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)

ANNOUCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2008

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 for the six months ended 30 June 2008 of the Group was RMB3,150 million, representing an increase of 25% over the corresponding period last year.

Profit attributable to the equity holders of the Company for the six months ended 30 June 2008 was RMB274 million, representing an increase of 46% over the corresponding period last year.

Basic earnings per share for the six months ended 30 June 2008 was RMB0.10.

The Group strived for the expansion of core-business development and technological improvement on its business segments including commercial vehicle parts and components ("Commercial parts and components"), power equipment ("Power equipment"), general machinery ("General machinery") and CNC machine tools ("CNC machine tools") etc.

The Group expects to continue seeking for more opportunities to realize sustainable growth of our business, develop products with high growth potential, expand production capacities to satisfy market demand and to develop new domestic and international markets.

The Board of Directors of the Company is pleased to announce the interim results of the Group for the six months ended 30 June 2008 (the "Period"). The Group's interim results have not been audited but have been reviewed by the audit committee and the Company's auditors, PricewaterhouseCoopers.

CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

Condensed Consolidated Interim Income Statement

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

Attributable to:			
Equity holders of the Company		**273,915**	187,645
Minority interest		**6,682**	15,077
		280,597	202,722
Earning per share attributable to the equity holders of the Company during the period (expressed in RMB per share)			
— Basic and diluted	14	**0.10**	0.09

Condensed Consolidated Interim Balance Sheet

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

	Note		
EQUITY			
Share capital	7	**3,684,640**	2,679,740
Reserves		**(990,456)**	(1,026,394)
Retained earnings		**486,302**	212,387
Minority interests		**37,511**	46,542
Total equity		**3,217,997**	1,912,275
LIABILITIES			
Non-current liabilities			
Borrowings	8	**294,528**	274,466
Deferred income		**99,796**	105,655
Deferred income tax liabilities		**680**	1,359
Retirement benefit obligations	9	**131,920**	131,750
		526,924	513,230
Current liabilities			
Trade and other payables	10	**2,885,207**	2,569,070
Current income tax liabilities		**62,775**	60,812
Borrowings	8	**601,247**	544,288
Retirement benefit obligations	9	**6,570**	6,550
Provisions for warranty	11	**21,140**	19,165
		3,576,939	3,199,885
Total liabilities		**4,103,863**	3,713,115
Total equity and liabilities		**7,321,860**	5,625,390
Net current assets		**1,492,518**	418,729
Total assets less current liabilities		**3,744,921**	2,425,505

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1. General information

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

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

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

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

1. the Company issued 1,999,194,803 shares of par value of RMB1.00 each to CQMEHG in consideration for the following assets and liabilities (collectively referred to as the "Core Operations") transferred from CQMEHG to the Company:

    (i) All operating assets and liabilities relating to manufacturing and sales of Commercial vehicle parts and components;

    (ii) All operating assets and liabilities relating to manufacturing and sales of Power equipment;

    (iii) All operating assets and liabilities relating to manufacturing and sales of General machinery; and

    (iv) All operating assets and liabilities relating to manufacturing and sales of CNC machine tools.

2. the Company issued 198,192,123 shares of par value of RMB1.00 each to China Huarong Asset Management Corporation ("Huarong Company"; 中國華融資產管理有限公司) in exchange for 44.35% interests in Chongqing General Industry (Group) Co. Ltd. ("Chongqing General Industry"; 重慶通用工業 (集團) 有限責任公司). Immediately before the Effective Date of the Reorganisation, CQMEHG has held another 53.03% interests in Chongqing General Industry which formed part of the Core Operations.

3. the Company issued 241,176,614 shares of par value of RMB1.00 each to Chongqing Yufu Assets Management Co. Ltd. ("Yufu Company"; 重慶渝富資產經營管理有限公司) and 241,176,614 shares of par value of RMB1.00 each to Chongqing Jiangong Group Co. Ltd. ("Jiangong Company"; 重慶建工集團有限責任公司) for an aggregate cash consideration of approximately RMB482,353,000.

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

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

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

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

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

2. Basis of preparation

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

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

3. Accounting policies

Except as described below, the accounting policies adopted in this condensed consolidated interim financial information are consistent with those of the accountant's report set out in Appendix I to the Company's prospectus dated 30 May 2008.

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

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

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

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

- HKFRS 8, "Operating segments", effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, "Segment reporting", and requires a "management approach" under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail.

- HKAS 23 (amendment), "Borrowing costs", effective for annual periods beginning on or after 1 January 2009. The Group will apply HKAS 23 (Amended) from 1 January 2009 but it is not expected to have any material impact on the Group's accounts.

- HKFRS 2 (amendment) "Share-based payment", effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group currently has no share-based payment scheme.

- HKFRS 3 (amendment), "Business combinations" and consequential amendments to HKAS 27, "Consolidated and separate financial statements", HKAS 28, "Investments in associates" and HKAS 31, "Interests in joint ventures", effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation, and associates on joint ventures the Group.

- HKAS 1 (amendment), "Presentation of financial statements", effective for annual periods beginning on or after 1 January 2009. Management is in the process of developing proforma accounts under the revised disclosure requirements of this standard.

- HKAS 32 (amendment), "Financial instruments: presentation", and consequential amendments to HKAS 1, "Presentation of financial statements", effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group as the Group, does not have any puttable instruments.

- HK(IFRIC) — Int 13, "Customer loyalty programmes", effective for annual periods beginning on or after 1 July 2008. This is not relevant to the Group's operations as the Group currently has no customer loyalty programme.

4. Segment information

Primary reporting format — business segments

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

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

	Unaudited					
Business segment	**Commercial vehicle parts and components** *RMB'000*	**Power equipment** *RMB'000*	**General machinery** *RMB'000*	**CNC machine tools** *RMB'000*	**Unallocated costs** *RMB'000*	**Total Group** *RMB'000*
Total segment revenue	885,916	1,047,989	556,717	666,907	—	3,157,529
Inter-segment revenue	—	(7,110)	—	—	—	(7,110)
Revenue	885,916	1,040,879	556,717	666,907	—	3,150,419
Operating profit/ segment results	146,745	52,638	32,045	40,842	(26,000)	246,270
Finance costs, net						(34,724)
Share of profit of associates	33,519	67,231	4,805	—	—	105,555
Profit before income tax						317,101
Income tax expense						(36,504)
Profit for the period						280,597
Depreciation on property, plant and equipment and investment properties	12,031	11,627	6,710	9,191	128	39,687
Amortisation of deferred income	—	(381)	(2,878)	(2,601)	—	(5,860)
Amortisation of lease prepayments and intangible assets	3,014	417	1,431	1,528	—	6,390
Provision/(write-down) of inventories	901	—	(292)	727	—	1,336
Provision/(write-back) for impairment on trade and other receivables	927	(4,812)	1,253	(3,155)	—	(5,787)

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

	Unaudited					
Business segment	**Commercial vehicle parts and components**	**Power equipment**	**General machinery**	**CNC machine tools**	**Unallocated costs**	**Total Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Total segment revenue	674,157	968,059	373,004	504,602	—	2,519,822
Inter-segment revenue	—	—	—	—	—	—
Revenue	674,157	968,059	373,004	504,602	—	2,519,822
Operating profit/ segment results	95,501	41,512	14,654	25,675	—	177,342
Finance costs, net						(18,073)
Share of profit of associates	20,166	34,011	2,621	—	—	56,798
Profit before income tax						216,067
Income tax expense						(13,345)
Profit for the period						202,722
Depreciation on property, plant and equipment and investment properties	9,454	12,150	5,461	8,462	—	35,527
Amortisation of deferred income	—	(312)	(2,656)	(2,426)	—	(5,394)
Amortisation of lease prepayments and intangible assets	3,410	411	1,161	1,596	—	6,578
(Write-down)/provision of inventories	(1,752)	—	(492)	4,340	—	2,096
(Write-back)/provision for impairment on trade and other receivables	(1,682)	2,374	726	1,247	—	2,665

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

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

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

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

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

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

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

Secondary reporting format — geographical segments

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

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 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

Six months ended 30 June 2007

Opening net book amount at 1 January 2007	790,798	31,278	387,098	24,737	1,233,911
Additions	148,345	—	6,325	177	154,847
Disposals	(18,575)	—	—	—	(18,575)
Depreciation/amortisation	(34,332)	(1,195)	(3,068)	(3,510)	(42,105)
Closing net book amount at 30 June 2007	886,236	30,083	390,355	21,404	1,328,078

6. Trade and other receivables

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

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

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

7. Share capital

	Number of Shares	**Domestic shares**	**H shares**	**Total**
	'000	*RMB'000*	*RMB'000*	*RMB'000*
		Unaudited	Unaudited	Unaudited
Registered, issued and fully paid				
At 27 July 2007 and 1 January 2008 (nominal value of RMB1.00 each share)	2,679,740	2,679,740	—	2,679,740
Domestic shares converted into H shares *(Note (a))*	—	(95,287)	95,287	—
Issue of new shares *(Note (b))*	1,004,900	—	1,004,900	1,004,900
At 30 June 2008 (nominal value of RMB1.00 each share)	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 by the Promoters to the National Council for Social Security Fund (the "NCSSF") of the PRC in compliance with the "Interim Administrative Regulations on the Reduction of State-owned Shares to Raise Social Security Funds" (the "Regulations"). Pursuant to the Regulations, holders of State-owned shares of a joint stock limited company in the PRC shall transfer part of their Domestic Shares to the NCSSF for no consideration equivalent to approximately 10% of the total number of H Shares to be issued. The Transfer H Shares rank pari passu with the new H shares in all respects offered for subscription.

(b) On 13 June 2008, the Company issued 1,004,900,000 new shares with a par value of RMB1.00 each at price of HK$1.30. These shares, together with the Transfer H Shares, were listed on the Main Board of the Stock Exchange on 13 June 2008. All these shares rank pari passu in respects with the then existing Domestic Shares.

The Company raised net proceeds of approximately RMB1,023,634,000 from the sales of 1,004,900,000 new shares, of which paid-up share capital was RMB1,004,900,000 and resulting capital reserve was approximately RMB18,734,000.

8. Borrowings

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

Movements in borrowings is analysed as follows:

	RMB'000
	Unaudited
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
Six months ended 30 June 2007	
Opening amount at 1 January 2007	584,452
New borrowings	270,475
Extinguishment of debts	(47,958)
Repayment of borrowings	(92,251)
Closing amount at 30 June 2007	714,718

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

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

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

9. Early retirement and supplemental benefit obligations

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

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

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

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

10. Trade and other payables

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

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

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

11. Provisions for warranty

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

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

12. Operating profit

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

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

13. Income taxes

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

— the Company;

— Chongqing Huijiang Machine Tools Founding Co. Ltd.;

— Chongqing Zhengtong Founding Co. Ltd.;

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

— Chongqing General Group Bingyang Air conditioner Equipment Installation Co. Ltd.;

— Chongqing General Yunxiu Co. Ltd.;

— Chongqing Ji Dian Yi Huan Environmental Equipment Co. Ltd.;

— Chongqing Machine Tools (Group) Shengpu Machinery Set Co. Ltd.

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

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

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

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

14. Earnings per share

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

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

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

15. Dividends

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

16. Contingencies

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

17. Capital commitments

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

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (INCLUDING FINANCIAL REVIEW)

RESULTS OVERVIEW

Sales

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

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

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

Gross profit

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

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

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

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

Other income and gains

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

Selling and administrative expenses

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

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

Operating profit

The operating profit for the period ended 30 June 2008 was RMB246.3 million, an increase of RMB69 million or 38.9%, as compared with RMB177.3 million from the same period last year. Except from the effect of one off gains and other income and gains, operating profit increased by RMB67 million, or 40.3%, over the same period last year.

Net finance costs

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

Share of profits of associated companies

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

Corporate Income tax expenses

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

Profit attributable to shareholders

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

Business performance

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

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

Commercial vehicle parts and components

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

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

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

Power equipment

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

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

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

General machinery

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

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

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

CNC machine tools

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

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

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

Cash flow

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

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

Assets and liabilities

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

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

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

Current ratio

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

Indebtedness

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

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

Contingent liabilities

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

Capital expenditure

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

Risk of foreign exchange

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

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

Employees

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

OTHER INFORMATION

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 securities transactions by all directors. After making specific enquiry of all directors of the Company, the Board is pleased to announce that all the directors of the Company have strictly complied with the provisions under the Model Code for the six months ended 30 June 2008.

Compliance with the Code on Corporate Governance Practices

During the period from 13 June 2008 (the date on which trading of the shares of the Company commenced on the Stock Exchange) up to 30 June 2008, the Company has complied with the Code on Corporate Governance Practices set out in the Appendix 14 of the Listing Rules Governing the Listing of Securities on the Stock Exchange.

Purchase, Sale or Redemption of Securities of the Company

During the six months ended 30 June 2008, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Interim Dividend

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

Audit Committee

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

Board of Directors

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

Publication of Information on the website on the Stock Exchange and the Company

The interim results announcement is published on the Company's website (http://www.chinacqme.com) and the Stock Exchange (http://www.hkex.com.hk). The interim report will also be available at the Company's and the Stock Exchange's websites on/about 22 September 2008 and will be dispatched to shareholders of the Company thereafter.

By Order of the Board
Chongqing Machinery & Electric Co., Ltd.*
Sun Nengyi
Chairman and Executive Director

8 September 2008, Chongqing, the PRC

* *For identification purposes only*