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 2010

## FINANCIAL HIGHLIGHTS

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

- Revenue of the Group for the six months ended 30 June 2010 amounted to approximately RMB4,263.1 million, representing an increase of around 52.1% from the corresponding period last year.
- Gross profit of the Group for the six months ended 30 June 2010 amounted to approximately RMB827.9 million, representing an increase of around 66% from the corresponding period last year.
- Profit attributable to equity holders of the Company for the six months ended 30 June 2010 was approximately RMB345.7 million, representing an increase of around 60.5% from the corresponding period last year.
- Basic earnings per share for the six months ended 30 June 2010 was approximately RMB0.09.

The board of directors (the "Board") of Chongqing Machinery & Electric Co., Ltd.* (the "Company") is pleased to announce the interim results of the Group for the six months ended 30 June 2010 (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 STATEMENT OF COMPREHENSIVE INCOME

*For the six months ended 30 June 2010*

| | | Unaudited Six months ended 30 June | |
|---|---|---|---|
| | | **2010** | 2009 |
| | *Note* | ***RMB'000*** | *RMB'000* |
| Revenue | 4 | **4,263,106** | 2,802,628 |
| Cost of sales | | **(3,435,180)** | (2,303,978) |
| **Gross profit** | | **827,926** | 498,650 |
| Distribution costs | | **(158,160)** | (111,578) |
| Administrative expenses | | **(317,747)** | (221,710) |
| Other gains, net | | **7,511** | 20,721 |
| Other income | | **13,732** | 12,186 |
| **Operating profit** | 12 | **373,262** | 198,269 |
| Finance income | | **13,091** | 17,681 |
| Finance costs | | **(46,276)** | (33,663) |
| Finance costs, net | | **(33,185)** | (15,982) |
| Share of post-tax profits of associates | | **33,843** | 61,660 |
| **Profit before income tax** | | **373,920** | 243,947 |
| Income tax expense | 13 | **(21,400)** | (21,053) |
| **Profit for the period** | | **352,520** | 222,894 |
| **Other comprehensive income:** | | | |
| Recognition of fair value change relating to acquisition of subsidiaries | | **—** | 30,612 |
| Fair value (losses)/gains on available-for-sale financial assets, net of tax | | **(1,654)** | 2,541 |
| Other comprehensive income for the period, net of tax | | **(1,654)** | 33,153 |
| **Total comprehensive income for the period** | | **350,866** | 256,047 |

| | | | |
|---|---|---|---|
| **Profit attributable to:** | | | |
| Equity holders of the Company | | **345,646** | 215,422 |
| Non-controlling interests | | **6,874** | 7,472 |
| | | **352,520** | 222,894 |
| **Total comprehensive income attributable to:** | | | |
| Equity holders of the Company | | **343,992** | 248,575 |
| Non-controlling interests | | **6,874** | 7,472 |
| | | **350,866** | 256,047 |
| **Earning per share for profit attributable to the equity holders of the Company** ***(expressed in RMB per share)*** | | | |
| — Basic and diluted | 14 | **0.09** | 0.06 |

# CONDENSED CONSOLIDATED BALANCE SHEET

*As at 30 June 2010*

| | Note | **30 June 2010** *RMB'000* **Unaudited** | 31 December 2009 *RMB'000* Audited |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 5 | **1,791,548** | 1,659,174 |
| Investment properties | 5 | **22,913** | 24,108 |
| Lease prepayments | 5 | **271,511** | 274,741 |
| Intangible assets | 5 | **262,828** | 84,910 |
| Investments in associates | | **368,691** | 427,661 |
| Deferred income tax assets | | **101,898** | 66,891 |
| Available-for-sale financial assets | | **4,734** | 6,545 |
| Other non-current assets | | **9,111** | 10,186 |
| | | **2,833,234** | 2,554,216 |
| **Current assets** | | | |
| Inventories | | **1,467,416** | 1,290,816 |
| Trade and other receivables | 6 | **2,775,509** | 2,130,646 |
| Amount due from customers for contract work | | **168,226** | 157,766 |
| Available-for-sale financial assets | | **—** | 8,000 |
| Restricted cash | | **411,359** | 419,758 |
| Cash and cash equivalents | | **2,131,345** | 2,187,362 |
| | | **6,953,855** | 6,194,348 |
| **Total assets** | | **9,787,089** | 8,748,564 |
| **EQUITY** | | | |
| **Equity attributable to equity holders of the Company** | | | |
| Share capital | 7 | **3,684,640** | 3,684,640 |
| Reserves | | **(883,953)** | (882,299) |
| Retained earnings | | | |
| — Proposed final dividend | | **—** | 221,078 |
| — Others | | **1,367,619** | 1,021,973 |
| | | **4,168,306** | 4,045,392 |
| Non-controlling interests | | **55,158** | 73,880 |
| **Total equity** | | **4,223,464** | 4,119,272 |

| | | | |
|---|---|---|---|
| **LIABILITIES** | | | |
| **Non-current liabilities** | | | |
| Borrowings | 8 | **444,217** | 355,968 |
| Deferred income | | **452,172** | 166,381 |
| Deferred income tax liabilities | | **28,783** | 11,251 |
| Long-term employee benefit obligations | 9 | **142,026** | 144,563 |
| | | **1,067,198** | 678,163 |
| **Current liabilities** | | | |
| Trade and other payables | 10 | **3,180,610** | 3,013,883 |
| Amount due to customers for contract work | | **23,463** | 14,414 |
| Current income tax liabilities | | **53,957** | 46,167 |
| Borrowings | 8 | **987,822** | 843,857 |
| Current portion of long-term employee benefit obligations | 9 | **13,346** | 13,346 |
| Dividends payable | | **215,092** | — |
| Provisions for warranty | 11 | **22,137** | 19,462 |
| | | **4,496,427** | 3,951,129 |
| **Total liabilities** | | **5,563,625** | 4,629,292 |
| **Total equity and liabilities** | | **9,787,089** | 8,748,564 |
| **Net current assets** | | **2,457,428** | 2,243,219 |
| **Total assets less current liabilities** | | **5,290,662** | 4,797,435 |

# NOTES TO THE 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") in preparation for a listing of the Company's shares on 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.

These condensed consolidated interim financial information are presented in RMB, unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 30 August 2010.

This condensed consolidated interim financial information has not been audited.

***Key events***

The operational highlight of the period was the acquisition of Holroyd Precision Limited, Precision Components Limited, PTG Heavy Industries Limited, Milnrow Investments Limited, PTG Advanced Developments Limited and PTG Deutschland GmbH (collectively referred to as "PTG six entities"), which are incorporated outside of the PRC and are mainly engaged in screw processing and the design, production and sales of screw machinery tools, large-scale machinery tools and grinding machines. Further details are given in Note 16.

## 2. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2010 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 2009, 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 2009, as described in those annual financial statements.

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

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

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- 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', are 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.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through profit or loss. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed.

  The standard was applied to the acquisition of PTG six entities on 30 June 2010. Acquisition-related costs of RMB6,177,000 have been recognised within 'administrative expenses' in the statement of comprehensive income. These would previously have been included in the consideration for the business combination. See Note 16 for further details of the business combination that was entered during the period.

  As the Group has adopted HKFRS 3 (revised), it is required to adopt HKAS 27 (revised), 'consolidated and separate financial statements', at the same time. HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss.

***(b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group***

- HK(IFRIC)-Int 17, 'Distributions of non-cash assets to owners' is 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.

- 'Additional exemptions for first-time adopters' (Amendment to HKFRS 1) is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing HKFRS preparer.

- HKAS 39 (Amendment), 'Eligible hedged items' is effective for annual period on or after 1 July 2009. That is not currently applicable to the Group, as it has no hedging activities.

- HKFRS 2 (Amendment), 'Group cash-settled share-based payment transaction' is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it does not have relevant share-based payment transactions.

- First improvements to Hong Kong Financial Reporting Standards (2008) were issued in October 2008 by the HKICPA. The improvement related to HKFRS 5 "Non-current assets held for sale and discontinued operations" is effective for annual period on or after 1 July 2009. This is not currently applicable to the Group, as it does not have relevant non-current assets held for sale or discontinued operations.

- Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

*(c) The following new standards, new interpretations and amendments to standards and interpretations have been issued but are not effective for the financial year beginning 1 January 2010 and have not been early adopted:*

- HKFRS 9, 'Financial instruments' addresses the classification and measurement of financial assets and is likely to affect the Group's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess HKFRS 9's full impact. However, initial indications are that it may affect the Group's accounting for its available-for-sale financial assets, as HKFRS 9 only permits the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments, for example, will therefore have to be recognised directly in profit or loss. The Group has not yet decided when to adopt HKFRS 9.

- HKAS 24 (Revised) 'Related party disclosures' supersedes HKAS 24 'Related party disclosures' issued in 2003. The revised HKAS 24 is required to be applied from 1 January 2011. Earlier application, for either the entire standard or the government-related entity, is permitted. The Group will apply the revised HKAS 24 from 1 January 2011.

- Under 'Classification of rights issues' (Amendment to HKAS 32), for rights issues offered for a fixed amount of foreign currency, current practice appears to require such issues to be accounted for as derivative liabilities. The amendment states that if such rights are issued pro rata to all the entity's existing shareholders in the same class for a fixed amount of currency, they should be classified as equity regardless of the currency in which the exercise price is denominated. The amendment should be applied for annual periods beginning on or after 1 February 2010. Earlier application is permitted, although this Amendment to HKAS 32 is not currently applicable to the Group.

- Amendments to HK(IFRIC) Int-14 'Prepayments of a minimum funding requirement' corrects an unintended consequence of HK(IFRIC) Int-14, 'HKAS 19 - The limit on a defined benefit asset, minimum funding requirements and their interaction'. Without the amendments, entities are not permitted to recognise as an asset for any surplus arising from the voluntary prepayment of minimum funding contributions in respect of future service. This was not intended when HK(IFRIC) Int-14 was issued, and the amendments correct the problem. The amendments are effective for annual periods beginning 1 January 2011. Earlier application is permitted. The amendments should be applied retrospectively to the earliest comparative period presented. This is not currently applicable to the Group.

- HK(IFRIC) -Int 19, 'Extinguishing financial liabilities with equity instruments' clarifies the requirements of HKFRSs when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability fully or partially. The interpretation is effective for annual periods beginning on or after 1 July 2010. Earlier application is permitted, although this new interpretation is not currently applicable to the Group.

- 'Limited exemption from comparative HKFRS 7 disclosures for first-time adopters' (Amendment to HKFRS 1) provide first-time adopters with the same transition provisions as included in the amendment to HKFRS 7 in relation to relief from presenting comparative information that ended before 31 December 2009 for new fair value disclosures requirements. This is required to be applied for annual periods beginning on or after 1 July 2010. Early adoption is permitted. This is not relevant to the Group, as it is an existing HKFRS preparer.

- Third improvements to Hong Kong Financial Reporting Standards (2010) were issued in May 2010 by the HKICPA. All improvements are effective in the financial year of 2011.

## 4. Segment information

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

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

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

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

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

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

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

| | Engines *RMB'000* | Gear boxes *RMB'000* | Hydroelectric generation equipment *RMB'000* | Electrical wires and cables *RMB'000* | General machinery *RMB'000* | Machinery tools *RMB'000* | High-voltage transformers *RMB'000* | All other segments *RMB'000* | Total Group *RMB'000* |
|---|---|---|---|---|---|---|---|---|---|
| Total segment revenue | 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 from external customers | 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 post-tax profits of associates | — | (4,955) | — | — | 4,869 | — | 60,268 | 1,478 | 61,660 |
| **Profit before income tax** | | | | | | | | | 243,947 |
| Income tax expense | | | | | | | | | (21,053) |
| **Profit for the period** | | | | | | | | | 222,894 |

The segment assets as at 30 June 2010 and 31 December 2009 are as follows:

| **Total assets** | Engines *RMB'000* | Gear boxes *RMB'000* | Hydroelectric generation equipment *RMB'000* | Electrical wires and cables *RMB'000* | General machinery *RMB'000* | Machinery tools *RMB'000* | High-voltage transformers *RMB'000* | All other segments *RMB'000* | Total Group *RMB'000* |
|---|---|---|---|---|---|---|---|---|---|
| **30 June 2010** | 783,197 | 912,159 | 725,207 | 1,068,426 | 2,294,543 | 1,776,058 | 169,211 | 2,058,288 | 9,787,089 |
| **31 December 2009** | 367,516 | 924,832 | 664,576 | 977,756 | 2,109,997 | 1,262,538 | 248,003 | 2,193,346 | 8,748,564 |

## 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** *RMB'000* | **Investment properties** *RMB'000* | **Lease prepayments** *RMB'000* | **Intangible assets** *RMB'000* | **Total** *RMB'000* |
| **Six months ended 30 June 2010** | | | | | |
| **Opening net book amount at 1 January 2010** | 1,659,174 | 24,108 | 274,741 | 84,910 | 2,042,933 |
| Acquisition of subsidiaries *(Note 16)* | 41,998 | — | — | 181,681 | 223,679 |
| Additions | 157,260 | — | — | 589 | 157,849 |
| Disposals | (3,356) | — | — | — | (3,356) |
| Depreciation/amortisation | (63,528) | (1,195) | (3,230) | (4,352) | (72,305) |
| **Closing net book amount at 30 June 2010** | 1,791,548 | 22,913 | 271,511 | 262,828 | 2,348,800 |
| **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 subsidiaries *(Note 16)* | 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 |

## 6. Trade and other receivables

| | **30 June 2010** *RMB'000* **Unaudited** | 31 December 2009 *RMB'000* Audited |
|---|---|---|
| Trade and bills receivable | **2,486,363** | 2,005,622 |
| Less: provision for impairment of trade receivables | **(249,562)** | (226,639) |
| Trade and bills receivable — net | **2,236,801** | 1,778,983 |
| Other receivables | **566,822** | 379,687 |
| Less: provision for impairment of other receivables | **(28,114)** | (28,024) |
| Other receivables — net | **538,708** | 351,663 |
| | **2,775,509** | 2,130,646 |

The general credit period granted to customers is up to 90 days. As at 30 June 2010 and 31 December 2009, the ageing analysis of the trade and bills receivables were as follows:

| | **30 June 2010** *RMB'000* **Unaudited** | 31 December 2009 *RMB'000* Audited |
|---|---|---|
| Trade and bills receivable | | |
| Less than 30 days | **710,561** | 542,618 |
| 31 days to 90 days | **598,023** | 618,005 |
| 91 days to 1 year | **798,526** | 474,759 |
| 1 year to 2 years | **165,925** | 179,945 |
| 2 years to 3 years | **55,428** | 40,673 |
| Over 3 years | **157,900** | 149,622 |
| | **2,486,363** | 2,005,622 |

## 7. Share capital

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

## 8. Borrowings

| | **30 June 2010** ***RMB'000*** **Unaudited** | 31 December 2009 *RMB'000* Audited |
|---|---|---|
| **Non-current** | | |
| Long-term bank borrowings | **442,626** | 351,713 |
| Finance lease liabilities | **1,591** | 4,255 |
| Total non-current borrowings | **444,217** | 355,968 |
| **Current** | | |
| Short-term bank borrowings | **950,681** | 801,781 |
| Other current borrowings | **31,901** | 37,009 |
| Finance lease liabilities | **5,240** | 5,067 |
| Total current borrowings | **987,822** | 843,857 |
| **Total borrowings** | **1,432,039** | 1,199,825 |

Movements in borrowings is analysed as follows:

| | *RMB'000* Unaudited |
|---|---|
| **Six months ended 30 June 2010** | |
| Opening amount at 1 January 2010 | 1,199,825 |
| New borrowings | 678,797 |
| Repayment of borrowings | (443,798) |
| Finance lease paid | (2,785) |
| **Closing amount as at 30 June 2010** | 1,432,039 |
| **Six months ended 30 June 2009** | |
| Opening amount at 1 January 2009 | 974,785 |
| Acquisition of subsidiaries *(Note 16)* | 107,000 |
| New borrowings | 434,468 |
| Repayment of borrowings | (407,556) |
| Finance lease paid | (2,785) |
| **Closing amount as at 30 June 2009** | 1,105,912 |

Interest expense on borrowings for the six months ended 30 June 2010 is approximately RMB35,115,000 (30 June 2009: RMB31,535,000).

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

| | **As at 30 June 2010** ***RMB'000*** **Unaudited** | As at 31 December 2009 *RMB'000* Audited |
|---|---|---|
| Fixed rate | | |
| — Expiring within 1 year | **60,000** | 14,000 |
| — Expiring beyond 1 year | **138,150** | 116,720 |
| | **198,150** | 130,720 |

## 9. Long-term employee benefit obligations

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

| | **30 June 2010** | 31 December 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Present value of defined benefits obligations | **155,942** | 164,773 |
| Unrecognised actuarial gain | **(570)** | (6,864) |
| Liability in the balance sheet | **155,372** | 157,909 |
| Less: current portion | **(13,346)** | (13,346) |
| | **142,026** | 144,563 |

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

| | **Six months ended 30 June** | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited |
| At beginning of the period | **157,909** | 139,990 |
| For the period | | |
| — Interest costs | **2,889** | 4,710 |
| — Actuarial loss/(gain) | **1,589** | (10,580) |
| — Additions on termination benefit obligations | **—** | 5,560 |
| — Payment | **(7,015)** | (3,870) |
| At end of the period | **155,372** | 135,810 |

## 10. Trade and other payables

| | **30 June 2010** | 31 December 2009 |
|---|---|---|
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Audited |
| Trade and bills payables | **1,829,089** | 1,635,227 |
| Other taxes payables | **132,744** | 139,682 |
| Other payables | **328,168** | 245,587 |
| Accrued payroll and welfare | **178,282** | 165,818 |
| Advances from customers | **694,777** | 569,682 |
| Advances from government | **17,550** | 257,887 |
| | **3,180,610** | 3,013,883 |

As at 30 June 2010 and 31 December 2009, the ageing analysis of the trade and bills payables (including amounts due to related parties of trading in nature) were as follows:

| | **30 June 2010**<br>***RMB'000***<br>**Unaudited** | 31 December 2009<br>*RMB'000*<br>Audited |
|---|---|---|
| Trade and bills payables | | |
| Less than 30 days | **635,717** | 610,364 |
| 31 days than 90 days | **566,248** | 446,478 |
| 91 days to 1 year | **529,957** | 481,287 |
| 1 year to 2 years | **38,428** | 42,385 |
| 2 years to 3 years | **19,695** | 16,210 |
| Over 3 years | **39,044** | 38,503 |
| | **1,829,089** | 1,635,227 |

## 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 distribution costs in the statement of comprehensive income.

| | **Provision for warranty**<br>*RMB'000*<br>Unaudited |
|---|---|
| **Six months ended 30 June 2010** | |
| At 1 January 2010 | 19,462 |
| Charged to statement of comprehensive income | 9,457 |
| Utilised during the period | (6,782) |
| **At 30 June 2010** | 22,137 |
| **Six months ended 30 June 2009** | |
| At 1 January 2009 | 23,618 |
| Charged to statement of comprehensive income | 5,281 |
| Utilised during the period | (5,727) |
| **At 30 June 2009** | 23,172 |

## 12. Operating profit

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited |
| Inventory write-down/(write-back) | **2,104** | (1,156) |
| Provision for impairment on trade and other receivables | **19,601** | 2,724 |
| Transactions cost in relation to acquisition of subsidiaries *(Note 16)* | **6,177** | — |
| Gain on disposal of property, plant and equipment | **(548)** | (813) |

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

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

The inventory write-down of RMB2,104,000 mainly relates to machinery tools that do not meet current market demands.

Financial assets were reviewed for impairment as at 30 June 2010. The impairment charge of RMB19,601,000 on trade and other receivables mainly relates to certain customers which are in difficult financial situations.

## 13. Income tax expense

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 corporate income tax rate of most of the Group's subsidiaries is 15% from 2008 to 2010. The five entities which are subject to corporate income tax rate of 25% from 1 January 2008 onwards are as follows:

— the Company;

— Chongqing Huijiang Machine Tools Founding Co., Ltd.;

— Chongqing Boshui Imports & Exports Trade Co., Ltd.;

— Chongqing General Group Bingyang Air conditioner Equipment installation Co., Ltd.; and

— 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, it is entitled to a preferential corporate income tax rate of 15% from 2008 to 2010.

The new corporate income tax 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 2010, the applicable corporate income tax rate is 22% (2009: 20%).

Overseas profit tax has been provided at the rates of taxation prevailing in the countries in which the Group operates.

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

| | Six months ended 30 June | |
|---|---|---|
| | **2010** | 2009 |
| | ***RMB'000*** | *RMB'000* |
| | **Unaudited** | Unaudited |
| Current income tax: | | |
| — PRC enterprise income tax | **57,289** | 6,233 |
| Deferred tax | **(35,889)** | 14,820 |
| | **21,400** | 21,053 |

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 ending 31 December 2010 is 15% (the estimated tax rate for the six months ended 30 June 2009 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 | |
|---|---|---|
| | **2010** | 2009 |
| | **Unaudited** | Unaudited |
| Profit attributable to equity holders of the Company *(RMB'000)* | **345,646** | 215,422 |
| Weighted average number of ordinary shares in issue *(thousand)* | **3,684,640** | 3,684,640 |
| Basic and diluted earnings per share *(RMB per share)* | **0.09** | 0.06 |

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

A dividend that relates to the year ended 31 December 2009 of approximately RMB221,078,000 (RMB0.06 per share) was approved at the Annual General Meeting on 15 June 2010 and was recorded as a liability in the condensed interim financial information.

## 16. Business combinations

*Current period*

On 30 June 2010, the Group acquired the entire share capital of PTG six entities at a total cash consideration of Great Britain Pound 20,000,000 (equivalent to approximately RMB200,229,000). There is no contingent consideration. PTG six entities are incorporated outside of the PRC and are mainly engaged in screw processing and the design, production and sales of screw machinery tools, large-scale machinery tools and grinding machines. The acquisition is expected to increase the Group's market share in Europe.

Details of the purchase consideration, the net assets acquired and goodwill are as follows:

| | *RMB'000* |
|---|---|
| Purchase consideration: | |
| — cash paid | 200,229 |

The assets and liabilities recognised as a result of the acquisition are as follows:

| | **Provisional fair value** *RMB'000* |
|---|---|
| Cash and cash equivalents | 4,198 |
| Property, plant and equipment | 41,998 |
| Customer relationships | 55,807 |
| Brand | 12,256 |
| Inventories | 16,862 |
| Receivables | 90,430 |
| Payables | (115,974) |
| Net deferred tax liabilities | (18,966) |
| Net identifiable assets acquired | 86,611 |
| Goodwill | 113,618 |
| | 200,229 |
| Outflow of cash to acquire business, net of cash acquired: | |
| — cash consideration | (200,229) |
| — cash and cash equivalents in subsidiaries acquired | 4,198 |
| Cash outflow on acquisition | (196,031) |

The Group has engaged an independent valuer to identify the fair value of identifiable assets and liabilities acquired. The valuation has not yet been completed and the provisional fair value represents management's current best estimates of the fair values at acquisition, which are subject to change. The goodwill is attributable to PTG six entities' strong position and expected profitability in production and sales of machinery tools. None of the goodwill is expected to be deductible for tax purposes.

*(a) Acquisition-related costs*

Acquisition-related costs of approximately RMB6,177,000 are included within 'administrative expenses' in the statement of comprehensive income.

*(b) Acquired receivables*

The fair value of trade and other receivables is RMB90,430,000 and includes trade receivables with a fair value of RMB48,371,000. The gross contractual amount for trade receivables due is RMB52,095,000 of which RMB3,724,000 is expected to be uncollectible.

*(c) Revenue and profit contribution*

If the acquisition had occurred on 1 January 2010, consolidated revenue and consolidated profit for the half year ended 30 June 2010 would have been RMB4,331,679,000 and RMB315,676,000 respectively.

***Prior period***

Before February 2009, the Group directly owned 49% and 23.52% equity interests in Qijiang Gear Transmission Co., Ltd. ("Qijiang Gear") and Qijiang Qi-Chi Forging Co., Ltd. (Qijiang Forging) respectively. As Qijiang Gear owned 52% equity interests in Qijiang Forging, the Group directly and indirectly owned 49% equity interests of Qijiang Forging. In February 2009, the Group acquired the remaining 51% equity interests of Qijiang Gear and 24.48% equity interests of Qijiang Forging for a cash consideration of approximately RMB256,609,000. Thereafter, Qijiang Gear and Qijiang Forging became wholly owned subsidiaries of the Group. Details of this business combination were disclosed in Note 38 of the Group's annual financial statements for the year ended 31 December 2009.

## 17. Contingencies

As at 30 June 2010, the Group had no material contingencies.

## 18. Capital commitments

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

| | **30 June 2010** *RMB'000* **Unaudited** | 31 December 2009 *RMB'000* Audited |
|---|---|---|
| Property, plant and equipment | **146,898** | 174,561 |
| Intangible assets | **1,365** | 3,129 |

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

## RESULTS OVERVIEW

### SALES

For the six months ended 30 June 2010, the Group's total revenue amounted to approximately RMB4,263.1 million, representing an increase of 52.1% as compared with approximately RMB2,802.6 million for the same period last year.

Overall, revenue of commercial vehicle parts and components were approximately RMB1,473 million (34.6% of total revenue), an increase of approximately 51.8%; revenue of power equipment were approximately RMB1,367.4 million (32.1% of total revenue), an increase of approximately 66.9%; revenue of general machinery were approximately RMB525.6 million (12.3% of total revenue), an increase of approximately 8.6%; and revenue of CNC machine tools were approximately RMB897.1 million (21% of total revenue), an increase of approximately 69.7%.

The growth in sales of commercial vehicle parts and components, power equipment, general machinery and CNC machine tools during the Period was mainly due to further recovery of macro economic environment and favourable result from the central government's RMB4 trillion stimulus package, which drove the revenue of our four major business segments to grow at rapid pace as compared with the same period last year.

### GROSS PROFIT

The gross profit for the six months ended 30 June 2010 was approximately RMB827.9 million, increased by approximately RMB329.2 million or approximately 66%, as compared with approximately RMB498.7 million for the same period last year, accounting for approximately 19.4% of revenue. Overall gross profit margin increased by 1.6 percentage points over the same period last year. This is mainly due to lower unit cost resulting from the increase in sales of commercial vehicle parts and components and CNC machine tools. On the contrary, lower gross profit margin of power equipment business was due to higher unit cost which caused by significant rise in copper price, the raw materials for electrical wires and cables segment. We expect that the raw material price will continue steady in the second half of 2010, which could keep the gross profit margin of the Group stable.

### OTHER INCOME AND GAINS

The other income and gains for the six months ended 30 June 2010 were approximately RMB21.2 million, a decrease of approximately RMB11.7 million or approximately 35.6%, as compared with approximately RMB32.9 million for the same period last year.

### SELLING AND ADMINISTRATIVE EXPENSES

The selling and administrative expenses for the six months ended 30 June 2010 were approximately RMB475.9 million, an increase of approximately RMB142.6 million or approximately 42.8%, as compared with approximately RMB333.3 million for the same period last year. The selling and administrative expenses accounted for approximately 11.2% of revenue, a decrease from 11.9% for the same period last year, mainly due to the rapid growth in revenue during the Period, which diluted the percentage of selling and administrative expenses.

During the Period, our selling costs recorded for the first half of the year increased by approximately RMB46.6 million over the same period last year, mainly due to the increase in transportation expenses, costs for the sales staff and various marketing expenses.

In addition, the administrative expenses increased by approximately RMB96 million, mainly due to higher staff salary, employee welfare expenditures, depreciation, R&D expenses and impairment loss in trade receivable as compared with the same period last year.

## OPERATING PROFIT

The operating profit for the six months ended 30 June 2010 was approximately RMB373.3 million, an increase of approximately RMB175 million or approximately 88.3%, as compared with approximately RMB198.3 million for the same period last year.

## NET FINANCE COSTS

The interest expenses for the six months ended 30 June 2010 was approximately RMB33.2 million, an increase of approximately RMB17.2 million or approximately 107.5%, as compared with approximately RMB16 million for the same period last year. This was mainly due to the increase in loans and the foreign exchange loss from trade for the Period.

## SHARE OF PROFITS OF ASSOCIATED COMPANIES

The Company's share of profits of associated companies for the six months ended 30 June 2010 was approximately RMB33.8 million, a decrease of approximately RMB27.9 million or approximately 45.2%, as compared with approximately RMB61.7 million for the same period last year, which was due to the decrease in results of other associated companies.

## INCOME TAX EXPENSES

The corporate income tax expenses for the six months ended 30 June 2010 were approximately RMB21.4 million, an increase of approximately RMB0.3 million, or approximately 1.4%, as compared with approximately RMB21.1 million for the same period last year, mainly due to the changes in deferred tax.

## PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Profit attributable to shareholders for the Period was approximately RMB345.6 million, an increase of approximately RMB130.2 million or approximately 60.5% as compared with approximately RMB215.4 million for the same period last year. Earnings per share increased from RMB0.06 to approximately RMB0.09 per share as compared with the same period last year.

**BUSINESS PERFORMANCE**

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

| | **Revenue** | | **Gross Profit** | | **Segment Results** | |
|---|---|---|---|---|---|---|
| | **Period ended 30 June** | | **Period ended 30 June** | | **Period ended 30 June** | |
| | **2010** | 2009 | **2010** | 2009 | **2010** | 2009 |
| | *(RMB in millions, except for percentage)* | | | | | |
| **Commercial vehicle parts and components** | | | | | | |
| Engines | **706.3** | 490.5 | **249.2** | 155.3 | **200.6** | 123.4 |
| Gear boxes | **420.4** | 261.3 | **119.9** | 43.8 | **59.7** | 15.5 |
| Other products | **346.3** | 218.6 | **68.9** | 21.4 | **26.6** | (8.0) |
| Total | **1,473.0** | 970.4 | **438.0** | 220.5 | **286.9** | 130.9 |
| % of total | **34.6%** | 34.6% | **52.9%** | 44.2% | **76.9%** | 66.0% |
| **Power equipment** | | | | | | |
| Hydroelectric generation equipment | **146.1** | 132.4 | **33.1** | 37.9 | **5.7** | 12.9 |
| Electrical wires and cables | **1,007.0** | 582.3 | **55.7** | 39.6 | **21.6** | 21.5 |
| Other products | **214.3** | 104.7 | **7.2** | 1.1 | **2.5** | (0.1) |
| Total | **1,367.4** | 819.4 | **96.0** | 78.6 | **29.8** | 34.3 |
| % of total | **32.1%** | 29.2% | **11.6%** | 15.8% | **8.0%** | 17.3% |
| **General machinery** | | | | | | |
| Total | **525.6** | 484.2 | **146.8** | 120.7 | **17.8** | 24.7 |
| % of total | **12.3%** | 17.3% | **17.7%** | 24.2% | **4.8%** | 12.5% |
| **CNC machine tools** | | | | | | |
| Total | **897.1** | 528.6 | **147.1** | 78.9 | **59.5** | 16.9 |
| % of total | **21.0%** | 18.9% | **17.8%** | 15.8% | **15.9%** | 8.5% |
| **Headquarters** | **—** | — | **—** | — | **—** | — |
| Total | **—** | — | **—** | — | **(20.7)** | (8.5) |
| % of total | **-%** | -% | **-%** | -% | **(5.6%)** | (4.3%) |
| Total | **4,263.1** | 2,802.6 | **827.9** | 498.7 | **373.3** | 198.3 |

**Commercial vehicle parts and components**

Revenue from the commercial vehicle parts and components segment for the six months ended 30 June 2010 was approximately RMB1,473 million, an increase of approximately RMB502.6 million or 51.8%, as compared with approximately RMB970.4 million for the same period last year. Revenue from the engine business and gear box business increased by approximately RMB215.8 million or 44% and approximately RMB159.1 million or 60.9% as compared with the same period last year respectively while revenue from other products also increased by approximately RMB127.7 million or 58.4%.

During the Period, gross profit for the commercial vehicle parts and components segment was approximately RMB438 million, an increase of approximately RMB217.5 million or 98.6% as compared with approximately RMB220.5 million for the same period last year. Gross profit margin increased to approximately 29.7% for the six months ended 30 June 2010 from approximately 22.7% for the same period of 2009, primarily due to increases in sales and decreases in unit cost, which resulted in an increase of 7 percentage points in gross profit margin 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 2010 was approximately RMB286.9 million, an increase of approximately RMB156 million or 119.2%, as compared with approximately RMB130.9 million for the same period last year.

**Power equipment**

Revenue from the power equipment segment for the six months ended 30 June 2010 was approximately RMB1,367.4 million, an increase of approximately RMB548 million or 66.9%, as compared with approximately RMB819.4 million for the same period last year, primarily due to a substantial increase of approximately RMB424.7 million, or 72.9% in revenue from electrical wires and cables business.

During the Period, gross profit for the power equipment segment was approximately RMB96 million, an increase of approximately RMB17.4 million or 22.1% as compared with approximately RMB78.6 million for the same period last year. Gross profit margin decreased to 7% for the six months ended 30 June 2010 from 9.6% for the same period of 2009, primarily due to the increases in unit cost of electrical wires and cables as a result of substantial recovery in price of the raw material copper.

Overall, the result for the power equipment segment for the six months ended 30 June 2010 was approximately RMB29.8 million, a decrease of approximately RMB4.5 million or 13.1% as compared with approximately RMB34.3 million for the same period last year.

**General machinery**

Revenue from the general machinery segment for the six months ended 30 June 2010 was approximately RMB525.6 million, an increase of approximately RMB41.4 million or 8.6% as compared with approximately RMB484.2 million for the same period last year, primarily due to the increases in revenue from industrial pumps, gas compressors, separation machines, refrigeration machines and industrial fans business as boosted by the stable recovery of domestic economy in the first half of 2010.

During the Period, gross profit for the general machinery segment was approximately RMB146.8 million, an increase of approximately RMB26.1 million or 21.6% as compared with approximately RMB120.7 million for the same period last year. Gross profit margin increased to approximately 27.9% for the six months ended 30 June 2010 from approximately 24.9% for the same period of 2009. The increase in the gross profit margin of the segment was primarily due to the rise in products price driven by economic recovery and increased market demands in the first half of 2010.

Overall, the result for the general machinery segment for the six months ended 30 June 2010 was approximately RMB17.8 million, a decrease of approximately RMB6.9 million or 27.9%, as compared with approximately RMB24.7 million for the same period last year, due to the decrease in operating profit as a result of increased administrative expenses.

**CNC machine tools**

Revenue from the CNC machine tools segment for the six months ended 30 June 2010 was approximately RMB897.1 million, an increase of approximately RMB368.5 million or 69.7% as compared with approximately RMB528.6 million for the same period last year, primarily due to increases in revenue from gear-producing machines, complex precision metal-cutting tools, CNC lathes and machine centers business as boosted by the stable recovery of domestic economy in the first half of 2010.

During the Period, gross profit for the CNC machine tools segment was approximately RMB147.1 million, an increase of approximately RMB68.2 million or 86.4% as compared with approximately RMB78.9 million for the same period last year. Gross profit margin increased to 16.4% for the six months ended 30 June 2010 from 14.9% for the same period of 2009, primarily due to increased sales and decreased unit cost which resulted in an increase of 1.5 percentage points in gross profit margin as compared with the same period last year.

Overall, the result for the CNC machine tools segment for the six months ended 30 June 2010 was approximately RMB59.5 million, an increase of approximately RMB42.6 million or 252% as compared with approximately RMB16.9 million for the same period last year.

## CASH FLOW

The Group's cash and bank deposits (including the restricted cash) aggregated to approximately RMB2,542.7 million as at 30 June 2010 (31 December 2009: approximately RMB2,607.1 million), a decrease of approximately RMB64.4 million or approximately 2.5%, primarily due to the payment of GBP20 million as the consideration for the acquisition of the entire equity interests in six wholly-owned subsidiaries of Precision Technologies Group Ltd. by the Company during the Period. For details, please refer to the Company's announcements dated 10 March 2010 and 22 June 2010, respectively.

During the Period, the Group had a net cash outflow from operating activities of approximately RMB35.1 million (30 June 2009: a net cash inflow of approximately RMB101.4 million), a net cash outflow from investing activities of approximately RMB220.6 million (30 June 2009: approximately RMB227.5 million), and a net cash inflow from financing activities of approximately RMB206.6 million (30 June 2009: a net cash outflow of approximately RMB14.5 million).

## ASSETS AND LIABILITIES

As at 30 June 2010, the Group had total assets of approximately RMB9,787.1 million, an increase of approximately RMB1,038.5 million as compared with approximately RMB8,748.6 million as at 31 December 2009. The total current assets were approximately RMB6,953.9 million, increased by approximately RMB759.6 million as compared with approximately RMB6,194.3 million as at 31 December 2009, accounting for approximately 71.1% of the total assets (31 December 2009: approximately 70.8%). However, total non-current assets were approximately RMB2,833.2 million, representing an increase of approximately RMB279 million as compared with approximately RMB2,554.2 million as at 31 December 2009, and accounting for approximately 28.9% of the total assets (31 December 2009: approximately 29.2%).

As at 30 June 2010, total liabilities of the Group amounted to approximately RMB5,563.6 million, an increase of approximately RMB934.3 million as compared with approximately RMB4,629.3 million as at 31 December 2009. Total current liabilities were approximately RMB4,496.4 million, representing an increase of approximately RMB545.3 million as compared with approximately RMB3,951.1 million as at 31 December 2009, and accounting for 80.8% of the total liabilities (31 December 2009: approximately 85.4%). However, total non-current liabilities were approximately RMB1,067.2 million, representing an increase of approximately RMB389 million as compared with approximately RMB678.2 million as at 31 December 2009, and accounting for approximately 19.2% of the total liabilities (31 December 2009: approximately 14.6%).

As at 30 June 2010, net current assets of the Group amounted to approximately RMB2,457.4 million, an increase of approximately RMB214.2 million as compared with approximately RMB2,243.2 million as at 31 December 2009.

## CURRENT RATIO

Current ratio of the Group as at 30 June 2010 was 1.55:1 as compared with approximately 1.57:1 for last year.

## INDEBTEDNESS

As at 30 June 2010, the Group had an aggregate bank and other borrowings of approximately RMB1,432 million, representing an increase of approximately RMB232.2 million as compared with approximately RMB1,199.8 million as at 31 December 2009.

Borrowings repayable by the Group within one year were approximately RMB987.8 million, representing an increase of approximately RMB143.9 million as compared with approximately RMB843.9 million as at 31 December 2009. Borrowings repayable after one year were approximately RMB444.2 million, representing an increase of approximately RMB88.2 million as compared with approximately RMB356 million as at 31 December 2009.

## MERGERS AND ACQUISITIONS

As for mergers and acquisitions, the Group particularly sought to merge and acquire enterprises with potentials and advanced technology which could complement the Group's core industry chain and stay in line with the long term development of the Group, and seized opportunity for development and integration. During the Period, the Group has achieved following goals:

1) On 30 March 2010, the Company completed the merger between General Group (通用集團) and Chongqing General Yunxiu Co., Ltd.(重慶通用運修有限責任公司). The latter had cancelled its business registration. On 19 March 2010, the General Group completed the liquidation and cancellation of its subsidiary Chongqing Ji Dian Yi Huan Environmental Equipment Co., Ltd. (重慶機電一環環保設備有限公司), with its environmental equipment business transferred to the General Group.

2) During the Period, the Company held a Board meeting on 10 March 2010, at which the agreement on acquisition of the entire equity interests in six wholly-owned subsidiaries of PTG at a consideration of GBP20 million was considered and approved. The six subsidiaries acquired by the Company and their main businesses are:

   (1) Holroyd Precision Limited is specialized in the manufacture of screw grinding machine and screw milling machine as well as technical services. Its major products include screw and thread grinding machine, screw milling machine, super-hard grinding machine and gear grinding machine;

   (2) Precision Components Limited focuses on the screw market of screw-type compressor and is engaged in the production of a series of compressor and turbocharger screws, including prototyping and mass production;

   (3) PTG Heavy Industries Limited offers a variety of large-scale horizontal lathe, roller grinding machine, deep hole boring machine, friction welding machines and other services, including design and manufacture of new machine tools, provision of re-design, re-manufacture and refurbishment services. It owns long-standing brands such as Binns & Berry and Crawford Swift;

   (4) Milnrow Investments Limited owns real estates used for the production by Holroyd and other companies in Rochdale, Manchester, and rent premises and land to Holroyd Precision Ltd. and Precision Components Limited;

   (5) PTG Advanced Developments Limited is engaged in the development of corporate strategy and intends to develop new projects such as large-scale machine tools;

   (6) PTG Deutschland Gmb H, a sales company established in Germany, is specialized in sales of PTG's products.

   The completion of the acquisition will help to improve the technical know-how of the Company, reinforce the capability of technical development of relevant enterprises of the Company, expand its business scale and enhance its profile.

   On 15 June 2010, after satisfaction of all the conditions precedent of the acquisition agreement, the purchaser and the seller proceeded with the completion in respect of the subject. The Company has made the initial payment of GBP17 million in cash, and the remaining GBP3 million is still deposited in the bank account jointly managed by the purchaser and the seller.

3) On 1 June 2010, 重慶紅岩長力汽車彈簧有限公司(Chongqing Hongyan Changli Automotive Spring Co., Ltd.), an associated company of the Company, was renamed as 重慶紅岩方大汽車懸架有限公司(Chongqing Hongyan Fangda Automotive Suspension Co., Ltd.) after being approved at its general meeting.

4) Restructuring project between strategic investors and Qijiang Gear with advanced technology and market advantages are still in process.

## SIGNIFICANT EVENTS

The 2009 annual general meeting of the Company was held on 15 June 2010, at which the following matters were considered and approved:

1) 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 RMB140,000,000 to RMB220,000,000;

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 years ended 31 December 2011, 2012 and 2013 were RMB140,000,000, RMB160,000,000 and RMB190,000,000, respectively;

3) 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 years ended 31 December 2011, 2012 and 2013 were RMB300,000,000, RMB360,000,000 and RMB450,000,000, respectively;

4) the annual proposed caps of the price payable by the Group to the Parent Company and its associates under the Master Leasing Agreement for the three financial years ended 31 December 2011, 2012 and 2013 was RMB22,000,000;

5) To give a mandate to the Board to allot, issue and deal with additional Domestic Shares and/or the H Shares (both subject to cap) and to make offers, agreements and/or options in respect thereof;

6) Pursuant to the requirements of Articles of Association and relevant laws and regulations, the general meeting of the Company re-elected the members of the Board. The second session of the Board elected at the general meeting comprises: Mr. Xie Hua Jun, Mr. He yong, Mr. Liao Shaohua and Mr. Chen Xianzheng as executive Director, Mr. Huang Yong, Mr. Yu Gang, Mr. Liu Liangcai and Mr Yang Jingpu as non-executive Director, Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weilong as independent non-executive Director. Mr. Wu Jian retired from his position as Non-executive Director of the last session of the Board of the Company because his term of office had expired. The term of aforesaid Directors commences from the date of the meeting until expiry of the term of the second session of the Board. The Board was authorized to fix the remuneration of each Director pursuant to the remuneration standard for Directors passed at the 2009 annual general meeting and to enter into a service agreement with each of them 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;

7) Pursuant to the requirements of Articles of Association and relevant laws and regulations, the general meeting of the Company re-elected the members of the Supervisory Committee. Mr. Duan Rongsheng, Ms. Liao Rong, Ms. Wang Rongxue, Mr. Liu Xing, Mr. Wang Xuqi, and Mr. Chen Qing were elected as Supervisors of the second session of the Supervisory Committee of the Company at the general meeting. Ms. He Xiaoping and Mr. Wu Chongjiang retired from their positions as Supervisors of the last session of the Supervisory Committee of the Company because their terms of office had expired. The term of aforesaid Supervisors commences from the date of the meeting until expiry of the term of the second session of the Supervisory Committee. The Board was authorized to fix the remuneration of each Supervisor pursuant to the remuneration standard for Supervisors passed at the 2009 annual general meeting and to enter into a service agreement with each of them 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.

As considered and approved at the first meeting of the second session of the Board on 15 June 2010, Mr. Xie Hua Jun was elected as chairman of the Board and legal representative. The term of office of Mr. Xie Hua Jun commences from the date of the meeting until expiry of the term of the second session of the Board of the Company.

As considered and approved at the first meeting of the second session of the Supervisory Committee on 15 June 2010, Mr. Duan Rongsheng was elected as chairman of the Supervisory Committee. The term of office of Mr. Duan Rongsheng commences from the date of the meeting until expiry of the term of the second session of the Supervisory Committee of the Company.

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

## CONTINGENT LIABILITIES

As at 30 June 2010, the Group had no significant contingent liabilities.

## CAPITAL EXPENDITURE

During the Period, the total capital expenditure of the Group was approximately RMB157.8 million, which was principally used for expansion of plants, enhancement of production technology, upgrading of production equipment and improvement to production capacity (for the six months ended 30 June 2009: approximately RMB204.9 million).

## RISK OF FOREIGN EXCHANGE

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

In addition, as at 30 June 2010, the Group's bank deposits comprise approximately HK$173.6 million (30 June 2009: approximately HK$420.8 million). Save as the above, the Group was not exposed to any significant risks concerning foreign exchange fluctuations.

## EMPLOYEES

As at 30 June 2010, the Group had 17,403 employees (30 June 2009:14,585 employees). The increase in the number of employees was due to the acquisition of equity interests in Qijiang Gear and Qijiang Forging in February 2009. The Group plans to continue to upgrade quality of technical talents and recruit skilled and experienced technical and managerial personnel, improve incentive schemes that link with the performance reviews of our management and employees and ensure a harmonious relationship between employee and employer to contribute to the harmony of society.

## OTHER INFORMATION

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

The Company has adopted the Model Code for the Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules for the code of securities transactions by all directors of the Company. After making specific enquiry of all directors and Supervisors of the Company, the Board is pleased to announce that all the directors of the Company have strictly complied with the provisions set out in the Model Code for the six months ended 30 June 2010.

### COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

During the Period, the Company has adopted and 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 2010, neither the Group nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

## INTERIM DIVIDEND

The Board does not recommend the payment of interim dividend.

## AUDIT COMMITTEE

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

## BOARD OF DIRECTORS AND SUPERVISORY COMMITTEE

As at the date of this announcement, the executive Directors of the Company 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. Liu Liangcai and Mr. Yang Jingpu; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang.

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

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

The interim results announcement is published on the Company's website (http:// www.chinacqme.com) and the Stock Exchange (http://www.hkex.com.hk). The interim report will also be available at the Company's and the Stock Exchange's websites on or about 30 August 2010 and will be dispatched to shareholders of the Company thereafter by the means of receipt of corporate communication they selected.

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

Chongqing, the PRC
30 August 2010

*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. Liu Liangcai; and the independent non-executive Directors are Mr. Lo Wah Wai, Mr. Ren Xiaochang and Mr. Kong Weiliang.*

* *for identification purposes only*