CQME

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 2009

SUMMARY

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

- Revenue of the Group for the six months ended 30 June 2009 was approximately RMB2,802.6 million, representing a decrease of 11% from the corresponding period last year.

- Profit attributable to the equity holders of the Company for the six months ended 30 June 2009 was approximately RMB215.4 million, representing a decrease of 21% from the corresponding period last year.

- Basic earnings per share for the six months ended 30 June 2009 was approximately RMB0.06.

- The Group continued to strive for the expansion of core-business and technological improvement on its business segments including commercial vehicle parts and components ("Commercial vehicle parts and components"), power equipment ("Power equipment"), general machinery ("General machinery") and CNC machine tools ("CNC machine tools") etc. As driven by the implementation of "Strategic Development of Western China" and RMB4 trillion stimulative package launched by the PRC government for boosting economy and enhancing infrastructure construction, as well as the preferential policies issued by the State Council on promoting the reform and development between the urban and rural areas in Chongqing, the Group is to further shrug off the impact of global financial crisis and maintain a steady recovery of its operations.

The Board of Directors of the Company is pleased to announce the interim results of the Group for the six months ended 30 June 2009 (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.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Condensed consolidated interim statement of comprehensive income

		Unaudited	
		Six months ended 30 June	
		2009	2008
	Note	***RMB'000***	*RMB'000*
Revenue	4	**2,802,628**	3,150,419
Cost of sales		**(2,303,978)**	(2,573,853)
Gross profit		**498,650**	576,566
Selling and marketing expenses		**(111,578)**	(97,293)
Administrative expenses		**(221,710)**	(245,897)
Other gains, net		**20,721**	3,738
Other income		**12,186**	9,156

Operating profit	4, 12	**198,269**	246,270
Finance income		**17,681**	11,385
Finance costs		**(33,663)**	(46,109)
Finance costs, net		**(15,982)**	(34,724)
Share of profit of associates		**61,660**	105,555
Profit before income tax		**243,947**	317,101
Income tax expense	13	**(21,053)**	(36,504)
Profit for the period		**222,894**	280,597
Other comprehensive income:			
Fair value gains/(losses) on available-for-sale financial assets, net of tax		**2,541**	(3,846)
Total comprehensive income for the period		**225,435**	276,751
Profit attributable to:			
Equity holders of the Company		**215,422**	273,915
Minority interest		**7,472**	6,682
		222,894	280,597
Total comprehensive income attributable to:			
Equity holders of the Company		**217,963**	270,069
Minority interest		**7,472**	6,682
		225,435	276,751
Earning per share for profit attributable to the equity holders of the Company during the period (expressed in RMB per share)			
— Basic and diluted	14	**0.06**	0.10

Condensed Consolidated Interim Balance Sheet

	Note	**30 June 2009** *RMB'000* **Unaudited**	31 December 2008 *RMB'000* Audited
ASSETS			
Non-current assets			
Property, plant and equipment	5	**1,551,900**	1,182,845
Investment properties	5	**25,303**	26,498
Lease prepayments	5	**275,050**	279,223
Intangible assets	5	**86,187**	47,555
Investments in associates		**351,754**	641,597
Deferred income tax assets		**57,762**	72,951
Available-for-sale financial assets		**9,307**	3,318
Other non-current assets		**7,462**	169
		2,364,725	2,254,156
Current assets			
Inventories		**1,382,434**	1,232,120
Trade and other receivables	6	**1,792,332**	1,230,764
Amount due from customers for contract work		**158,585**	181,162
Held-to-maturity financial assets		**—**	5,000
Restricted cash		**384,368**	314,190
Cash and cash equivalents		**2,167,835**	2,308,454
		5,885,554	5,271,690
Total assets		**8,250,279**	7,525,846

	Note		
EQUITY			
Share capital	7	**3,684,640**	3,684,640
Reserves		**(919,562)**	(952,715)
Retained earnings		**901,842**	686,420
		3,666,920	3,418,345
Minority interest		**59,966**	52,494
Total equity		**3,726,886**	3,470,839
LIABILITIES			
Non-current liabilities			
Borrowings	8	**306,524**	273,995
Deferred income		**109,155**	105,312
Deferred income tax liabilities		**7,408**	393
Long-term employee benefit obligations	9	**127,320**	131,830
		550,407	511,530
Current liabilities			
Trade and other payables	10	**3,090,971**	2,727,724
Amount due to customers for contract work		**8,840**	11,906
Current income tax liabilities		**42,125**	71,279
Borrowings	8	**799,388**	700,790
Current portion of long-term employee benefit obligations	9	**8,490**	8,160
Provisions for warranty	11	**23,172**	23,618
		3,972,986	3,543,477
Total liabilities		**4,523,393**	4,055,007
Total equity and liabilities		**8,250,279**	7,525,846
Net current assets		**1,912,568**	1,728,213
Total assets less current liabilities		**4,277,293**	3,982,369

Notes to condensed consolidated interim financial information

1. General information

Chongqing Machinery & Electric Co., Ltd. (the "Company") and its subsidiaries (hereinafter collectively referred to as 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" 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 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. Details of movements in the Company's share capital are set out in Note 7 to the condensed consolidated interim financial information.

These condensed consolidated interim financial information are presented in RMB, unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 11 September 2009.

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 2009 has been prepared in accordance with Hong Kong Accounting Standard ("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 2008, which have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS").

3. Accounting policies

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2008, as described in those annual financial statements.

During the acquisition of two subsidiaries in February 2009, the Group acquired two new intangible assets, brand and customer relationship. Both brand and customer relationship are initially recorded at fair value. Brand has indefinite useful life and is tested for impairment and carried at cost less accumulated impairment losses. Customer relationship is amortised on the straight-line basis over its estimated useful life of 10 years.

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 and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2009.

- HKAS 1 (revised), 'Presentation of financial statements'. The revised standard prohibits the presentation of items of income and expenses (that is 'non-owner changes in equity') in the statement of changes in equity, requiring 'non-owner changes in equity' to be presented separately from owner changes in equity. All 'non-owner changes in equity' are required to be shown in a performance statement.

  Entities can choose whether to present one performance statement (the statement of comprehensive income) or two statements (the income statement and statement of comprehensive income).

The Group has elected to present the statement of comprehensive income. The interim financial statements have been prepared under the revised disclosure requirements.

- HKFRS 8, 'Operating segments'. HKFRS 8 replaces HKAS 14, 'Segment reporting'. It requires a 'management approach' under which segment information is presented on the same basis as that used for internal reporting purposes. This has resulted in an increase in the number of reportable segments presented, as the previously reported commercial vehicle parts and components segment has been split into engines and gear boxes, and the previously reported power equipment segment has been split into hydroelectric generation equipment, electrical wires and cables, and high-voltage transformers segment.

  Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the operating management committee that makes strategic decisions.

  Goodwill is allocated by management to groups of cash-generating units on a segment level. Goodwill relating to a previous acquisition within the commercial vehicle parts and components segment is moved to others segment. The change in reportable segments has not resulted in any additional goodwill impairment. There has been no further impact on the measurement of the Group's assets and liabilities. Comparatives for 2008 have been restated.

- Amendment to HKFRS 7, 'Financial instruments: disclosures'. The amendment increases the disclosure requirements about fair value measurement and amends the disclosure about liquidity risk. The amendment introduces a three-level hierarchy for fair value measurement disclosures about financial instruments and requires some specific quantitative disclosures for those instruments classified in the lowest level in the hierarchy. These disclosures will help to improve comparability between entities about the effects of fair value measurements. In addition, the amendment clarifies and enhances the existing requirements for the disclosure of liquidity risk primarily requiring a separate liquidity risk analysis for derivative and non-derivative financial liabilities. It also requires a maturity analysis for financial assets where the information is needed to understand the nature and context of liquidity risk. The Group will make additional relevant disclosures in its financial statements for the year ending 31 December 2009.

- HKAS 23 (Revised), ‘Borrowing costs’. The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. This amendment has no material impact on the Group’s financial statements, as the Group has capitalised borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset consistently.

  Hong Kong Institute of Certified Public Accountants’ improvements (“HKICPA’s improvements”) to HKFRS published in October 2008:

- Amendment to HKAS 39, ‘Financial instruments: Recognition and measurement’.

  — This amendment clarifies that it is possible for there to be movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge.

  — The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading is also amended. This clarifies that a financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit-taking is included in such a portfolio on initial recognition.

  — The current guidance on designating and documenting hedges states that a hedging instrument needs to involve a party external to the reporting entity and cites a segment as an example of a reporting entity. This means that in order for hedge accounting to be applied at segment level, the requirements for hedge accounting are currently required to be met by the applicable segment. The amendment removes this requirement so that HKAS 39 is consistent with HKFRS 8, ‘Operating segments’ which requires disclosure for segments to be based on information reported to the chief operating decision maker.

— When remeasuring the carrying amount of a debt instrument on cessation of fair value hedge accounting, the amendment clarifies that a revised effective interest rate (calculated at the date fair value hedge accounting ceases) are used.

This amendment has no material impact on the Group's financial statements.

The following new standards, amendments to standards and interpretations are mandatory for the first time for the financial year beginning 1 January 2009, but are not currently relevant for the Group.

- HKFRS 2 (amendment), 'Share-based payment'.
- HKAS 32 (amendment), 'Financial instruments: presentation'.
- HK(IFRIC) 9 (amendment), 'Reassessment of embedded derivatives' and HKAS 39 (amendment), 'Financial instruments: Recognition and measurement'.
- HK(IFRIC) 13, 'Customer loyalty programmes'.
- HK(IFRIC) 15, 'Agreements for the construction of real estate'.
- HK(IFRIC) 16, 'Hedges of a net investment in a foreign operation'.

The following new standards, amendments to standards and interpretations have been issued, but are not effective for the financial year beginning 1 January 2009 and have not been early adopted:

- Amendment to HKAS 39, 'Financial instruments: Recognition and measurement' on eligible hedged items, effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it does not have any hedged items.
- HKFRS 3 (revised), '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, associates and joint ventures on the Group.

The revised standard continues to apply the acquisition method to business combinations, with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the statement of comprehensive income. There is a choice on an acquisition-by-acquisition basis to measure the minority interest in the acquiree either at fair value or at the minority interest's proportionate share of the acquiree's net assets. All acquisition-related costs should be expensed. The Group will apply HKFRS 3 (revised) to all business combinations from 1 January 2010.

- HK(IFRIC) 17, 'Distributions of non-cash assets to owners', effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.

- HK(IFRIC) 18, 'Transfers of assets from customers', effective for transfer of assets received on or after 1 July 2009. This is not relevant to the Group, as it has not received any assets from customers.

HKICPA's improvements to HKFRS published in May 2009:

- Amendment to HKFRS 2 'Share-based payments', effective for periods beginning on or after 1 July 2009. This clarification confirms that HKFRS 3 (revised) does not change the scope of HKFRS 2. This is not currently relevant for the Group as it has not issued equity instruments for business combination under common control or for the formation of a joint venture.

- Amendment to HKFRS 5 'Non-current Assets held for sale and discontinued operations', effective for periods beginning on or after 1 January 2010. Disclosures in standards other than HKFRS 5 do not apply to non-current assets (or disposal groups) classified as held for sale or discontinued operations unless those HKFRSs specifically require disclosures for them. Additional disclosures about these assets or discontinued operations may be necessary to comply with the general requirements of HKAS 1 'Presentation of financial statements'. The Group will apply HKFRS 5 (amendment) from 1 January 2010.

- Amendment to HKFRS 8 'Operating segments', effective for periods beginning on or after 1 January 2010. Disclosure of information about total assets and liabilities for each reportable segment is required only if such amounts are regularly provided to the chief operating decision maker. The Group will apply HKFRS 8 (amendment) from 1 January 2010.

- Amendment to HKAS 1 'Presentation of financial statements', effective for periods beginning on or after 1 January 2010. Current / non-current classification of the liability component of convertible instruments is not affected by the holder's option which will result in the settlement by the issuance of equity instruments. The Group will apply HKAS 1 (amendment) from 1 January 2010.

- Amendment to HKAS 7 'Statement of cash flows', effective for periods beginning on or after 1 January 2010. Only expenditures that result in a recognised asset are eligible for classification as investing activities. The Group will apply HKAS 7 (amendment) from 1 January 2010.

- Amendment to HKAS 17 'Leases', effective for periods beginning on or after 1 January 2010. The amendment removes the specific guidance on the classification of long-term leases of land as operating leases. When classifying land leases, the general principles applicable to the classification of leases should be applied. The classification of land leases has to be reassessed on adoption of the amendment on the basis of information existing at inception of the leases. The Group will apply HKAS 17 (amendment) from 1 January 2010.

- Amendment to HKAS 36 'Impairment of assets', effective for periods beginning on or after 1 January 2010. This clarifies that the largest unit permitted for the goodwill impairment test is the lowest level of operating segment before any aggregation as defined in HKFRS 8. The amendment does not have any impact on the Group's financial statements.

- Amendment to HKAS 38 'Intangible assets', effective for periods beginning on or after 1 July 2009. This clarifies the description of the valuation techniques commonly used to measure intangible assets acquired in a business combination when they are not traded in an active market. In addition, an intangible asset acquired in a business combination might be separable but only together with a related contract, identifiable asset or liability. In such cases, the intangible asset is recognised separately from goodwill but together with the related item. The Group will apply HKAS 36 (amendment) from 1 January 2010.

- Amendment to HKAS 39 'Financial instruments: recognition and measurement', effective for periods beginning on or after 1 January 2010. Loan prepayment penalties are treated as closely related embedded derivatives, only if the penalties are payments that compensate the lender for loss of interest by reducing the economic loss from reinvestment risk. In addition, the scope exemption to business combination contracts only applies to forward contracts that are firmly committed to be completed between the acquirer and a selling shareholder to buy or sell an acquiree in a business combination at a future acquisition date. Therefore option contracts are not in this scope exemption. This amendment also clarifies that in a cash flow hedge of a forecast transaction that a reclassification of the gains or losses on the hedged item from equity to profit or loss is made during the period the hedged forecast cash flows affect profit or loss. The Group will apply HKAS 39 (amendment) from 1 January 2010.

- Amendment to HK(IFRIC) 9 'Reassessment of embedded derivatives', effective for periods beginning on or after 1 July 2009. This amendment aligns the scope of HK(IFRIC) 9 to the scope of HKFRS 3 (revised): the interpretation does not apply to embedded derivatives in contracts acquired in a business combination, a common control combination or the formation of a joint venture. The Group will apply HK(IFRIC) 9 (amendment) from 1 January 2010.

- Amendment to HK(IFRIC) 16 'Hedges of a net investment in a foreign operation', effective for periods beginning on or after 1 July 2009. This amendment removes the restriction on the entity that can hold hedging instruments in a net investment hedge. The hedging instruments can be held by the foreign operation that itself is being hedged. This is not currently relevant for the Group as it does not have such hedge.

4. Segment information

The chief operating decision-maker has been identified as the operating management committee which is composed 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 these reports.

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 the 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 the condensed consolidated interim statement of comprehensive income.

The segment results for the six months ended 30 June 2009 are as follows:

	Unaudited								
	Engines	**Gear boxes**	**Hydroelectric generation equipment**	**Electrical wires and cables**	**General machinery**	**Machinery tools**	**High-voltage transformers**	**All other segments**	**Total Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment revenue	490,471	269,344	132,409	586,964	484,227	530,196	—	345,787	2,839,398
Inter-segment revenue	—	(8,026)	—	(4,626)	—	(1,594)	—	(22,524)	(36,770)
Revenue	490,471	261,318	132,409	582,338	484,227	528,602	—	323,263	2,802,628
Operating profit	123,388	15,564	12,888	21,507	24,655	16,913	—	(16,646)	198,269
Finance income	5,109	149	1,813	1,544	1,644	1,574	—	5,848	17,681
Finance costs	(111)	(1,844)	(2,758)	(6,701)	(4,580)	(7,991)	—	(9,678)	(33,663)
Share of profit from associates	—	(4,955)	—	—	4,869	—	60,268	1,478	61,660
Profit before income tax									243,947
Income tax expense	3,496	(2,621)	(2,018)	(2,552)	(4,969)	(12,274)	—	(115)	(21,053)
Profit for the period									222,894
Depreciation on property, plant and equipment and investment properties	5,554	9,127	4,205	5,635	6,914	13,048	—	8,221	52,704
Amortisation of deferred income	—	—	(450)	(17)	(6,878)	(2,635)	—	—	(9,980)
Amortisation of lease prepayments and intangible assets	1,547	1,197	387	1,475	1,855	962	—	498	7,921
(Write-back)/write down of inventories	(141)	—	—	328	—	—	—	(1,343)	(1,156)
(Write-back)/provision for impairment on trade and other receivables	(330)	871	1,508	206	1,817	(1,537)	—	189	2,724

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

	Unaudited								
	Engines	**Gear boxes**	**Hydroelectric generation equipment**	**Electrical wires and cables**	**General machinery**	**Machinery tools**	**High-voltage transformers**	**All other segments**	**Total Group**
	RMB'000		*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment revenue	554,626	—	178,193	679,547	556,717	666,907	—	530,231	3,166,221
Inter-segment revenue	—	—	(1,658)	(7,110)	—	—	—	(7,034)	(15,802)
Revenue	554,626	—	176,535	672,437	556,717	666,907	—	523,197	3,150,419
Operating profit	141,174	—	26,750	18,616	33,830	40,842	—	(14,942)	246,270
Finance income	2,366	—	1,626	1,360	3,230	1,455	—	1,348	11,385
Finance costs	—	—	(2,802)	(10,939)	(5,996)	(8,900)	—	(17,472)	(46,109)
Share of profit from associates	—	22,312	—	—	4,805	—	68,542	9,896	105,555
Profit before income tax									317,101
Income tax expense	(21,717)	—	(3,369)	(1,667)	(3,559)	(5,383)	—	(809)	(36,504)
Profit for the period									280,597
Depreciation on property, plant and equipment and investment properties	5,305	—	5,310	5,694	6,710	9,191	—	7,477	39,687
Amortisation of deferred income	—	—	(381)	—	(2,878)	(2,601)	—	—	(5,860)
Amortisation of lease prepayments and intangible assets	2,704	—	—	22	1,431	1,528	—	705	6,390
(Write back)/write-down of inventories	(873)	—	—	—	(292)	727	—	1,774	1,336
(Write-back)/provision for impairment on trade and other receivables	(62)	—	(5,022)	80	1,253	(3,155)	—	1,119	(5,787)

The segment assets as at 30 June 2009 and additions to non-current assets for the six months are as follows:

	Unaudited								
	Engines	**Gear boxes**	**Hydroelectric generation equipment**	**Electrical wires and cables**	**General machinery**	**Machinery tools**	**High-voltage transformers**	**All other segments**	**Total Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	641,007	901,124	693,080	848,500	2,016,364	1,137,650	196,158	1,816,396	8,250,279
Total assets include:									
Investments in associates	—	—	—	—	61,442	—	196,158	94,154	351,754
Additions to non-current assets (other than financial instruments and deferred tax assets)	13,741	273,000	3,149	29,562	110,636	37,321	—	6,753	474,162

The segment assets as at 31 December 2008 and additions to non-current assets for the six months ended 30 June 2008 are as follows:

	Unaudited								
	Engines	**Gear boxes**	**Hydroelectric generation equipment**	**Electrical wires and cables**	**General machinery**	**Machinery tools**	**High-voltage transformers**	**All other segments**	**Total Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total assets	806,868	228,708	675,234	733,407	1,964,560	1,082,278	250,180	1,784,611	7,525,846
Total assets include:									
Investments in associates	—	228,708	—	—	56,569	—	250,180	106,140	641,597
Additions to non-current assets (other than financial instruments and deferred tax assets)	3,878	—	1,580	34,350	103,880	13,224	—	47,944	204,856

The entity is domiciled in the PRC. The result of its revenue from external customers in the PRC for the six months ended 30 June 2009 is approximately RMB2,761,507,000 (for the six months ended 30 June 2008: RMB3,062,011,000), and the total of its revenue from external customers from other countries is approximately RMB41,121,000 (for the six months ended 30 June 2008: RMB88,408,000).

At 30 June 2009 and 31 December 2008, all the non-current assets are located in the PRC.

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	**Investment properties**	**Lease prepayments**	**Intangible assets**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Six months ended 30 June 2009					
Opening net book amount at 1 January 2009	1,182,845	26,498	279,223	47,555	1,536,121
Acquisition of subsidiary	220,227	—	—	40,944	261,171
Additions	203,418	—	—	1,436	204,854
Disposals	(3,081)	—	—	—	(3,081)
Depreciation/amortisation	(51,509)	(1,195)	(4,173)	(3,748)	(60,625)
Closing net book amount at 30 June 2009	1,551,900	25,303	275,050	86,187	1,938,440

	Unaudited				
	Property, plant and equipment	**Investment properties**	**Lease prepayments**	**Intangible assets**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
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	1,150,575	27,693	375,895	47,705	1,601,868

6. Trade and other receivables

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade and bills receivable	**1,726,038**	1,178,539
Less: provision for impairment of trade receivables	**(242,003)**	(235,974)
Trade and bills receivable — net	**1,484,035**	942,565
Other receivables	**337,736**	319,974
Less: provision for impairment of other receivables	**(29,439)**	(31,775)
Other receivables — net	**308,297**	288,199
	1,792,332	1,230,764

The general credit period granted to customers is up to 90 days. As at 30 June 2009 and 31 December 2008, the ageing analysis of the trade and bills receivable was as follows:

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
	Unaudited	Audited
Trade and bills receivable		
Less than 30 days	**363,886**	243,261
31 days to 90 days	**546,851**	307,708
91 days to 1 year	**440,428**	364,287
1 year to 2 years	**172,121**	83,697
2 years to 3 years	**42,321**	37,384
Over 3 years	**160,431**	142,202
	1,726,038	1,178,539

7. Share capital

	Number of Shares	**Domestic shares**	**H shares**	**Total shares**
	'000	*RMB'000*	*RMB'000*	*RMB'000*
		Unaudited	Unaudited	Unaudited
Registered, issued and fully paid				
At 1 January 2008 (nominal value of RMB1.00 each)	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))*	1,004,900	—	1,004,900	1,004,900
At 30 June 2008 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640
At 30 June 2009 and 1 January 2009 (nominal value of RMB1.00 each)	3,684,640	2,584,453	1,100,187	3,684,640

(a) The 95,287,000 H shares converted from Domestic shares (the "Transfer H Shares") were transferred 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 equivalent to approximately 10% of the total number of H Shares to be issued upon the overseas listing to the NCSSF for no consideration. 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 H shares with a par value of RMB1.00 each at price of HKD1.30. These shares, together with the Transfer H Shares, were listed on the Main Board of the Stock Exchange of the Hong Kong Limited 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 RMB1,033,507,000 from the sales of 1,004,900,000 H shares, of which paid-up share capital was RMB1,004,900,000 and the resulted capital reserve was approximately RMB28,607,000.

8. Borrowings

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
	Unaudited	Audited
Non-current		
Long-term bank borrowings	**299,693**	264,673
Finance lease liabilities	**6,831**	9,322
Total non-current borrowings	**306,524**	273,995
Current		
Short-term bank borrowings	**762,432**	663,960
Other current borrowings	**32,055**	32,091
Finance lease liabilities	**4,901**	4,739
Total current borrowings	**799,388**	700,790
Total borrowings	**1,105,912**	974,785

Movements in borrowings is analysed as follows:

	RMB'000 Unaudited
Six months ended 30 June 2009	
Opening amount at 1 January 2009	974,785
Acquisition of subsidiary	107,000
New borrowings	434,468
Repayment of borrowings	(407,556)
Finance lease paid	(2,785)
Closing amount at 30 June 2009	1,105,912
Six months ended 30 June 2008	
Opening amount at 1 January 2008	818,754
New borrowings	464,266
Repayment of borrowings	(387,245)
Closing amount at 30 June 2008	895,775

Interest expense on borrowings for the six months ended 30 June 2009 is approximately RMB31,535,000 (30 June 2008: RMB41,418,000).

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

	As at 30 June 2009 ***RMB'000*** **Unaudited**	As at 31 December 2008 *RMB'000* Audited
Fixed rate		
— Expiring within 1 year	**25,000**	10,000
— Expiring beyond 1 year	**15,850**	26,590
	40,850	36,590

9. Long-term employee benefit obligations

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

	30 June 2009	31 December 2008
	RMB'000	*RMB'000*
	Unaudited	Audited
Present value of defined benefits obligations	**132,380**	149,560
Unrecognised actuarial loss/(gain)	**3,430**	(9,570)
Liability in the balance sheet	**135,810**	139,990
Less: current portion	**(8,490)**	(8,160)
	127,320	131,830

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

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
	Unaudited	Unaudited
At beginning of the period	**139,990**	138,300
For the period		
— Interest cost	**4,710**	3,030
— Actuarial gain	**(10,580)**	(140)
— Additions on termination benefit obligations	**5,560**	—
— Payment	**(3,870)**	(2,700)
At end of the period	**135,810**	138,490

10. Trade and other payables

	30 June 2009 *RMB'000* **Unaudited**	31 December 2008 *RMB'000* Audited
Trade and bills payable	**1,612,391**	1,183,519
Other taxes payables	**113,855**	115,601
Other payables	**226,332**	284,822
Accrued payroll and welfare	**163,593**	166,878
Advances from customers	**680,541**	666,147
Advances from government	**294,259**	310,757
	3,090,971	2,727,724

As at 30 June 2009 and 31 December 2008, the ageing analysis of the trade and bills payable (including amounts due to related parties of trading in nature) were as follows:

	30 June 2009 *RMB'000* **Unaudited**	31 December 2008 *RMB'000* Audited
Trade and bills payable		
Less than 30 days	**463,859**	282,486
31 days than 90 days	**423,096**	347,045
91 days to 1 year	**598,571**	468,927
1 year to 2 years	**53,994**	52,625
2 years to 3 years	**45,783**	11,163
Over 3 years	**27,088**	21,273
	1,612,391	1,183,519

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 selling and marketing expenses in the condensed consolidated interim statement of comprehensive income.

	Provision for warranty
	RMB'000
	Unaudited
Six months ended 30 June 2009	
At 1 January 2009	23,618
Charged to the condensed consolidated interim statement of comprehensive income	5,281
Utilised during the period	(5,727)
At 30 June 2009	23,172
Six months ended 30 June 2008	
At 1 January 2008	19,165
Charged to the condensed consolidated interim statement of comprehensive income	6,540
Utilised during the period	(4,565)
At 30 June 2008	21,140

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	
	2009	2008
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Inventory (write-back)/write-down	**(1,156)**	1,336
Provision/(write-back) for impairment on trade and other receivables	**2,724**	(5,787)
Gain on disposal of property, plant and equipment	**(813)**	(1,253)

13. Income taxes

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") which was effective from 1 January 2008. Pursuant to detailed measures of the new CIT Law in respect of West China Development Champion, the enterprise income tax rate of most of the Group's subsidiaries is 15% from 2008 to 2010. The eight entities which are subject to enterprise income tax rate of 25% from 1 January 2008 onwards are 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.

Chongqing Cummins Engine Co., Ltd. is qualified as a high-tech enterprise and pursuant to the approval by the relevant authorities in 2009, Chongqing Cummins is entitled to a preferential EIT rate of 15% from 2008 to 2010.

The new CIT rate of 25% of Shenzhen Chongfa Cummins Engine Co., Ltd. will be gradually effective in a 5-year period. For the six months ended 30 June 2009, the applicable CIT rate is 20% (2008: 18%).

The amount of income tax expense charged to the condensed consolidated interim statement of comprehensive income represents:

	Six months ended 30 June	
	2009	2008
	RMB'000	*RMB'000*
	Unaudited	Unaudited
Current income tax:		
— PRC enterprise income tax	**6,233**	39,750
Deferred tax	**14,820**	(3,246)
	21,053	36,504

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 the year to 31 December 2009 is 15% (the estimated tax rate for the six months ended 30 June 2008 was 15%), because most of the Group's subsidiaries and jointly controlled entities are subject to tax rate of 15% as mentioned above, while the entities subject to tax rate of 25% do not have material impact on the estimation of average annual tax rate.

14. Earnings per share

	Six months ended 30 June	
	2009	2008
	Unaudited	Unaudited
Profit attributable to equity holders of the Company *(RMB'000)*	**215,422**	273,915
Weighted average number of ordinary shares in issue *(thousand)*	**3,684,640**	2,774,647
Basic and diluted earnings per share *(RMB per share)*	**0.06**	0.10

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.

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 2009	31 December 2008
	RMB'000	*RMB'000*
	Unaudited	Audited
Property, plant and equipment	**78,849**	184,262
Lease prepayments	**—**	2,520

MANAGEMENT'S DISCUSSION AND ANALYSIS (INCLUDING FINANCIAL REVIEW)

RESULTS OVERVIEW

Sales

For the six months ended 30 June 2009, the Group's revenue amounted to approximately RMB2,802.6 million, representing a decrease of 11% as compared with approximately RMB3,150.4 million in the same period last year.

Overall, sales of Commercial vehicle parts and components were approximately RMB970.4 million (34.6% of total revenue), an increase of approximately 9.5%; sales of Power equipment were approximately RMB819.4 million (29.2% of total revenue), a decrease of approximately 21.3%; sales of General machinery were approximately RMB484.2 million (17.3% of total revenue), a decrease of approximately 13%; and sales of CNC machine tools were approximately RMB528.6 million (18.9% of total revenue), a decrease of approximately 20.7%.

The growth in sales of Commercial vehicle parts and components business during the Period was due to the inclusion of revenue from gear boxes business into the Company's major operating revenue after the complete acquisition of this business. However, affected by the weak global economic environment, revenue of Power equipment, General machinery and CNC machine tools decreased.

Gross profit

The gross profit for the six months ended 30 June 2009 was approximately RMB498.7 million, representing a decrease of approximately RMB77.9 million or 13.5% as compared with approximately RMB576.6 million in the same period last year, and accounting for 17.8% of the sales revenue. As China's economy slowed down and market competition intensified in 2009, the Company adjusted the product prices of certain businesses to maintain its competitiveness. We expect that the market demand will recover in the second half of 2009, which could keep the gross profit margin of the Company stable.

Other income and gains

The other income and gains for the six months ended 30 June 2009 were approximately RMB32.9 million, representing an increase of approximately RMB20 million or 155% as compared with approximately RMB12.9 million for the same period last year, mainly attributable to the negative goodwill arising from acquisition of equity interests in Qijiang Gear Transmission Co., Ltd* (綦江齒輪傳動有限公司) ("Qijiang Gear") and government subsidies such as tax refunds on new products.

Selling and administrative expenses

The selling and administrative expenses for the six months ended 30 June 2009 were approximately RMB333.3 million, a decrease of approximately RMB9.9 million or 2.9% as compared with approximately RMB343.2 million for the same period last year.

During the Period, a year-on-year increase in our selling and distribution costs which primarily consist of transportation expenses, costs for the sales staff and various marketing expenses led to an increase of distribution expenses by approximately RMB14.3 million. Nevertheless, our administrative expenses which include salaries for administrative staffs, employee benefit expenses, depreciation and amortization, and listing expenses decreased by approximately RMB24.2 million from the same period last year.

Operating profit

The operating profit for the six months ended 30 June 2009 was approximately RMB198.3 million, a decrease of approximately RMB48 million or 19.5%, as compared with approximately RMB246.3 million for the same period last year.

Net finance costs

Net interest expenses for the six months ended 30 June 2009 were approximately RMB16 million, a decrease of approximately RMB18.7 million or 53.9% as compared with approximately RMB34.7 million for the same period last year, mainly due to the increase in interest income as well as the decrease in lending rate for the six months ended 30 June 2009.

Share of profits of associated companies

The Group's share of profits of associated companies for the six months ended 30 June 2009 was approximately RMB61.7 million, a decrease of approximately RMB43.9 million or 41.6% as compared with approximately RMB105.6 million for the same period last year. The decrease was due to the inclusion of profit from Qijiang Gear into the major operating profit of the Company after the acquisition of 51% equity interests in Qijiang Gear, as well as diminished results of other associated companies.

Corporate income tax expenses

The corporate income tax expenses for the six months ended 30 June 2009 were approximately RMB21.1 million, a decrease of approximately RMB15.4 million, or 42.2%, as compared with approximately RMB36.5 million for the same period last year, mainly attributable to the decrease in assessable income.

Profit attributable to shareholders

Profit attributable to shareholders for the Period was approximately RMB215.4 million, a decrease of approximately RMB58.5 million or 21.4% as compared with approximately RMB273.9 million for the same period last year. Earnings per share decreased from approximately RMB0.10 for the same period last year to approximately RMB0.06.

Business performance

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

	Revenue Period ended 30 June		**Gross Profit Period ended 30 June**		**Segment Results Period ended 30 June**	
	2009	2008	**2009**	2008	**2009**	2008
	(RMB in millions, except for percentage)					
Commercial vehicle parts and components						
Engines	**490.5**	554.6	**155.3**	169.3	**123.4**	141.1
Gear boxes	**261.3**	—	**43.8**	—	**15.5**	—
Other products	**218.6**	331.3	**21.4**	44.3	**(8.0)**	10.6
Total	**970.4**	885.9	**220.5**	213.6	**130.9**	151.7
% of total	**34.6%**	28.1%	**44.2%**	37.1%	**66.0%**	61.6%
Power equipment						
Hydroelectric generation equipment	**132.4**	176.5	**37.9**	47.4	**12.9**	26.8
Electrical wires and cables	**582.3**	672.5	**39.6**	33.1	**21.5**	18.6
Other products	**104.7**	191.9	**1.1**	4.5	**(0.1)**	0.5
Total	**819.4**	1,040.9	**78.6**	85.0	**34.3**	45.9
% of total	**29.2%**	33.0%	**15.8%**	14.7%	**17.3%**	18.7%
General machinery						
Total	**484.2**	556.7	**120.7**	155.0	**24.7**	33.8
% of total	**17.3%**	17.7%	**24.2%**	26.9%	**12.5%**	13.7%
CNC machine tools						
Total	**528.6**	666.9	**78.9**	123.0	**16.9**	40.9
% of total	**18.9%**	21.2%	**15.8%**	21.3%	**8.5%**	16.6%
Headquarters						
Total	**—**	—	**—**	—	**(8.5)**	(26)
% of total	**—%**	—%	**—%**	—%	**(4.3%)**	(10.6%)
Total	**2,802.6**	3,150.4	**498.7**	576.6	**198.3**	246.3

Commercial vehicle parts and components

Revenue from the Commercial vehicle parts and components segment for the six months ended 30 June 2009 was approximately RMB970.4 million, an increase of approximately RMB84.5 million or 9.5%, as compared with approximately RMB885.9 million for the same period last year, primarily due to inclusion of revenue of approximately RMB261.3 million from Qijiang Gear into this business segment after 51% equity interests in Qijiang Gear was acquired by the Company during the Period. Nevertheless, revenue from the engine business decreased by approximately RMB64.1 million or 11.6% as compared with same period last year while revenue from other products also decreased by approximately RMB112.7 million or 34%.

During the Period, gross profit for the Commercial vehicle parts and components segment was approximately RMB220.5 million, an increase of approximately RMB6.9 million or 3.2% as compared with approximately RMB213.6 million for the same period last year. Gross profit margin decreased to approximately 22.7% for the six months ended 30 June 2009 from approximately 24.1% for the same period of 2008, primarily due to decreases in sales volume and selling price of other products, which resulted in a decrease in gross profit margin for other products 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 2009 was approximately RMB131 million, a decrease of approximately RMB20.7 million or 13.7% as compared with approximately RMB151.7 million for the same period last year.

Power equipment

Revenue from the Power equipment segment for the six months ended 30 June 2009 was approximately RMB819.4 million, a decrease of approximately RMB221.5 million or 21.3%, as compared with approximately RMB1,040.9 million for the same period last year, primarily due to a decrease of approximately RMB44.1 million, or 25% in revenue from hydroelectric generation equipment. Revenue from electrical wires and cables decreased by approximately RMB90.2 million, or 13.4% and revenue from other products decreased by approximately RMB87.2 million, or 45.4%.

During the Period, gross profit for the Power equipment segment was approximately RMB78.6 million, a decrease of approximately RMB6.4 million or 7.5% as compared with approximately RMB85 million in the same period last year. Gross profit margin increased to 9.6% for the Period from 8.2% for the same period of 2008, primarily due to the increases in gross profit margins of electrical wires and cables as well as hydroelectric generation equipment as a result of lower price of raw materials in the first half of 2009.

Overall, the result for the Power equipment segment for the six months ended 30 June 2009 was approximately RMB34.3 million, a decrease of approximately RMB11.6 million or 25.3% as compared with approximately RMB45.9 million for the same period last year.

General machinery

Revenue from the General machinery segment for the six months ended 30 June 2009 was approximately RMB484.2 million, a decrease of approximately RMB72.5 million or 13% as compared with approximately RMB556.7 million for the same period last year, primarily due to decreases in revenue from separation machines, gas compressors, refrigeration machines and industrial fans business as affected by the global economic stagnancy in the first half of 2009.

During the Period, gross profit for the General machinery segment was approximately RMB120.7 million, a decrease of approximately RMB34.3 million or 22.1% as compared with approximately RMB155 million in the same period last year. Gross profit margin decreased to approximately 24.9% for the six months ended 30 June 2009 from approximately 27.8% for the same period of 2008. The decrease in the gross profit margin of the segment was due to economic slowdown in the first half of 2009 and adjustment in market price of industrial pumps and gas compressors.

Overall, the result for the General machinery segment for the six months ended 30 June 2009 was approximately RMB24.7 million, a decrease of approximately RMB9.1 million or 26.9%, as compared with approximately RMB33.8 million for the same period last year.

CNC machine tools

Revenue from the CNC machine tools for the six months ended 30 June 2009 was approximately RMB528.6 million, a decrease of approximately RMB138.3 million or 20.7% as compared with approximately RMB666.9 million for same period last year, primarily due to decreases in revenue from gear-producing machines, complex precision metal-cutting tools, CNC lathes and machine centers business as affected by the global economic stagnancy in the first half of 2009.

During the Period, gross profit for the CNC machine tools segment was approximately RMB78.9 million, a decrease of approximately RMB44.1 million or 35.9% as compared with RMB123 million in the same period last year. Gross profit margin of the segment decreased to 14.9% for the six months ended 30 June 2009 from 18.4% for the same period of 2008, primarily due to economic slowdown in the first half of 2009 and adjustment of market prices.

Overall, the result for the CNC machine tools segment for the six months ended 30 June 2009 was approximately RMB16.9 million, a decrease of approximately RMB24 million or 58.7% as compared with approximately RMB40.9 million for the same period last year.

Cash flow

The Group's cash and bank deposits (including the restricted cash) amounted to approximately RMB2,552.2 million as at 30 June 2009 (31 December 2008: approximately RMB2,622.6 million), a decrease of approximately RMB70.4 million or approximately 2.7%, primarily due to the acquisition of 51% equity interests in Qijiang Gear and 24.48% equity interests in Qijiang Qi-Chi Forging Co. Ltd* (綦江綦齒鍛造有限公司) ("Qijiang Forging") and the increase in capital expenditure during the Period.

During the Period, the Group had a net cash inflow from operating activities of approximately RMB101.4 million (30 June 2008: approximately RMB94.2 million), a net cash outflow from investing activities of approximately RMB227.5 million (30 June 2008: approximately RMB155.1 million), and a net cash outflow from financing activities of approximately RMB14.5 million (30 June 2008: a net cash inflow of approximately RMB1,147.6 million).

Assets and liabilities

As at 30 June 2009, the Group had total assets of approximately RMB8,250.3 million, an increase of approximately RMB724.5 million as compared with approximately RMB7,525.8 million as at 31 December 2008. The total current assets were approximately RMB5,885.6 million, decreased by approximately RMB613.9 million as compared with approximately RMB5,271.7 million as at 30 June 2008, accounting for approximately 71.3% of the total assets (31 December 2008: approximately 70%). Total non-current assets were approximately RMB2,364.7 million, representing an increase of approximately RMB110.5 million as compared with approximately RMB2,254.2 million as at 31 December 2008, and accounting for approximately 28.7% of the total assets (31 December 2008: approximately 30%).

As at 30 June 2009, total liabilities of the Group amounted to approximately RMB4,523.4 million, an increase of approximately RMB468.4 million as compared with approximately RMB4,055 million as at 31 December 2008. Total current liabilities were approximately RMB3,973 million, representing an increase of approximately RMB429.5 million as compared with approximately RMB3,543.5 million as at 31 December 2008, and accounting for 87.8% of the total liabilities (31 December 2008: approximately 87.4%). Total non-current liabilities were approximately RMB550.4 million, representing an increase of approximately RMB38.9 million as compared with approximately RMB511.5 million as at 31 December 2008, and accounting for approximately 12.2% of the total liabilities (31 December 2008: approximately 12.6%).

As at 30 June 2009, net current assets of the Group amounted to approximately RMB1,912.6 million, an increase of approximately RMB184.4 million as compared with approximately RMB1,728.2 million as at 31 December 2008.

Current ratio

Current ratio (the ratio of current assets over current liabilities) of the Group slightly decreased from 1.49:1 as at 30 June 2008 to 1.48:1 as at 30 June 2009.

Indebtedness

As at 30 June 2009, the Group had an aggregate bank and other borrowings of approximately RMB1,106 million, representing an increase of approximately RMB131.2 million as compared with approximately RMB974.8 million as at 31 December 2008.

Borrowings repayable by the Group within one year were approximately RMB799.4 million, representing an increase of approximately RMB98.6 million as compared with approximately RMB700.8 million as at 31 December 2008. Borrowings repayable after one year were approximately RMB306.5 million, representing an increase of approximately RMB32.5 million as compared with approximately RMB274 million as at 31 December 2008.

Significant events

During the Period, the Company entered into an agreement with Shanghai Electric (Group) Corporation to further acquire 102,000,000 shares (equivalent to 51% equity interest) in Qijiang Gear and 5,140,800 shares (equivalent to 24.48% equity interest) in Qijiang Forging at a total consideration of RMB256,609,000. Upon completion of the transaction, the Company holds 100% equity interest in Qijiang Gear and 48% equity interest in Qijiang Forging directly. Qijiang Gear became a wholly owned subsidiary of the Company. The Company through Qijiang Gear held the remaining 52% equity interest in Qijiang Forging, and Qijiang Forging also became a wholly-owned subsidiary of the Company.

In addition, the first extraordinary general meeting of the Company was held on 25 June 2009, at which the following matters were considered and approved:

1) the transactions amount which exceeds the amount as set out in the Master Supplies Agreement was ratified and approved;

2) the annual proposed caps of the price payable by the Parent Company and its associates to the Group under the Master Sales Agreement for the financial year ended 31 December 2009 was revised from RMB68,000,000 to RMB130,000,000;

3) the annual proposed caps of the price payable by the Parent Company and its associates to the Group under the Master Sales Agreement for the financial year ended 31 December 2010 was revised from RMB75,000,000 to RMB160,000,000;

4) the annual proposed caps of the price payable by the Group to the Parent Company and its associates under the Master Supplies Agreement for the financial year ended 31 December 2009 was revised from RMB35,000,000 to RMB120,000,000;

5) the annual proposed caps of the price payable by the Group to the Parent Company and its associates under the Master Supplies Agreement for the financial year ended 31 December 2010 was revised from RMB35,000,000 to RMB140,000,000;

The 2008 annual general meeting of the Company was held on 25 June 2009, at which the following matters were considered and approved:

1) adjustment to the use of proceeds from listing;

2) In light of the amendments to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules") which were effective from 1 January 2009, whereby the Company may, subject to the Listing Rules and the Articles of Association, send or otherwise make available the corporate communication to the relevant holder of the shares using electronic means, and approve the necessary amendments to the relevant provisions of the Articles of Association so as to allow the Company to send or otherwise make available the corporate communication to the relevant holders of the shares using electronic means.

The 2009 second extraordinary general meeting of the Company was held on 31 August 2009, at which the following matters were considered and approved:

1) to approve the resignation of Mr. Sun Nengyi as executive Director and chairman as he reaches the statutory retirement age and the appointment of Mr. Xie Hua Jun as an executive Director of the Company to hold office from the date of the meeting until expiry of the term of the session of the Board and to authorize the Board to fix the remuneration of Mr. Xie Hua Jun pursuant to the remuneration standard for Directors passed at the 2007 annual general meeting and to enter into a service agreement with him on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.

2) to approve the resignation of Mr. Ye Zusheng as a Supervisor due to change of job and the appointment of Ms. Liao Rong as a Supervisor of the Company to hold office from the date of the meeting until expiry of the term of the session of the Supervisory Committee of the Company and to authorize the Board to fix the remuneration of Ms. Liao Rong pursuant to the remuneration standard for Supervisors passed at the 2007 annual general meeting and to enter into a service agreement with her on and subject to such terms and conditions as the Board shall think fit and to do all such acts and things to give effect to such matters.

The 2009 seventh extraordinary meeting of the first session of the Board was held on 31 August 2009, at which election of Mr. Xie Hua Jun as the Chairman and legal representative of the Company was considered and approved. His term of office is from the date of the meeting until expiry of the term of the first session of the Board. Meanwhile, Mr. Sun Nengyi was removed from his position as the Chairman of the Company.

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

Contingent liabilities

As at 30 June 2009, the Group had no significant contingent liabilities.

Capital expenditure

As at 30 June 2009, the total capital expenditure of the Group was approximately RMB474.2 million, which was principally invested in the acquisition of equity interests in Qijiang Gear and Qijiang Forging and the production technology improvement and expansion of plants so as to upgrade equipment and the expand production capacity (30 June 2008: approximately RMB204.8 million).

Risk of foreign exchange

The Group use Renminbi as the reporting currency. During the Period, pressure on Renminbi appreciation was eased due to global economic recession in the second half of 2008. A slowdown in Renminbi appreciation will strengthen the competitiveness of our export products, but it may bring negative impacts on the import of materials and equipments by the Group from overseas.

In addition, as at 30 June 2009, the Group's bank deposits comprise HK$420.8 million (30 June 2008: approximately 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 2009, the Group had 14,585 employees (30 June 2008:15,604 employees). The Group plans to continue to retain and recruit skilled and experienced technical and managerial personnel, improve incentive schemes that link with the performance reviews of our management and employees and to provide better promotion and training development opportunities for key employees. It is believed that these measures will help the Group to attract and retain talents for our businesses.

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") for the code of 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 2009.

Compliance with the Code on Corporate Governance Practices

For the six months ended 30 June 2009, 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 2009, 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.

Directors

As at the date of this announcement, the executive Directors are Mr. Xie Hua Jun, 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 interim results 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 2009 and will be dispatched to shareholders of the Company thereafter.

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

Chongqing, the PRC, 11 September 2009

* *For identification purposes only*