
Extinguishment of debts	(47,958)
Repayment of borrowings	(92,251)
	<hr/>
Closing amount at 30 June 2007	714,718
	<hr/>

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

8. Borrowings *(Continued)*

Interest expense on borrowings for the six months ended 30 June 2008 is RMB41,418,000 (30 June 2007: RMB24,847,000).

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

	30 June 2008 RMB'000 Unaudited	31 December 2007 RMB'000 Audited
Fixed rate		
— Expiring within 1 year	11,110	41,110
— Expiring beyond 1 year	17,950	17,530
	29,060	58,640

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

9. Early retirement and supplemental benefit obligations

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

	30 June 2008 RMB'000 Unaudited	31 December 2007 RMB'000 Audited
Present value of defined benefits obligations	138,240	137,850
Unrecognised actuarial losses	250	450
Liability in the balance sheet	138,490	138,300
Less: current portion	(6,570)	(6,550)
	<u>131,920</u>	<u>131,750</u>

The movements of early retirement and supplemental benefit obligations are as follows:

	Six months ended 30 June	
	2008 RMB'000 Unaudited	2007 RMB'000 Unaudited
At beginning of the period	138,300	147,271
For the period		
— Interest cost	3,030	2,440
— Actuarial gain	(140)	(30)
— Payment	(2,700)	(3,210)
At end of the period	<u>138,490</u>	<u>146,471</u>

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

10. Trade and other payables

	30 June	31 December
	2008	2007
	RMB'000	RMB'000
	Unaudited	Audited
Trade and bills payables	1,180,623	956,647
Other taxes payables	126,891	116,789
Other payables	188,420	149,731
Accrued expenses	36,854	27,140
Accrued payroll and welfare	180,946	194,085
Advances from customers	653,166	594,924
Advances from government	518,307	529,754
	<u>2,885,207</u>	<u>2,569,070</u>

As at 30 June 2008 and 31 December 2007, the ageing analysis of the trade and bills payables (including amounts due to related parties of trading in nature) was as follows:

	30 June	31 December
	2008	2007
	RMB'000	RMB'000
	Unaudited	Audited
Trade and bills payables		
Less than 30 days	413,727	224,235
31 days than 90 days	389,502	193,591
91 days to 1 year	319,909	487,702
1 year to 2 years	34,083	15,274
2 years to 3 years	3,178	11,309
Over 3 years	20,224	24,536
	<u>1,180,623</u>	<u>956,647</u>

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

11. Provisions for warranty

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

	Provision for warranty RMB'000 Unaudited
<hr/>	
Six months ended 30 June 2008	
At 1 January 2008	19,165
Charged to the consolidated income statements	6,540
Utilised during the period	<u>(4,565)</u>
At 30 June 2008	<u>21,140</u>
Six months ended 30 June 2007	
At 1 January 2007	7,215
Charged to the consolidated income statements	16,178
Utilized during the period	<u>(5,627)</u>
At 30 June 2007	<u><u>17,766</u></u>

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

12. Operating profit

The following items of unusual nature, size or incidence have been credited/charged to the operating profit during the period:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	Unaudited	Unaudited
Inventory write-down	1,336	2,096
(Write-back)/provision for impairment on trade and other receivables	(5,787)	2,665
Gain on disposal of property, plant and equipment	(1,253)	(1,441)

13. Income taxes

Pursuant to relevant PRC tax laws and regulations in respect of strategic development of Western China, during the six months ended 30 June 2007 and 30 June 2008, most of the Group's subsidiaries and jointly controlled entities were subject to enterprise income tax rate at 15%. The Company and seven subsidiaries which were subject to enterprise income tax rate of 33% during the six months ended 30 June 2007 are listed as follows:

- the Company;
- Chongqing Huijiang Machine Tools Founding Co. Ltd.;
- Chongqing Zhengtong Founding Co. Ltd.;
- Chongqing Boshui Imports & Exports Trade Co. Ltd.;
- Chongqing General Group Bingyang Air Conditioner Equipment Installation Co. Ltd.;
- Chongqing General Yunxiu Co. Ltd.;
- Chongqing Ji Dian Yi Huan Environmental Equipment Co. Ltd.;
- Chongqing Machine Tools (Group) Shengpu Machinery Set Co. Ltd.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

13. Income taxes (Continued)

On 16 March 2007, the National People's Congress approved the Corporate Income Tax Law of the People's Republic of China (the new "CIT Law"). The new CIT Law was effective from 1 January 2008. Pursuant to detailed measures of the new CIT Law in respect of strategic development of Western China, the enterprise income tax rate of most of the Group's subsidiaries and jointly controlled entities is 15% from 2008 to 2010, and the enterprise income tax rate of above mentioned eight entities is 25% from 1 January 2008 onwards.

Income tax expense is recognised based on management's best estimate of the weighted average annual income tax rate expected for the full financial year. The estimated average annual tax rate used for 2008 is 15% (the estimated tax rate for the first-half of 2007 was also 15%), because most of the Group's subsidiaries and jointly controlled entities are still subject to the tax rate of 15% as mentioned above, while the entities subject to the tax rate of 25% do not have material impact on the estimation of average annual tax rate.

The amount of income tax expense charged to the consolidated income statements represents:

	Six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Current income tax:		
— PRC enterprise income tax	39,750	27,310
Deferred tax	(3,246)	(13,965)
	<u>36,504</u>	<u>13,345</u>

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

14. Earnings per share

	Six months ended 30 June	
	2008	2007
	Unaudited	Unaudited
Profit attributable to equity holders of the Company <i>(RMB'000)</i>	273,915	187,645
Weighted average number of ordinary shares in issue <i>('000)</i>	2,774,647	1,999,195
Basic and diluted earnings per share <i>(RMB per share)</i>	<u>0.10</u>	<u>0.09</u>

The Company's weighted average number of shares in issue during the six months ended 30 June 2007 used in the basic earnings per share calculation is determined on the assumption that the 1,999,194,803 shares at par value RMB1.00 each issued to CQMEHG had been in issue prior to the incorporation of the Company. In determining the weighted average number of shares in issue for the six months ended 30 June 2008, the 2,679,740,154 shares, existing as at 1 January 2008, were adjusted by the 1,004,900,000 shares issued on 13 June 2008, which were outstanding for 17 days.

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

15. Dividends

No dividend has been paid or declared by the Company since its incorporation. Dividends disclosed in the condensed consolidated interim financial information represent dividends declared or proposed by the relevant subsidiaries of the Group to their shareholders.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

16. Contingencies

As at 30 June 2008, the Group had no material contingencies.

17. Capital commitments

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

	30 June 2008 RMB'000 Unaudited	31 December 2007 RMB'000 Audited
Property, plant and equipment	229,544	281,723
Lease prepayments	30,640	30,640

18. Related party transactions

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

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION **(CONTINUED)**

Notes to the Condensed Consolidated Interim Financial Information (Continued)

18. Related party transactions (Continued)

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

The following is a summary of significant related party transactions entered into in the ordinary course of business between the Group and its related parties, including other state-owned enterprises, during the six months period ended 30 June 2007 and 2008, respectively.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

18. Related party transactions (Continued)

(a) Significant related party transactions

Continuing

	Six months ended 30 June	
	2008 RMB'000 Unaudited	2007 RMB'000 Unaudited
Transactions with fellow subsidiaries		
Revenue		
— Revenue from sales of goods	36,967	29,515
Expenses		
— Purchase of materials	14,380	12,118
— Management fees	209	209
— Leasing of equipment	188	188
Transactions with jointly controlled entities (i)		
Revenue		
— Revenue from sales of goods	31,627	21,524
Transactions with associates		
Revenue		
— Revenue from sales of goods	29,797	22,888
— Revenue from provision of services	15,235	7,413
Expenses		
— Purchase of materials	26,940	16,877
— Services	2,878	2,512
Transactions with shareholders of jointly controlled entities		
Revenue		
— Revenue from sales of goods	89,707	66,964
Expenses		
— Management fees and technical fees	2,658	2,898

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

18. Related party transactions *(Continued)*

*(a) Significant related party transactions *(Continued)**

Continuing

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	Unaudited	Unaudited
Transactions with other state-owned enterprises		
Revenue		
— Revenue from sales of goods	468,159	306,470
Expenses		
— Purchase of materials	706,961	581,369

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

Discontinued

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	Unaudited	Unaudited
Transactions with CQMEHG		
Waiver of borrowings owing by the Group to CQMEHG	—	47,958

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

18. Related party transactions (Continued)

(b) Balances with related parties

	30 June 2008 RMB'000 Unaudited	31 December 2007 RMB'000 Audited
Trade and other receivables		
Trade receivables due from		
— Fellow subsidiaries	23,646	19,605
— Jointly controlled entities	515	2,837
— Associates	12,219	5,429
— Shareholders of jointly controlled entities	7,039	13,895
— Other state-owned enterprises	370,239	417,255
Other receivables due from		
— Fellow subsidiaries	336	6,947
— Associates	—	3,225
— Shareholders of jointly controlled entities	—	29
— Other state-owned enterprises	7,163	14,667
Receivables from CQMEHG	9,848	21,373
	431,005	505,262

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information (Continued)

18. Related party transactions (Continued)

(b) Balances with related parties (Continued)

	30 June	31 December
	2008	2007
	RMB'000	RMB'000
	Unaudited	Audited
Trade and other payables		
Trade payables due to		
— Fellow subsidiaries	28,157	38,289
— Associates	11,213	3,997
— Other state-owned enterprises	375,532	307,185
Other payables due to		
— CQMEHG	—	5,071
— Huarong Company	—	5,566
— Fellow subsidiaries	—	4,148
— Shareholders of jointly controlled entities	270	—
— Other state-owned enterprises	3,303	9,014
	418,475	373,270

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

18. Related party transactions *(Continued)*

(b) Balances with related parties (Continued)

	30 June 2008 RMB'000 Unaudited	31 December 2007 RMB'000 Audited
Borrowings		
— due to CQMEHG	—	161,408
— due to a fellow subsidiary	—	8,216
	<u>—</u>	<u>169,624</u>
Other balances with other state-owned enterprises		
— Restricted cash	320,853	229,795
— Cash and cash equivalents	2,118,031	1,033,353
— Borrowings	862,088	617,300

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION
(CONTINUED)

Notes to the Condensed Consolidated Interim Financial Information *(Continued)*

18. Related party transactions *(Continued)*

(c) Key management compensation

	Six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
	Unaudited	Unaudited
Basic salaries, housing allowances, other allowances and benefits-in-kind	383	106
Contributions to pension plans	88	23
Discretionary bonuses	1,404	1,131
	1,875	1,260

MANAGEMENT'S DISCUSSION AND ANALYSIS (INCLUDING FINANCIAL REVIEW)

RESULTS OVERVIEW

Sales

The sales of the Group for the half-year ended 30 June 2008 were RMB3,150 million, an increase of RMB630 million or 25%, as compared with RMB2,520 million in the same period last year.

Overall, the sales of Commercial vehicle parts and components were RMB886 million (28% of revenue), an increase of 31.5%; the sales of Power equipment were RMB1,041 million (33% of revenue), an increase of 7.5%; the sales of General machinery were RMB556 million (18% of revenue), an increase of 49% and the sales of CNC machine tools were RMB667 million (21% of revenue), an increase of 32%.

The strong growth in Commercial vehicle parts and components business is driven by the rapid growth of motor car industry in PRC and the rapid growth of demand for diesel engine, which resulted in rapid sales growth in Commercial vehicle parts and components; the sales of General machinery business had a strong growth mainly because of the adjustment of product structure and developing new product and expanding new market; the growth of sales in CNC machine tools was mainly originated from exploration of new customers base and modification of product structure to increase the sales of high priced product; the sales of Power equipment business relatively maintained steady growth.

Gross profit

The gross profit for the period ended 30 June 2008 were RMB577 million increased by RMB126 million or 28%, as compared with RMB451 million in the same period last year, accounting for 18.3% of the total sales revenue.

Gross profit was adversely impacted by ongoing negative pressures in a number of key factors in the costs structure including the cost of raw materials, labor rates in the PRC.

Compared to the same period last year, the increase of gross profit margin was mainly contributed from the large portion of high gross profit margin from Commercial vehicle parts and components business increasing from 32% to 36%, which was driven to raise the overall gross profit margin. At the same time, the gross profit margin of Power equipment, CNC machine tools and General machinery decrease slightly.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) **(INCLUDING FINANCIAL REVIEW)**

RESULTS OVERVIEW (Continued)

Gross profit (Continued)

In order to improve the gross profit, the Group has performed multi-measures to integrate operations to create synergies across business segments, which consist of consolidating our procurement to increase our bargaining power and lower our procurement cost, integrating our information systems to share customer data, promoting cross-sales among our business lines within each division and gradually integrating sales and marketing teams with each division where appropriate. The Group intends to gradually implement plans to increase the promotion of our premium products such as diesel engines, gas compressors, hydroelectric turbine generators, gear-producing machines, CNC lathes and machine centers and complex precision metal-cutting tools in overseas markets to improve the overall profitability.

Other income and gains

The other income and gains for the period ended 30 June 2008 was RMB12.9 million, an increase of RMB1.9 million or 17.3%, as compared with RMB11 million from the same period last year, mainly resulted from gain on sales of disposable facilities, tax refunds on newly developed product and relocation compensation by the government.

Selling and administrative expenses

The selling and administrative expenses for the period ended 30 June 2008 was RMB343 million, an increase of RMB59 million or 20.8%, as compared with RMB284 million from the same period last year. The selling and administrative expenses maintained approximately 11% of the total revenue from the same period last year.

During the Period, our selling and distribution costs which primarily consist of transportation expenses, costs for the sales staff and various marketing expenses increased by RMB17.6 million over the same period last year. Correspondingly, our administrative expenses which include salaries for administrative staffs, employee benefit expenses, depreciation and amortization etc., research and development cost was increased by RMB41 million over the same period last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (*CONTINUED*) (INCLUDING FINANCIAL REVIEW)

RESULTS OVERVIEW (*Continued*)

Operating profit

The operating profit for the period ended 30 June 2008 was RMB246.3 million, an increase of RMB69 million or 38.9%, as compared with RMB177.3 million from the same period last year. Not counting the effect of one off gains and other income and gains, operating profit increased by RMB67 million, or 40.3%, over the same period last year.

Net finance costs

Net interest expenses for the period ended 30 June 2008 was RMB34.7 million, an increase of RMB16.7 million or 93%, as compared with RMB18 million from the same period last year, due to the increase of bank interest lending rate as well as other loan amount for the period from 1 January 2008 to 30 June 2008.

Share of profits of associated companies

The Company shares the attributable profits of associated companies for the period ended 30 June 2008 were RMB105.6 million, an increase of RMB48.8 million or 86%, as compared with RMB56.8 million from the same period last year.

Corporate Income tax expenses

The Company incurred the corporate income tax expenses for the period ended 30 June 2008 were RMB36.5 million, an increase of RMB23.2 million, or 174%, as compared with RMB13.3 million from the same period last year, mainly resulted from the increase of assessable income as well as movement of deferred tax.

Profit attributable to shareholders

Profit attributable to shareholders for the period ended 30 June 2008 were RMB273.9 million, an increase of RMB86.3 million or 46% as compared with RMB187.6 million from the same period last year. Earnings per share was increased from RMB0.09 to RMB0.10 compared with the same period last year.

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

RESULTS OVERVIEW (Continued)

Business performance

The table below sets forth the revenue, gross profit and segment result attributable to our major business segments for the periods indicated:

	Revenue		Gross Profit		Segment Result	
	Period ended		Period ended		Period ended	
	30 June		30 June		30 June	
	2008	2007	2008	2007	2008	2007
	<i>(RMB in millions, except for percentage)</i>					
Commercial vehicle parts and components	886	674	209	145	147	96
% of total	28%	27%	36%	32%	60%	54%
Power equipment	1,041	968	92	91	52	41
% of total	33%	38%	16%	20%	21%	23%
General machinery	556	373	153	112	32	15
% of total	18%	15%	27%	25%	13%	9%
CNC machine tools	667	505	123	103	41	25
% of total	21%	20%	21%	23%	16%	14%
Headquarters	—	—	—	—	(26)	—
% of total	—	—	—	—	(10%)	—
Total	3,150	2,520	577	451	246	177

MANAGEMENT'S DISCUSSION AND ANALYSIS (*CONTINUED*) (INCLUDING FINANCIAL REVIEW)

RESULTS OVERVIEW (*Continued*)

Commercial vehicle parts and components

Revenue from the Commercial vehicle parts and components segment for the six months ended 30 June 2008 was RMB886 million, an increase of RMB212 million or 31.5%, as compared with RMB674 million from same period last year, primarily due to an increase in revenue of RMB143 million, or 35.9%, from the diesel engines business and an increase in revenue of RMB49 million or 28%, from the braking and steering systems business.

During the Period, gross profit for the Commercial vehicle parts and components segment was RMB209 million, an increase of RMB64 million or 44%, as compared with RMB145 million in the same period last year. Gross profit margin increased slightly to 23.5% for the same period of 2008 from 21.5% for the same period of 2007, primarily due to a slight increase in gross profit margin in the diesel engines business. The increase in gross profit margin for the diesel engines business was primarily attributable to the use of its advantage in technology and the large portion of high margin revenue was derived from the sale of diesel engines that drove the average sales prices increased.

Overall, the result for the Commercial vehicle parts and components segment for the six months ended 30 June 2008 was RMB147 million, an increase of RMB51 million or 53.1%, as compared with RMB96 million for the same period last year.

Power equipment

Revenue from the Power equipment for the six months ended 30 June 2008 was RMB1,041 million, an increase of RMB73 million or 7.5%, as compared with RMB968 million from same period last year, primarily due to an increase in revenue of RMB30 million, or 21% from hydroelectric generation equipment and to an increase in revenue of RMB60 million, or 10% from electrical wires, cables and materials business. The revenue of non-ferrous metal materials was decreased by RMB8 million or 4.1% compared with the same period last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) **(INCLUDING FINANCIAL REVIEW)**

RESULTS OVERVIEW (Continued)

Power equipment (Continued)

During the Period, gross profit for the Power equipment segment was RMB92 million, an increase of RMB1 million or 1%, as compared with RMB91 million in the same period last year. Gross profit margin decreased slightly to 8.8% for the same period of 2008 from 9.4% for the same period of 2007, primarily due to inflation in the price of raw materials resulting the decrease in the gross margin ratio of hydroelectric generation equipment business. Gross profit margins for the non-ferrous metal materials business and the electric wires, cables and materials business remained relatively steady.

Overall, the result for the Power equipment segment for the six months ended 30 June 2008 was RMB52 million, an increase of RMB11 million or 26.8%, as compared with RMB41 million for the same period last year.

General machinery

Revenue from the General machinery for the six months ended 30 June 2008 was RMB556 million, an increase of RMB183 million or 49% as compared with RMB373 million from same period last year, primarily due to an increase in revenue of RMB81 million or 77% from the industrial fans business, an increase in revenue of RMB67 million or 59.6% from the industrial pumps business, and an increase in revenue of RMB43 million or 60% from the separation machines business. The revenue of gas compressors business decreased by RMB5 million or 6% as compared with the same period last year.

During the Period, gross profit for the General machinery segment was RMB153 million, an increase of RMB41 million or 36.6% as compared with RMB112 million in the same period last year. Gross profit margin decreased to 27.5% for the same period of 2008 from 30% for the same period of 2007. The decreased in the gross profit is due to a decrease in the gross margin ratio for the industrial fans business, the industrial pumps business and the separation machines business caused by an increase cost of raw materials (particularly steel). Although the gross margins for the gas compressors business increased slightly, but overall gross profit margin declined as a whole.

Overall, the segment result for the General machinery segment result for the six months ended 30 June 2008 was RMB32 million, an increase of RMB17 million or 113%, as compared with RMB15 million for the same period last year.

MANAGEMENT'S DISCUSSION AND ANALYSIS (*CONTINUED*) (INCLUDING FINANCIAL REVIEW)

RESULTS OVERVIEW (*Continued*)

CNC machine tools

Revenue from the CNC machine tools for the six months ended 30 June 2008 was RMB667 million, an increase of RMB162 million or 32%, as compared with RMB505 million from same period last year, primarily due to an increase in revenue of RMB51 million or 30% from the gear-producing machines business, an increase in revenue of RMB7 million or 25.8% from the complex precision metal cutting tools businesses, an increase in revenue of RMB10 million or 16% from the CNC lathes and machine centers business, and an increase in revenue of RMB68 million or 28.6% from other business.

During the Period, gross profit for the CNC machine tools segment was RMB123 million, an increase of RMB20 million or 19.4%, as compared with RMB103 million in the same period last year. Gross profit margin decreased slightly to 18.4% for 2008 from 20.4% for the same period of 2007, primarily due to the increase in trading business that commands a lower margin and an increase in price of raw materials (particularly steel) resulting in lower gross profit margin from the CNC lathes and machine centers business.

Overall, the result for the CNC machine tools segment for the six months ended 30 June 2008 was RMB41 million, an increase of RMB16 million or 64%, as compared with RMB25 million for the same period last year.

Cash flow

Since the net proceeds generated for the issuance of new shares by the Group amount to approximately RMB1,024 million, the Group's cash and bank deposits (including the restricted cash) amounted to approximately RMB2,444 million as at 30 June 2008 (31 December 2007: RMB1,266 million), a significant increase as compared to that as at 31 December 2007.

During the Period, the Group had a net cash inflow from operating activities of RMB94.2 million (30 June 2007: RMB32.6 million), a net cash outflow from investing activities of RMB155.1 million (30 June 2007: RMB113.3 million), and a net cash inflow from financing activities of RMB1,147.6 million (30 June 2007: RMB90.6 million).

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED) **(INCLUDING FINANCIAL REVIEW)**

RESULTS OVERVIEW (Continued)

Assets and liabilities

As at 30 June 2008, the Group had total assets of RMB7,322 million, an increase of RMB1,697 million, as compared with RMB5,625 million as at 31 December 2007. The total current assets was RMB5,069 million, increased by RMB1,450 million as compared with RMB3,619 million as at 31 December 2007, accounting for 69.2% of total assets. Total non-current assets was RMB2,252 million, an increase of RMB245 million as compared with RMB2,007 million as at 31 December 2007, accounting for 30.8% of the total assets.

As at 30 June 2008, the total liabilities of the Group were RMB4,104 million, an increase of RMB391 million, as compared with RMB3,713 million as at 31 December 2007. Total current liabilities was RMB3,577 million, an increase of RMB377 million as compared with RMB3,200 million as at 31 December 2007, accounting for 87.2% of total liabilities. Total non-current liabilities was RMB527 million, an increase of RMB14 million as compared with RMB513 million as at 31 December 2007, accounting for 12.8% of total liabilities.

As at 30 June 2008, the net current assets of the Group were RMB1,493 million, an increase of RMB1,074 million, as compared with RMB419 million as at 31 December 2007.

Current ratio

As of 30 June 2008, current ratio (the ratio of current assets over current liabilities) of the Group, increased from 1.13:1 as of 30 June 2007 to 1.42:1 as of 30 June 2008.

Indebtedness

As at 30 June 2008, the Group had an aggregate bank and other borrowings of RMB896 million, representing an increase of RMB77 million as compared with RMB819 million as at 31 December 2007.

Borrowings repayable by the Group within one year were RMB601 million, representing an increase of RMB57 million as compared with RMB544 million as at 31 December 2007. Borrowings repayable after one year were RMB295 million.

MANAGEMENT'S DISCUSSION AND ANALYSIS (*CONTINUED*) (INCLUDING FINANCIAL REVIEW)

RESULTS OVERVIEW (*Continued*)

Contingent liabilities

As at 30 June 2008, the Group had no contingent liabilities.

Capital expenditure

As at 30 June 2008, the total capital expenditure of the Group was approximately RMB204.8 million, which was principally invested in the production technology improvement, equipment upgrade and the expansion of production capacity (30 June 2007: RMB154.8 million).

Risk of foreign exchange

The Group use RMB as the reporting currency. During the Period, the market generally predicts a continual appreciation of Renminbi. Appreciation of Renminbi will make exporting products more expensive, and may lead to a negative impact on the Group's export sales overseas, but a positive impact on the Group's imported materials and equipments from overseas on the other hand. In addition, the proceeds from listing is settled by HK dollars, the Group will expose to risks concerning foreign exchange in converting the proceeds to RMB.

In addition, as at 30 June 2008, the Group's deposits comprise HK\$1,209.3 million. Save as the above, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

Employees

As at 30 June 2008, the Group had approximately 15,604 employees (31 December 2007:15,444 employees). The Group plans to continue to focus on retaining and recruiting skilled and experienced technical and managerial personnel. The Group intends to continuously improve incentive schemes that link with the performance reviews of our management and employees and to invest in education and training programs for our management personnel and manufacturing staff. It is believed that these measures will help us to attract and retain talents for our businesses.

OTHER INFORMATION

Share Capital Structure

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

Directors' and chief executive's interests in shares and underlying shares

As at 30 June 2008, none of the directors, chief executive or supervisors of the Company had any interests or short positions in the shares, underlying shares or debt securities of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong)) (the "SFO") which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

OTHER INFORMATION (CONTINUED)**Substantial shareholders' and other person's interests in shares and underlying shares**

As at 30 June 2008, so far as the Directors are aware the following persons (not being a director, chief executive or supervisor of the Company) had interests in the shares of the Company as recorded in the register required to be kept under section 336 of the SFO:

Domestic shares of RMB\$1 each of the Company

Name of Substantial Shareholders	Class of share	Number of shares	Capacity	Note	Percentage	Percentage
					of total number Domestic Shares in Issue (%)	of total number of Shares in Issue (%)
Chongqing Machinery and Electronic Holding (Group) Co., Ltd.	Domestic	1,924,225,189	Beneficial owner	(1)	74.45 (L)	52.22
Chongqing Yufu Asset Management Co., Ltd.	Domestic	232,132,514	Beneficial owner	(1)	8.98 (L)	6.30
Chongqing Jiangong Group Co., Ltd.	Domestic	232,132,514	Beneficial owner	(1)	8.98 (L)	6.30
China Huarong Asset Management Co., Ltd.	Domestic	195,962,467	Beneficial owner	(2)	7.58 (L)	5.32
State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government	Domestic	2,388,490,217	Interest in controlled corporations	(1)	92.42 (L)	64.82
The People's Republic of China Ministry of Finance	Domestic	195,962,467	Interest in controlled corporations	(2)	7.58 (L)	5.32

(L): Long Position

OTHER INFORMATION (CONTINUED)

Substantial shareholders' and other person's interests in shares and underlying shares (Continued)

H shares of RMB\$1 each of the Company

Name of Substantial Shareholders	Class of share	Number of shares	Capacity	Note	Percentage	Percentage
					of total number Domestic Shares in Issue (%)	of total number of Shares in Issue (%)
Credit Suisse Group	H	150,735,000	Interest in controlled corporations	(3)	13.70 (L)	4.09
JPMorgan Chase & Co.	H	113,798,000	Interest in controlled corporations	(4)	10.34 (L) 10.34 (P)	3.09 3.09
T. Rowe Price Associates, Inc. and its affiliates	H	102,394,000	Investment manager		9.30 (L)	2.78
Fortis Investment Management SA	H	99,442,000	Investment manager	(5)	9.04 (L)	2.70
National Council for Social Security Fund	H	95,287,470	Beneficial owner		8.66 (L)	2.59
BNY Mellon Asset Servicing B.V.	H	87,276,000	Custodian	(6)	7.93 (L) 7.93 (P)	2.37 2.37
Mellon Bank NA	H	87,276,000	Interest in controlled corporations	(6)	7.93 (L) 7.93 (P)	2.37 2.37
The Bank of New York	H	87,276,000	Interest in controlled corporations	(6)	7.93 (L) 7.93 (P)	2.37 2.37

(L): Long Position

(P): Lending Pool

OTHER INFORMATION (CONTINUED)

Substantial shareholders' and other person's interests in shares and underlying shares
(Continued)

H shares of RMB\$1 each of the Company (Continued)

Name of Substantial Shareholders	Class of share	Number of shares	Capacity	Note	Percentage	Percentage
					of total number of Domestic Shares in Issue (%)	of total number of Shares in Issue (%)
The Bank of New York Mellon Corporation	H	87,276,000	Interest in controlled corporations	(6)	7.93 (L)	2.37
					7.93 (P)	2.37
Government of Singapore Investment Corporation Pte. Ltd.	H	56,638,000	Investment manager		5.15 (L)	1.54

Notes:

- Chongqing Machinery and Electronic Holding (Group) Co., Ltd., Chongqing Yufu Asset Management Co., Ltd and Chongqing Jiangong Group Co., Ltd were wholly owned by State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government and their interests in 1,924,225,189 shares, 232,132,514 shares and 232,132,514 shares respectively were deemed to be the interests of State-Owned Assets Supervision and Administration Commission of Chongqing Municipal Government.
- China Huarong Asset Management Co., Ltd. was wholly owned by The People's Republic of China Ministry of Finance and its interest in 195,962,467 shares was deemed to be the interests of The People's Republic of China Ministry of Finance.

OTHER INFORMATION (CONTINUED)

Substantial shareholders' and other person's interests in shares and underlying shares (Continued)

Notes: (Continued)

3. Credit Suisse Group was interested in 150,735,000 of H shares of the Company by virtue of its 100% shareholding in Credit Suisse, which in turn held a 100% shareholding in Credit Suisse (International) Holding AG. Credit Suisse (International) Holding AG was in turn interested in 100% of the issued share capital of Credit Suisse (Hong Kong) Limited, which held a direct interest in the Company. The interest in 150,735,000 of H shares relates to the same block of shares in the Company.
4. JPMorgan Chase & Co. was interested in 113,798,000 of H shares of the Company by virtue of its control over 100% of the issued share capital of JPMorgan Chase Bank N.A., which held a direct interest in the Company. The interest of JPMorgan Chase & Co. included a lending pool of 113,798,000 of H shares of the Company.
5. Fortis Investment Management SA was interested in 99,442,000 of H shares of the Company by virtue of its control over the following corporations which held direct interests in the Company:

Name of controlled corporation	Percentage of ownership in controlled corporation (%)	No. of shares
ABN AMRO Asset Management (Asia) Limited	100	90,066,000
ABN AMRO Asset Management (India) Limited	100	776,000
Fortis Investment Management Japan Limited	100	8,600,000

6. BNY Mellon Asset Servicing B.V. holding 87,276,000 of H shares of the Company, was owned as to 50% by Mellon Bank NA and by The Bank of New York the remaining 50%. The Bank of New York Mellon Corporation was in turn interested in 100% of the issued share capital of Mellon Bank NA and 100% of the issued share capital of The Bank of New York. The interest in 87,276,000 of H shares relates to the same block of shares in the Company. The interest of The Bank of New York Mellon Corporation also included a lending pool of 87,276,000 of H shares of the Company.

Save as disclosed above, the directors are not aware of any persons holding any interests or short positions in the shares or underlying shares of the Company which were required to be recorded in the register pursuant to section 336 of the SFO as at 30 June 2008.

OTHER INFORMATION (CONTINUED)

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 set out in Appendix 10 of the Listing Rules (the “Model Code”) for securities transactions by all directors. After making specific enquiry of all directors of the Company, the Board is pleased to announce that all the directors of the Company have strictly complied with the provisions under the Model Code for the six months ended 30 June 2008.

Compliance with the Code on Corporate Governance Practices

During the period from 13 June 2008 (the date on which trading of the shares of the Company commenced on the Stock Exchange) up to 30 June 2008, the Company has complied with 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 2008, neither the Company 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 for the Period.

Audit Committee

The audit committee has reviewed with management and the Company’s international auditors, PricewaterhouseCoopers, the accounting principles and practices adopted by the Company and discussed internal control and financial reporting matters (including the review of this interim results). The audit committee considered that this interim result is in compliance with the relevant accounting standards, the requirements of the Stock Exchange and the Laws of Hong Kong, and the Company has made appropriate disclosures thereof.

OTHER INFORMATION (CONTINUED)

Board of Directors

As at the date of this report, the executive directors are Mr. Sun Nengyi, Mr. He Yong, Mr. Liao Shaohua and Mr. Chen Xianzheng; the non-executive directors are Mr. Huang Yong, Mr. Yu Gang, Mr. Yang Jingpu and Mr. Wu Jian; and the independent non-executive directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang.

Publication of Information on the website on 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/about 22 September 2008 and will be dispatched to shareholders of the Company thereafter.

By Order of the Board

Sun Nengyi

Chairman and Executive Director

8 September 2008, Chongqing, the PRC