中國高速傳動設備集團有限公司*

China High Speed Transmission Equipment Group Co., Ltd.

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 658)

interim report 08

* For identification purpose only

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Yueming *(Chairman and Chief Executive Officer)*
Mr. Chen Yongdao
Mr. Lu Xun
Mr. Li Shengqiang
Mr. Liu Jianguo
Mr. Liao Enrong

Non-executive Directors

Mr. Zhu Keming
Mr. Zhang Wei

Independent non-executive Directors

Mr. Jiang Xihe
Mr. Zhu Junsheng
Mr. Chen Shimin

Audit Committee

Mr. Jiang Xihe *(Chairman)*
Mr. Zhu Junsheng
Mr. Zhang Wei

Remuneration Committee

Mr. Chen Shimin *(Chairman)*
Mr. Zhang Wei
Mr. Jiang Xihe

Registered Office

Second Floor of Cayside
Harbour Drive
P.O. Box 30592 S.M.B.
Grand Cayman
Cayman Islands

Head office and principal place of business in Hong Kong

36th Floor
Far East Finance Centre
16 Harcourt Road
Hong Kong

Principal share registrar and transfer office

Butterfield Fund Services (Cayman) Limited
Butterfield House
68 Fort Street
P.O. Box 705
Grand Cayman, KYI-1107
Cayman Islands

Hong Kong branch share registrar and transfer office

Computershare Hong Kong Investor Services Limited
Units 1712-1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong

Company Secretary

Mr. Lui Wing Hong, Edward *CPA (Aust.), FCPA*

Qualified Accountant

Mr. Lui Wing Hong, Edward *CPA (Aust.), FCPA*

Authorised Representatives

Mr. Liao Enrong
Mr. Lui Wing Hong, Edward

Auditors

Deloitte Touche Tohmatsu

CORPORATE INFORMATION

Hong Kong Legal Advisers

Charltons

Compliance Adviser

Guotai Junan Capital Limited

Principal bankers

Bank of Communications Co., Ltd., Nanjing Branch
China Merchants Bank Co., Ltd., Nanjing Branch

Website

www.chste.com

Place of Listing

The Stock Exchange of Hong Kong Limited
(the "Stock Exchange")
(Stock Code: 658)

PERFORMANCE HIGHLIGHTS

Revenue for the first half of 2008 was RMB1,350,257,000, representing an increase of 54.7% over the corresponding period in 2007.

Profit attributable to equity holders of the Company for the first half of 2008 was RMB252,767,000, representing an increase of 89.0% over the corresponding period in 2007.

Basic earnings per share was RMB20 cents.

There is no interim dividend proposed for the six-month period ended 30 June 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

The board of directors (the "Board") of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively, the "Group") for the six months ended 30 June 2008 (the "Period under Review").

REVIEW OF OPERATIONS

In the first half of 2008, rapid development has been achieved in the Group's four major core operations, and results have been satisfactory.

1. Wind gear transmission equipment

Great progress has been made in the production of large wind gear transmission equipment and our number of our customers and orders has increased significantly

The Group is a leading supplier of wind gear transmission equipment in the PRC. By leveraging its strong research, design and development capabilities, the Group's research and development (R&D) has achieved good results. Of these, the 1.5MW and 2 MW wind gear transmission equipment have successfully passed various technical tests to reach an international advanced technical level and are well recognised by our customers. In addition, the Group has achieved significant progress in the research and development of 2.5 MW and 3 MW wind gear transmission equipment, which will bring a larger flow of business to the Group.

Currently, the Group's customers are from the wind power industry, including major wind turbine manufacturer in the PRC, as well as renowned international wind turbine manufacturer such as GE Energy, REPower, Nordex and etc. With the Group's increasingly global operation, the Group will attract more international wind turbine manufacturer as customers, which has already resulted in the substantial increase in the orders of wind gear transmission equipment recorded in the first half year.

2. Marine gear transmission equipment

Dramatic sales increase in the overseas markets

Through its further cooperation with ZF China Investment Co., Ltd. ("ZF China"), the Company further strengthened its efforts in the sale of marine gear transmission equipment to international markets, which contributed to a significant increase in sales orders of marine gear transmission equipment in the first half year. Meanwhile, the Group increased its investment in fixed assets and expanded its production capacity to meet the market demands.

MANAGEMENT DISCUSSION AND ANALYSIS

3. **Transmission equipment for high-speed locomotives and urban light rails**

Results have been achieved in the research and development with promising market potential

Development of high-speed locomotives and urban light rails as environmental-friendly transportation vehicles has become a major world trend and is believed to have promising potential in the development of the industry. The development of inter-city transport in the PRC, one of the most heavily populated countries in the world, will provide a tremendous market for high-speed locomotive and urban light rail transportation operations. The high-speed railway transportation network in Europe is expected to treble by 2020. In order to capture this tremendous business opportunity, the Group conducted research and development of transmission equipment for high-speed locomotives and urban light rails, and passed the product quality certification conducted by Alstom in April 2008. The Group will further expand both their domestic and overseas markets, making this a new source of economic growth for the Group.

4. **Traditional transmission products**

Market sales of new products remain strong

Against a background of macro-economic control imposed by the PRC government, the Group's gear transmission equipment for construction materials and general purpose gear transmission equipment still maintained steady sales growth, primarily due to the research and development of new products. With a focus on energy-saving and environmental protection, the Group achieved to an approach whereby our development is driven by the development of new products. Vertical roller press grinding mills, which have been developed by the Group in recent years, can save approximately 30% more energy than traditional transmission products. Thus such products sell well in the market. In response to products upgrade in the metallurgy industry, the Group has proactively developed complete sets of transmission equipment such as cold-rolled, hot-rolled, strip and bar, wire-rolling and plate-rolling mills. Sales of such products have been excellent.

Extending the industry chain to ensure the supply of raw materials

As a result of the high price of raw materials, such as petroleum and iron ore, due to the growth of the global economy over the past two years, the manufacturing industry has suffered from an increase in costs and a shortage of raw materials. As the Group is undergoing rapid growth, our demand for raw materials has also grown rapidly. To ensure the quality and quantity of the supply of raw materials, timely delivery and to hedge the risk of the higher price of certain raw materials, Nanjing High Accurate Drive Equipment Manufacturing Corporation Limited ("Nanjing Drive"), a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Mr. Ou Hongyuan and Ms. Shao Yanping (who are third parties independent of the Group and its related parties) on 30 June 2008, and agreed to increase its investment in 江蘇宏晟重工集團有限公司 (Jiangsu Hongsheng Heavy Industries Group Co., Ltd.) ("Jiangsu Hongsheng") to enable Jiangsu Hongsheng to expand its production capacity, so as to meet the Group's demand for forged steel. The increase in the price of iron ore has been partly hedged through the recovery of scrap iron.

MANAGEMENT DISCUSSION AND ANALYSIS

Strengthen internal control, improve production efficiency and stabilise the gross profit margin of the Group's products

Subject to maintaining a stable gross profit margin, the Group has been dedicated to expanding its operation scope and strengthen to competition advantages not only through transferring prices, but also through efforts in cost control and improvement of production efficiency, so as to create a win-win situation for customers while enhancing market share.

Strengthen the development of our talent pool to ensure the continued development of the Group

Upon acquiring the required funds, the Group focused on developing pool of talent while increasing investment in fixed assets. Also, the Group established a talent training program with several universities and vocational schools, whereby the Group has obtained a pool of highly-qualified individuals through professional training, so as to ensure the continued development of the Group and create reasonable investment returns for shareholders.

OUTLOOK

After several years of robust development and invested resources in research and development, active training, upgrading product quality, and expanding product applications, the Group has become a leading enterprise in the mechanical transmission equipment industry in the PRC. Its product quality has attained an internationally advanced level, and received high appreciation and recognition from domestic and overseas customers. Looking forward, the Group will maintain its rapid growth by taking the following measures:

Strengthen technical improvement and expand the production capacity of wind power to meet the market demand

As a renewable source of energy, wind power generation has been increasingly focused upon throughout the world and there is great development potential for it. The Group's wind power transmission equipment as has been popular with the world's leading wind turbine manufacturer for its first class quality and low cost, and new orders in the future are expected to grow rapidly. To meet the increasing demand from its customers, the Group will make technical improvements to expand its production capacity of wind power equipment, which has a planned expansion of 6,000 MW in 2009, 9,000 MW in 2010 and 11,000 MW to 12,000 MW in 2011. Also, the Company will strengthen research and development of high power transmission equipment for wind power generation, actively promote the trial production of 2.5 MW and 3 MW wind power generation products and those of higher power, and improve the technical standard and quality of its products, so as to meet the demand of the fast-growing market.

MANAGEMENT DISCUSSION AND ANALYSIS

Seize market opportunities and expand sales in the marine and high-speed locomotive segment

The transport industry will continue to grow at a certain pace against the background of economic globalisation. In particular, the PRC has developed into one of the largest shipbuilders in the world. This also brings great market potential for the Group.

The development of high-speed locomotives and urban light rails in the PRC, one of the most heavily populated countries in the world, will greatly improve transport conditions, enhance transport capacity and make it convenient for people to travel around. The PRC government is striving to speed up the construction of inter-city transport infrastructure, which will also offer tremendous business opportunities for the Group. Consequently, the transport industry will become another new market area for the Group. The production and sale of transmission equipment for marine vessels and high-speed locomotives will become the Group's new source of economic growth.

Strengthen the research and development of new products and expand into new market areas

To maintain its continuous growth momentum, the Group will strengthen the research and development of new products, develop new industry segments and extend its industry chain toward electromechanical integration. By taking such measures, the Group will be able to expand the market area for its products, improve the technical value of products and obtain greater economic benefit.

Expand into the international market to access greater market area

Following its successful listing in Hong Kong, the Group has attracted the attention of the whole world with its remarkable business performance, which in provides more opportunities for the Group to expand into the international market. The Group will seize this opportunities to expand into the international market and expose itself to a greater market area. By leveraging its own strengths, the Group will increase its share in the international market and procure the sales to grow rapidly.

Place emphasis on the development of the Group's the talent pool and improve competitiveness in the international market

As the Group is now operating in the international market, it is effective for the Group to enhance its competitiveness through the development of a talent pool. Therefore, the Group will strengthen the development of its R&D team while making further investment in the improvement of its production capacity. The Group will strive to cultivate a team of talented undivided specialising in technology, international sales and corporate management. Supported by these talents, the Group will have strong competitiveness in the international market and become a leading manufacturer worldwide.

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

	For the six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
High-speed Series Gear Transmission Equipment	11,733	13,459
Gear Transmission Equipment for Construction Materials	222,752	165,176
General Purpose Gear Transmission Equipment	82,680	61,101
Gear Transmission Equipment for Bar-rolling Wire-rolling and Plate-rolling Mills	121,577	166,649
Wind Gear Transmission Equipment	573,708	308,179
Marine Gear Transmission Equipment	231,411	23,245
Others	106,396	135,142
Total	1,350,257	872,951

The Group's revenue during the Period under Review was approximately RMB1,350,257,000, an increase of approximately 54.7% as compared with the same period last year. Such an increase was mainly due to the continued growth in our sales volume during the Period under Review. In particular, this was mainly attributable to an increase of 86.2% in the sales revenue of wind power generation gear transmission equipment from approximately RMB308,179,000 for the six months ended 30 June 2007 to RMB573,708,000 for the six months ended 30 June 2008, an increase of 895.5% in marine gear transmission equipment from approximately RMB23,245,000 for the six months ended 30 June 2007 to RMB231,411,000 for the six months ended 30 June 2008, and increases of 34.9% and 35.3% in gear transmission equipment for construction materials and general purpose gear transmission equipment from approximately RMB165,176,000 and approximately RMB61,101,000 for the six months ended 30 June 2007 to RMB222,752,000 and RMB82,680,000 for the six months ended 30 June 2008 respectively. During the Period under Review, sales revenue of wire-rolling and plate-rolling mills transmission equipment decreased, which was mainly due to the concentration in the production of large plate-rolling products which have a longer production cycle. Sales of these products are expected to be finalised in the second half of the year.

GROSS PROFIT MARGIN AND GROSS PROFIT

The Group's consolidated gross profit margin increased during the Period under Review through price transferring, cost controls and enhancements in production efficiency. Its consolidated gross profit for the six months ended 30 June 2008 reached approximately RMB417,327,000 (30 June 2007: RMB233,128,000), an increase of 79.0% as compared with the same period last year. This was mainly attributable to increased sales of wind power generation gear transmission equipment and marine gear transmission equipment. The gross profits of wind power generation gear transmission equipment and marine gear transmission equipment increased from approximately RMB75,602,000 and RMB6,546,000 for the six months ended 30 June 2007 to approximately RMB171,636,000 and RMB61,392,000 for the six months ended 30 June 2008, increase of 127.0% and 837.9% respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

OTHER INCOMES

Other incomes of the Group during the six months ended 30 June 2008 were about RMB47,463,000 (30 June 2007: RMB67,139,000), a decrease of approximately 29.3% as compared with the same period last year.

Other incomes was mainly comprised of bank interest income and sales of scrap metal.

DISTRIBUTION AND SELLING COSTS

The distribution and selling costs of the Group for the six months ended 30 June 2008 were approximately RMB40,018,000 (30 June 2007: RMB34,379,000), representing an increase of 16.4% over the same period last year. The increase was mainly attributable to increased sales revenue. However, the percentage of distribution and selling costs to sales revenue for the six months ended 30 June 2008 was 3.0% (30 June 2007: 3.9%), representing a decrease of 0.9% over the same period last year. This was mainly attributable to a decrease in some selling expenses such as marketing expenses and salaries of sales personnel as a result of strong market demand for wind power generation gear transmission equipment.

ADMINISTRATIVE EXPENSES

Administrative expenses of the Group increased from approximately RMB95,834,000 in the same period last year to approximately RMB129,080,000, mainly due to the increase in the number of employees and staff costs, and the intermediary professional expenses incurred after the listing of the Company.

OTHER EXPENSES

Other expenses of the Group during the Period under Review were approximately RMB64,697,000 (30 June 2007: nil), which comprised of net loss on foreign exchange of approximately RMB29,762,000 and expenses on issuance of convertible bonds of approximately RMB34,935,000.

FINANCE COSTS

For the first half of 2008, finance costs of the Group were approximately RMB8,625,000 (30 June 2007: RMB19,916,000), a decrease from the same period last year, which was mainly attributable to the significant reduction in bank loans during the Period under Review.

MANAGEMENT DISCUSSION AND ANALYSIS

CHANGES IN THE FAIR VALUES OF DERIVATIVE FINANCIAL INSTRUMENTS

CONVERTIBLE BONDS

On 14 May 2008, the Company issued a RMB denominated USD settled zero coupon convertible bond, of principal amount of RMB1,996,300,000. As at 30 June 2008, loss of fair value on such convertible bond was approximately RMB46,040,000 which is set out in note 12.

EQUITY SWAP

Concurrently with the issuance of the RMB denominated USD settled zero coupon convertible bonds, the Company entered into a cash settled equity swap transaction with Morgan Stanley & Co. International plc (the Equity Swap Counterparty) for the Company's shares up to a value of HK$1,113,013,000 (equivalent to approximately RMB998,000,000). Further details for the Equity Swap were set out in the Company's announcement dated 24 April 2008. As at 30 June 2008, gain on the fair value changes on such Equity Swap was approximately RMB121,569,000 which is set out in note 13.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2008, the equity attributable to equity holders of the Company amounted to RMB3,263,476,000 (31 December 2007: RMB3,104,545,000). The Group had total assets of RMB7,408,928,000 (31 December 2007: RMB4,785,580,000), an increase of RMB2,623,348,000 or 54.8%, compared with that at the beginning of the year. Total current assets of the Group were RMB4,757,700,000, representing an increase of 56.8% as compared with 31 December 2007 and accounting for 64.2% of total assets. Total non-current assets were RMB2,651,228,000 (31 December 2007: RMB1,750,717,000), representing an increase of RMB900,511,000 and accounting for 35.8% of the total assets.

As at 30 June 2008, total liabilities of the Group were RMB4,141,373,000 (31 December 2007: RMB1,677,713,000), representing an increase of 146.8% compared with that at the beginning of the year. Total current liabilities were RMB1,919,130,000 (31 December 2007: RMB1,592,449,000), representing an increase of RMB326,681,000 as compared with that at the beginning of the year, whereas total non-current liabilities were RMB2,222,243,000 (31 December 2007: RMB85,264,000), representing an increase of RMB2,136,979,000 as compared with that at the beginning of the year.

As at 30 June 2008, total net current asset of the Group was RMB2,838,570,000 (31 December 2007: RMB1,442,414,000), representing an increase of RMB1,396,156,000 as compared with that at the beginning of the year.

As at 30 June 2008, total bank balances and cash of the Group were approximately RMB2,685,939,000 (31 December 2007: RMB1,693,411,000), that includes pledged bank deposits of approximately RMB269,015,000 (31 December 2007: RMB177,265,000), and cash with restrictions of approximately RMB978,540,000 (31 December 2007: RMB nil). These restricted cash of approximately HK$1,113,013,000 (equivalent to approximately RMB978,540,000) shall be paid by the Group as pledged fund in respect of the Equity Swap entered with Morgan Stanley & Co. International plc on 22 April 2008.

As at 30 June 2008, the Group had total bank loans of about RMB69,926,000 (31 December 2007: RMB493,858,000), of which short-term bank loans were approximately RMB Nil (31 December 2007: RMB420,818,000). The Group's long-term bank loans bore fixed interest rates, with practical interest rate ranging from 6.3831% to 6.5%.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

As at 30 June 2008, bank deposits of RMB269,015,000 (31 December 2007 : RMB 177,265,000) were pledged to banks to secure notes payable utilised by the Group. In addition, there were deposits of RMB978,540,000 with restrictions used as pledge for Equity Swap transactions. Save as the above, the Group has made no further pledge of assets in the first half of 2008.

GEARING RATIO

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) was 55.9% (31 December 2007: 35.1%), representing an increase as compared with that at the beginning of the year.

CAPITAL STRUCTURE

On 14 May 2008, the Company issued RMB denominated USD settled Zero Coupon Convertible Bonds due in 2011 for a total principal amount of RMB1,996,300,000 (equivalent to approximately US$286,000,000) to Morgan Stanley & Co. International plc (as the Lead Manager). Based on an initial conversion price of HK$17.78 and assuming the bonds are fully converted at the initial conversion price, the number of shares to be issued pursuant to the conversion will be approximately 125,198,306 shares, representing approximately 10.1% of the Company's existing share capital, and approximately 9.1% of the Company's enlarged share capital in issue after the full conversion of the bonds. Further details were set out in the Company's announcements dated 24 April 2008 and 14 May 2008.

The Group's bank borrowings were mainly denominated in US dollars. As at 30 June 2008, of the Group's cash and cash equivalents, approximately 80.2% were in Renminbi, 14.7% were in US dollars, and an aggregate of 5.1% were in Australian dollars, Euros and Hong Kong dollars.

The Group funds its operational needs from shareholders' equity and internal resources. The Group will continue to adopt the existing financial policy of depositing its cash and cash equivalents as interest bearing deposits.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

The Group's operations are mainly conducted in the PRC. Except for the export sales as well as the imported equipment, spare parts and materials which are transacted in U.S. dollars and Euros, most of the Group's revenue is denominated in Renminbi. Therefore, the Board of the Company is of the view that the Group's operating cash flow and liquidity during the Period under Review is not subject to significant foreign exchange rate risks.

As at 30 June 2008, the net balance of the Hong Kong dollar proceeds which the Company received from the global offerings on 4 July 2007 and the net proceeds of approximately US$280 million derived from the issue of bonds on 14 May 2008 were mostly converted into Renminbi, while the remaining cash denominated in US dollars accounted for approximately 14.7% of the total cash and cash equivalents. In addition, the Group's bank borrowing denominated in U.S. dollars as at 30 June 2008 was approximately US$10,000,000. The Group may thus be exposed to foreign exchange risks.

MANAGEMENT DISCUSSION AND ANALYSIS

For the six months ended 30 June 2008, the Group recorded a net exchange loss of approximately RMB29,762,000, which were mainly due to the appreciation of the Renminbi against major foreign currencies during the Period under Review. Based on the above reasons, the Group actively handled the net assets and liabilities in foreign currencies through setting up foreign currency control measures and strategies, with the aim to minimise foreign exchange risks in 2008.

CONTINGENT LIABILITIES

As at 30 June 2008, the directors were not aware of any material contingent liabilities.

COMMITMENTS

As at 30 June 2008, the Group had total expenditures contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment , shareholdings in certain joint ventures and associates of RMB1,653,858,000 (31 December 2007: RMB942,344,000). Please refer to financial note 14 for details.

INTEREST RATE RISK

The interest bearing financial assets of the Group were mainly pledged bank deposits and bank balances, which were all short term and carried fixed interest rates. The interest bearing financial liabilities of the Group were mainly long-term bank loans, which had fixed interest rates. Accordingly, the Group believes that it is not exposed to significant fair value interest rate risk. The Group currently does not have any interest rate hedging policy.

EMPLOYEES

As at 30 June 2008, the Group employed approximately 3,204 employees (30 June 2007: 2,400). Staff costs of the Group for the first half of 2008 approximated to RMB122,316,000 (30 June 2007: RMB90,523,000). The costs included basic salaries and benefits as well as staff benefits such as discretionary bonuses, medical and insurance plans, pension schemes, unemployment insurance plans etc. The salary levels of employees are generally determined by reference to the employees' positions, responsibilities and performance as well as the Group's financial performance. In addition to salaries, the Group provides housing allowances to some of its employees. The Group also offers incentive programmes to encourage its employees to take initiatives and rewards employees who have made valuable contributions or achieved technical breakthroughs. The Group's employees are rewarded for their creativity achievements in technologies and technical skills, management of information, product quality and enterprise management. The Group has adopted incentive programs to encourage employee performance and a range of training programs for the development of its staff.

INTERIM DIVIDEND

There is no interim dividend proposed for the six-month period ended 30 June 2008.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT HELD

Nanjing Drive, a wholly-owned subsidiary of the Company, entered into a joint venture agreement with Mr. Ou Hongyuan and Ms. Shao Yanping (who are third parties independent of the Group and its related parties) on 30 June 2008, and agreed to contribute approximately RMB548,619,000 in Jiangsu Hongsheng. Upon completion of the capital contribution, Nanjing Drive is interested as to 50.01% in Jiangsu Hongsheng. The transaction is a disclosable transaction under the Listing Rules. For details of the joint venture agreement, please refer to the announcement of the Company dated 3 July 2008 and circular dated 22 July 2008.

Save as disclosed above, there was no significant investment held by the Group as at 30 June 2008

MATERIAL ACQUISITION AND DISPOSAL

On 30 June 2008, Nanjing Drive, a wholly-owned subsidiary of the Company, entered into a equity transfer agreement with Nanjing High Speed Gear Industrial Development Co., Ltd. (南京高速齒輪產業發展有限公司) ("NGID") for the acquisition of 69.98% interests in Nanjing Yongfa Marine Equipment Co., Ltd. (南京永發船舶設備製造有限公司) held by NGID at a consideration of RMB28,200,000. The transaction is a connected transaction under the Listing Rules. For details of the equity transfer agreement, please refer to the announcement of the Company dated 3 July 2008.

Save as disclosed above, during the Period under Review, there was no material acquisition and disposal of subsidiaries and associated companies.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

As at the date of this interim report, the Group did not enter into any agreement in respect of any proposed acquisitions and did not have any future plans relating to material investment or capital asset.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of corporate governance practice to the success of a listed company. The Company is committed to achieving a high standard of corporate governance in the interest of the shareholders of the Company.

For the six months ended 30 June 2008, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the deviation from Code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Hu Yueming is the Chairman and chief executive officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person is beneficial to the business development and management of the Group. The Board considers that the balance of power and authority under the present arrangement will not be impaired and this arrangement will enable the Company to make and implement decisions promptly and efficiently.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiries of all directors, all directors have confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2008.

PURCHASE, SALE OR REDEMPTION OF THE LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, redeemed or cancelled any of the Company's listed securities during the six months ended 30 June 2008.

AUDIT COMMITTEE

The Company established the audit committee on 8 June 2007 with written terms of reference which has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Company as well as nominating and supervising the external auditor and offering advice and recommendations to the Board of the Company.

The audit committee comprises three members, namely Mr. Jiang Xihe, Mr. Zhu Junsheng and Mr. Zhang Wei, among which two of them are independent non-executive Directors. Mr. Jiang Xihe is the chairman of the audit committee.

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2008 have been reviewed by the audit committee. The audit committee considered that the financial statements are in compliance with the applicable accounting standards and legal requirements, and that full disclosures have been made.

CORPORATE GOVERNANCE AND OTHER INFORMATION

REMUNERATION COMMITTEE

The Company established the remuneration committee on 8 June 2007. The remuneration committee comprises three members, namely Mr. Chen Shimin, Mr. Zhang Wei and Mr. Jiang Xihe, of which two of them are independent non-executive Directors. Mr. Chen Shimin is the chairman of the remuneration committee. The primary duties of the remuneration committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management and determine the specific remuneration packages of all executive Directors and senior management.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE COMPANY'S ISSUED SHARES

As at 30 June 2008, none of the directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which would be required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code contained in the Listing Rules.

During the reporting period, none of the Directors or the chief executive of the Company nor its associates had any interest in the securities of the Company or its associated corporations (within the meaning of the SFO). None of the Directors or the chief executive, nor their spouses or children under 18 had any right to subscribe securities in the Company or has exercised such rights.

During any time in the reporting period, none of the Company nor its holding company nor its subsidiaries had entered into any arrangements to allow the Directors or the chief executive to benefit by acquiring shares or bonds of the Company or other body corporate.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE COMPANY'S ISSUED SHARES

As at 30 June 2008, the following persons, other than the directors or chief executives of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under section 336 of the SFO:

Name	Nature of interests	Number of securities held	Approximate percentages to the equity (%)
Fortune Apex Limited *(Note 1)*	Beneficial owner	333,474,024 (Long position)	26.79 (Long position)
Luckever Holdings Limited *(Note 2)*	Beneficial owner	163,247,700 (Long position) 3,000,000 (Short position)	13.11 (Long position) 0.24 (Short position)
Mr. Liu Xuezhong *(Note 2)*	Interest of a controlled corporation and interest of spouse	163,247,700 (Long position) 3,000,000 (Short position)	13.11 (Long position) 0.24 (Short position)
Ms. Li Yuelan *(Note 2)*	Interest of a controlled corporation and interest of spouse	163,247,700 (Long position) 3,000,000 (Short position)	13.11 (Long position) 0.24 (Short position)
Morgan Stanley *(Note 3)*	Interest of a controlled corporation	113,472,632 (Long position) 114,966,058 (Short position)	9.11 (Long position) 9.23 (Short position)

CORPORATE GOVERNANCE AND OTHER INFORMATION

Notes:

(1) Fortune Apex Limited owns 26.79% interest in the issued share capital of the Company. Messrs. Hu Yueming, Liu Jianguo, Lu Xun, Chen Yongdao, Li Cunzhang, Li Shengqiang, Liao Enrong, Jin Maoji, Yao Jingsheng, Chen Zhenxing, Zhang Xueyong, Xu Yong, Wang Zhengrong and Chen Liguo (collectively, the "Management Shareholders") together own 100% interest in the issued share capital of Fortune Apex Limited. The following table sets out the shareholdings of each of the Management Shareholders in Fortune Apex Limited:

	Name	Shareholdings
1	Mr. Hu Yueming *(executive Director)*	30.3813%
2	Mr. Liu Jianguo *(executive Director)*	12.3989%
3	Mr. Lu Xun *(executive Director)*	10.4520%
4	Mr. Chen Yongdao *(executive Director)*	10.5343%
5	Mr. Li Cunzhang *(executive Director)**	8.8945%
6	Mr. Li Shengqiang *(executive Director)*	8.9725%
7	Mr. Liao Enrong *(executive Director)*	5.3422%
8	Mr. Jin Maoji	5.9195%
9	Mr. Yao Jingsheng	2.5678%
10	Mr. Chen Zhenxing	0.9091%
11	Mr. Zhang Xueyong	1.1286%
12	Mr. Xu Yong	0.7376%
13	Mr. Wang Zhengrong	0.6792%
14	Mr. Chen Liguo	1.0825%
Total		100.0000%

* Mr. Li Cunzhang passed away on 10 August 2007.

However, none of them singly controls more than one-third of the voting power at general meetings of Fortune Apex Limited and neither Fortune Apex Limited nor its directors are accustomed or obliged to act in accordance with directions or instruction of any single member of the Management Shareholders.

(2) Luckever Holdings Limited owns 13.11% interest in the issued share capital of the Company. Mr. Liu Xuezhong and Ms. Li Yuelan own 60.87% and 39.13% interest in the issued share capital of Luckever Holdings Limited respectively. Ms. Li Yuelan is the spouse of Mr. Liu Xuezhong and therefore is deemed to be interested in the shares of the Company in which Mr. Liu Xuezhong is deemed to be interested for the purpose of the SFO and vice versa. Pursuant to the SFO, Mr. Liu Xuezhong and Ms. Li Yuelan are deemed to be interested in the 163,247,700 shares of the Company in which Luckever Holdings Limited is currently interested.

(3) Morgan Stanley is deemed to be directly or indirectly interested in the shares held by its holding companies, namely Morgan Stanley Capital Management, L.L.C., Morgan Stanley Domestic Holdings, Inc., Morgan Stanley International Incorporated, Morgan Stanley International Holdings Inc., Morgan Stanley Asia Pacific (Holdings) Limited, Morgan Stanley International Limited, Morgan Stanley Group (Europe), Morgan Stanley UK Group, Morgan Stanley Securities Limited, Morgan Stanley & Co. International plc., Morgan Stanley (Hong Kong) Holdings Limited, Morgan Stanley Hong Kong 1239 Limited, Morgan Stanley Hong Kong 1238 Limited, Morgan Stanley Asia Securities Products LLC, Morgan Stanley Hong Kong Securities Limited, MSW Offshore Equity Services Inc., Morgan Stanley Swiss Holdings GmbH, Morgan Stanley Capital Services Inc., Morgan Stanley Hedging Co., Ltd. and Morgan Stanley & Co, Inc.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Save as disclosed above, so far as the Directors are aware, as at 30 June 2008, none of parties (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under section 336 of the SFO.

SHARE OPTION SCHEME

TThe Company adopted a share option scheme on 8 June 2007 pursuant to the written resolutions of all shareholders of the Company. No options were granted under the share option scheme during the six months ended 30 June 2008.

By order of the Board
Mr. Hu Yueming
Chairman

Hong Kong, 17 September 2008

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Board is pleased to present the Group's unaudited consolidated results for the six months ended 30 June 2008, together the comparative figures are as follows. The interim financial statements are unaudited, but have been reviewed by the Company's audit committee and Deloitte Touche Tohmatsu, the Company's auditors.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF
CHINA HIGH SPEED TRANSMISSION EQUIPMENT GROUP CO., LTD.
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial information set out on pages 23 to 39, which comprise the condensed consolidated balance sheet of China High Speed Transmission Equipment Group Co., Ltd. as of 30 June 2008 and the related condensed consolidated income statement, statements of changes in equity and cash flow statement for the six-month period then ended and certain explanatory notes. The Main Board Listing Rules governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard ("IAS") 34 "Interim Financial Reporting" issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of this interim financial information in accordance with IAS 34. Our responsibility is to express a conclusion on this interim financial information based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
17 September 2008

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

	NOTES	Six months ended 30 June 2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited)
Revenue	3	1,350,257	872,951
Cost of sales		(932,930)	(639,823)
Gross profit		417,327	233,128
Other income		47,463	67,139
Distribution and selling costs		(40,018)	(34,379)
Administrative expenses		(129,080)	(95,834)
Research and development costs		(10,359)	(7,924)
Other expenses		(64,697)	—
Finance costs		(8,625)	(19,916)
Share of losses of associates		(912)	(1,230)
Fair value changes on derivative financial instruments		121,569	—
Fair value changes on convertible bonds		(46,040)	—
Profit before taxation		286,628	140,984
Taxation	4	(33,620)	(7,059)
Profit for the period	5	253,008	133,925
Attributable to:			
Equity holders of the parent		252,767	133,773
Minority interests		241	152
		253,008	133,925
Dividends	6	87,568	34,789
Basic earnings per share (RMB)	7	0.20	0.15

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

	NOTES	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	1,909,118	1,405,364
Prepaid lease payments		139,208	49,893
Intangible assets		64,705	54,848
Interests in associates		29,641	7,536
Available-for-sale investments		25,436	14,703
Prepayment for land lease		102,800	114,210
Prepayment for acquisition of property, plant and equipment		157,751	95,880
Deferred tax assets		7,995	8,283
Derivative financial instruments	13	214,574	—
		2,651,228	1,750,717
CURRENT ASSETS			
Inventories		1,141,312	646,107
Prepaid lease payments		2,907	1,226
Available-for-sale investments		—	43,000
Trade and other receivables	9	899,267	638,497
Amount due from an associate		22,625	10,906
Amount due from a related party		5,650	1,716
Pledged bank deposits		269,015	177,265
Restricted cash		978,540	—
Bank balances and cash		1,438,384	1,516,146
		4,757,700	3,034,863
CURRENT LIABILITIES			
Trade and other payables	10	1,785,076	1,156,074
Dividends payable		87,568	—
Tax liabilities		36,486	15,557
Borrowings – due within one year	11	10,000	420,818
		1,919,130	1,592,449

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2008

	NOTES	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000 (Audited)
NET CURRENT ASSETS		2,838,570	1,442,414
TOTAL ASSETS LESS CURRENT LIABILITIES		5,489,798	3,193,131
NON-CURRENT LIABILITIES			
Borrowings – due after one year	11	69,926	73,040
Financial liabilities designated as at fair value through profit or loss - convertible bonds	12	2,135,345	—
Deferred tax liabilities		16,972	12,224
		2,222,243	85,264
		3,267,555	3,107,867
CAPITAL AND RESERVES			
Share capital		94,629	94,629
Reserves		3,168,847	3,009,916
Equity attributable to equity holders of the parent		3,263,476	3,104,545
Minority interests		4,079	3,322
		3,267,555	3,107,867

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Attributable to equity holders of the parent										
	Paid-in-capital/ Share capital RMB'000	Share premium RMB'000	Deemed capital contribution reserve RMB'000	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Investment revaluation reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2007 (audited)	12	173,722	77,651	154,091	49,923	52,335	–	19,265	526,999	4,229	531,228
Profit for the period and total recognised income	–	–	–	–	–	–	–	133,773	133,773	152	133,925
Issue of ordinary shares at a premium	–	64,311	–	–	–	–	–	–	64,311	–	64,311
Dividend recognised as distribution	–	–	–	–	–	–	–	(34,789)	(34,789)	–	(34,789)
Appropriation	–	–	–	–	1,104	–	–	(1,104)	–	–	–
Acquisition of additional equity interests in a subsidiary	–	–	–	388	–	–	–	–	388	(658)	(270)
At 30 June 2007 (unaudited)	12	238,033	77,651	154,479	51,027	52,335	–	117,145	690,682	3,723	694,405
Gain on fair value change of available-for-sale investment	–	–	–	–	–	–	13,353	–	13,353	–	13,353
Deferrded tax liabilities arising on gain on fair value change of available-for-sale investment	–	–	–	–	–	–	(1,878)	–	(1,878)	–	(1,878)
Net income recognised directly in equity	–	–	–	–	–	–	11,475	–	11,475	–	11,475
Profit for the period	–	–	–	–	–	–	–	172,920	172,920	(401)	172,519
Total recognised income (expense) for the period	–	–	–	–	–	–	11,475	172,920	184,395	(401)	183,994
Issue of shares at premium through initial public offer	26,222	2,353,848	–	–	–	–	–	–	2,380,070	–	2,380,070
Issue of shares by capitalisation of share premium account	68,395	(68,395)	–	–	–	–	–	–	–	–	–
Transaction costs attributable to issue of shares	–	(150,602)	–	–	–	–	–	–	(150,602)	–	(150,602)
Appropriation	–	–	–	–	31,203	–	–	(31,203)	–	–	–
At 31 December 2007 (audited)	94,629	2,372,884	77,651	154,479	82,230	52,335	11,475	258,862	3,104,545	3,322	3,107,867
Loss on fair value change of available-for-sale investment	–	–	–	–	–	–	(7,267)	–	(7,267)	–	(7,267)
Deferred tax liabilities reversal on loss on fair value change of available-for-sale investment	–	–	–	–	–	–	999	–	999	–	999
Net expense recognised directly in equity	–	–	–	–	–	–	(6,268)	–	(6,268)	–	(6,268)
Profit for the period	–	–	–	–	–	–	–	252,767	252,767	241	253,008
Total recognised income (expense) for the period	–	–	–	–	–	–	(6,268)	252,767	246,499	241	246,740
Dividend recognised as distribution	–	–	–	–	–	–	–	(87,568)	(87,568)	–	(87,568)
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	–	–	516	516
At 30 June 2008 (unaudited)	94,629	2,372,884	77,651	154,479	82,230	52,335	5,207	424,061	3,263,476	4,079	3,267,555

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2008

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	**82,801**	143,472
Net cash used in investing activities:		
Purchase of property, plant and equipment	**(373,001)**	(288,993)
Prepayment for land lease	**(53,590)**	(17,940)
Prepayment for acquisition of property, plant and equipment	**(157,751)**	—
(Increase) decrease in pledged bank deposits	**(91,750)**	44,875
Increase in restricted cash	**(978,540)**	—
Expenditure on intangible assets	**(19,528)**	(1,259)
Investment in associates	**(23,017)**	—
Other investing cash flows	**(2,194)**	(33)
	(1,699,371)	(263,350)
Net cash from financing activities:		
Issue of convertible bonds	**1,996,300**	—
New borrowings raised	**10,000**	450,305
Repayment of borrowings	**(423,932)**	(381,908)
Issue of ordinary shares	**—**	64,311
Dividends paid	**—**	(34,789)
Other financing cash flows	**(43,560)**	(36,437)
	1,538,808	61,482
Net decrease in cash and cash equivalents	**(77,762)**	(58,396)
Cash and cash equivalents at 1 January	**1,516,146**	196,098
Cash and cash equivalents at 30 June, represented by bank balances and cash	**1,438,384**	137,702

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

1. BASIS OF PREPARATION

The Company was incorporated in the Cayman Islands and its shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited on 4 July 2007.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard ("IAS") 34 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial information has been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as appropriate.

The accounting policies used in the preparation of the condensed consolidated financial information are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2007, except for the following accounting policy newly adopted in current period.

Derivative financial instruments

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

In the current review period, the Group has applied, for the first time, the following new interpretations ("new Interpretations") issued by the International Accounting Standards Board, which are effective for the Group's financial year beginning on 1 January 2008.

IFRIC 11	IFRS 2: Group and Treasury Share Transactions
IFRIC 12	Service Concession Arrangements
IFRIC 14	IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of these new Interpretations has had no material effect on the results or financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

The Group has not early applied the following new or revised standards, amendments or interpretations that have been issued but are not yet effective.

IFRSs (Amendments)	Improvements to IFRSs[1]
IAS 1 (Revised)	Presentation of Financial Statements[2]
IAS 23 (Revised)	Borrowing Costs[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[3]
IAS 32 and IAS 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation[2]
IAS 39 (Amendment)	Eligible Hedged Item[3]
IFRS 1 and IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate[2]
IFRS 2 (Amendment)	Vesting Conditions and Cancellations[2]
IFRS 3 (Revised)	Business Combinations[3]
IFRS 8	Operating Segments[2]
IFRIC 13	Customer Loyalty Programmes[4]
IFRIC 15	Agreement for the Construction of Real Estate[2]
IFRIC 16	Hedges of a Net Investment in a Foreign Operation[5]

[1] Effective for annual periods beginning on or after 1 January 2009 except the amendments to IFRS 5, effective for annual periods beginning on or after 1 July 2009

[2] Effective for annual periods beginning on or after 1 January 2009

[3] Effective for annual periods beginning on or after 1 July 2009

[4] Effective for annual periods beginning on or after 1 July 2008

[5] Effective for annual periods beginning on or after 1 October 2008

The adoption of IFRS 3 (Revised) may affect the accounting for business combination for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. IAS 27 (Revised) will affect the accounting treatment for changes in a parent's ownership interest in a subsidiary that do not result in a loss of control, which will be accounted for as equity transactions. The directors of the Company anticipate that the application of the other new or revised standards or interpretations will have no material impact on the results and the financial position of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

3. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the amounts received and receivable for goods sold, net of sales taxes and return, for the period. The Group's operation is regarded as a single business segment, being the production and sale of gear products.

Primary report segment – geographical segments

The Group primarily operates in the People's Republic of China (the "PRC"), sales are made to PRC customers as well as customers in overseas. The Group's sales by geographical locations of customers are determined by the final destination to where the products as delivered irrespective of the origin of the goods:

	Six months ended 30 June	
	2008 RMB'000	2007 RMB'000
Revenue		
– PRC	**1,045,169**	821,279
– Europe	**212,302**	22,090
– Others	**92,786**	29,582
	1,350,257	872,951
Segment result		
– PRC	**324,221**	197,098
– Europe	**43,709**	5,782
– Others	**24,307**	1,278
	392,237	204,158
Other income	**32,535**	61,730
Finance costs	**(8,625)**	(19,916)
Share of losses of associates	**(912)**	(1,230)
Fair value changes on derivative financial instruments	**121,569**	—
Fair value changes on convertible bonds	**(46,040)**	—
Unallocated expenses	**(204,136)**	(103,758)
Profit before taxation	**286,628**	140,984
Taxation	**(33,620)**	(7,059)
Profit for the period	**253,008**	133,925

In the opinion of the directors, it is not practicable and meaningful to separate all the cost and expenses for each geographical segment except certain direct cost of sales and certain directly attributable selling and distribution expenses.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

4. TAXATION

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
PRC enterprise income tax		
– Current period	40,950	7,620
– Overprovision in respect of prior period	(600)	(435)
– Other tax benefit	(12,765)	—
	27,585	7,185
Deferred tax	6,035	(126)
	33,620	7,059

The Company is not subject to any taxation in the Cayman Islands as the Cayman Islands levies no tax on the income of the Group.

No provision for Hong Kong Profits Tax has been made as the Group has no assessable profit arising in Hong Kong.

On 16 March 2007, the PRC promulgated the Law of the PRC on Enterprise Income Tax (the "New Law") by Order No. 63 of the President of the PRC. On 6 December 2007, the State Council of the PRC issued Implementation Regulations of the New Law. The New Law and Implementation Regulations changed the tax rate from 33% to 25% for all the Company's PRC subsidiaries from 1 January 2008.

Taxation arising in the PRC is calculated at 25% (2007: 33%) on the estimated assessable profit of those subsidiaries that are subject to Enterprise Income Tax ("EIT") in the PRC, except for certain PRC subsidiaries which are exempted from EIT in accordance with the approval from the relevant tax bureaus.

Nianjing High Speed & Accurate Gear (Group) Co., Ltd. ("NGC") is an advanced technology enterprise and is established in Nanjing Economic Technology Industry Development Zone, Jiangsu Province. The applicable income tax rate adopted by NGC will be gradually transited from 18% (2007: 15%) to the unified tax rate of 25% over a five-year transitional period.

Nanjing Gaote Gear Box Manufacturing Co., Ltd is entitled to a 50% relief from the Foreign Enterprise Income Tax in the current period (2007: exempted).

The New Law imposes withholding tax upon the distribution of the profits earned by the PRC subsidiaries on or after 1 January 2008 to their shareholders. Deferred tax of approximately RMB4,174,000 has been recognised in the condensed consolidated financial statements in respect of the temporary differences attributable to such undistributed profits.

There was no significant unprovided deferred taxation for the period or at the balance sheet date.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

5. PROFIT FOR THE PERIOD

Profit for the period has been arrived at after charging (crediting):

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Allowance for inventories	2,357	2,593
Amortisation of intangible assets	9,671	3,215
Bank interest income	(27,619)	(2,527)
Depreciation of property, plant and equipment	54,012	36,411
Exchange loss, net (included in other expenses)	29,762	—
Impairment loss on trade and other receivables	4,055	5,087
Interest income arising from subscription monies in relation to global offering of the Company's share	—	(57,281)
Listing expense charged to profit or loss	—	14,238
(Gain) loss on disposal of property, plant and equipment	(54)	2,575
Release of prepaid lease payments	504	326
Transaction costs on convertible bonds (included in other expenses)	34,935	—

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

6. DIVIDENDS

During the period, a dividend of HK8 cents, equivalent to RMB7 cents, (2007: US$40.565, equivalent to RMB313.97) per share was declared to shareholders as the final dividend for 2007.

The directors do not propose the payment of an interim dividend for the six-month period ended 30 June 2008 (2007: nil).

7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company for the six months ended 30 June 2008 and 2007 were based on profit for the period attributable to equity holders of the Company of RMB252,767,000 and RMB133,773,000 and on weighted average number of 1,245,000,000 and 890,055,000 shares in issue, respectively.

No diluted earnings per share is presented for the period ended 30 June 2008 because assuming the conversion of convertible bonds would result in an increase in earnings per share.

No diluted earnings per share is presented for the period ended 30 June 2007 as there was no potential ordinary shares in issue.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB557,817,000 (2007: RMB294,387,000) for the business expansion.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

9. TRADE AND OTHER RECEIVABLES

	30 June 2008 RMB'000	31 December 2007 RMB'000
Notes receivable	226,397	165,707
Accounts receivables	388,356	307,185
Less: allowance for doubtful debts	(35,594)	(31,539)
Total trade receivables	579,159	441,353
Advances to suppliers	231,229	157,230
Value added tax recoverable	50,112	24,609
Others	38,767	15,305
Total trade and other receivables	899,267	638,497

The Group generally allows an average credit period of 90 days to 180 days to its trade customers.

The following is an aged analysis of the trade receivables, net of allowance for doubtful debts, at the reporting date:

	30 June 2008 RMB'000	31 December 2007 RMB'000
0 - 90 days	524,260	350,997
91 - 120 days	16,960	11,422
121 - 180 days	14,352	15,990
181 - 365 days	7,512	46,783
Over 365 days	16,075	16,161
	579,159	441,353

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

10. TRADE AND OTHER PAYABLES

	30 June 2008 RMB'000	31 December 2007 RMB'000
Notes payable (note)	550,980	313,232
Accounts payables	393,244	285,416
Total trade payables	944,224	598,648
Advances from customers	618,270	423,592
Payable for acquisitions of property, plant and equipment	164,988	76,052
Payroll and welfare payables	25,536	23,524
Accrued expenses	6,233	4,319
Others	25,825	29,939
Total trade and other payables	1,785,076	1,156,074

Note: Notes payable are secured by the Group's own assets as set out in note 15.

The following is an aged analysis of the Group's trade payables at the balance sheet date:

	30 June 2008 RMB'000	31 December 2007 RMB'000
0 - 30 days	403,368	492,355
31- 60 days	145,594	57,283
61 - 180 days	375,014	25,533
181 - 365 days	8,917	11,782
Over 365 days	11,331	11,695
	944,224	598,648

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

11. BORROWINGS

The bank borrowings amounting to RMB69,926,000 bear interest at market rate and have fixed terms of repayment. The proceeds were used for the working capital of operation.

The other borrowing amounting to RMB10,000,000 represents a government loan. The proceed was used for the working capital of research and development projects. It is interest-free and repayable upon the completions of the projects.

12. CONVERTIBLE BONDS

On 14 May 2008, the Company issued a RMB denominated USD settled zero coupon convertible bond, of principal amount of RMB1,996.3 million. The aggregate amount of RMB1,996.3 million, at the option of bond holders, will be convertible into fully paid shares with a par value of US$0.1 each of the Company at a conversion price of HK$17.78 per share, with a fixed exchange rate of HK$1.00 to RMB0.8968, but will be subject to adjustment for, among other things, subdivision or consolidation of shares, bonus issues, rights issues, distribution and other dilutive events. If the bond has not been converted, it will be redeemed on 14 May 2011 at an amount equal to the USD equivalent of its principal amount in RMB multiplied by 109.3443%. The Company, however, has the option to mandatorily convert all or some only of the convertible bond provided that: (i) the closing price of the shares, for 20 out of 30 consecutive trading days, was at least 120% of the early redemption amount in effect on such trading days divided by the conversion ratio; or (ii) at least 90% of the convertible bonds, have been redeemed, purchased, converted or cancelled. Due to the availability of a cash settlement option, the bond is regarded as a financial liability with embedded derivatives for the conversion and redemption options and the entire convertible bond instrument designated as fair value through profit or loss.

The movement of convertible bonds for the current period is set out below:

	RMB'000
Issue of convertible bonds on 14 May 2008	2,089,305
Fair value changes on convertible bonds	46,040
As at 30 June 2008	2,135,345

The fair value of the entire convertible bond instrument containing the debt component and the embedded derivatives is measured using effective interest method and Binomial Option Pricing Model respectively. The valuation of the fair value was carried out by Greater China Appraisal Limited, an independent asset appraisal firm of professional valuers.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

12. CONVERTIBLE BONDS *(Continued)*

The inputs into the Binomial Option Pricing Model at the respective valuation dates are as follows:

	14 May 2008	30 June 2008
Exercise price	HK$17.78	HK$17.78
Risk-free rate of interest	2.25%	2.87%
Dividend yield	0.56%	0.56%
Time to expiration	2.96 years	2.83 years
Volatility	53.30%	54.66%

Up to 30 June 2008, there was no conversion or redemption of the convertible bonds.

13. DERIVATIVE FINANCIAL INSTRUMENTS

Concurrently with the issuance of the RMB denominated USD settled zero coupon convertible bonds as disclosed in note 12, the Company entered into a cash settled equity swap transaction (the "Equity Swap") with Morgan Stanley & Co. International plc (the "Equity Swap Counterparty") for the Company's shares up to a value of HK$1,113 million (equivalent to approximately RMB998 million).

Under the Equity Swap, the Company will receive a payment from the Equity Swap Counterparty if the final price is higher than the initial price or will settle the payment to the Equity Swap Counterparty if the final price is lower than the initial price. The initial price is HK$13.6783 (equivalent to approximately RMB12.27) and the final price will be determined with reference to the volume weighted average price of the Company's share. Besides, the Equity Swap will be settled on termination date subject to options early termination event.

The fair value of this derivative financial instruments is measured using Binomial Option Pricing Model. The valuation of the fair value was carried out by Greater China Appraisal Limited, an independent asset appraisal firm of professional valuers.

The inputs into the Binomial Option Pricing Model at the respective valuation dates are as follows:

	14 May 2008	30 June 2008
Exercise price	HK$13.68	HK$13.68
Risk-free rate of interest	2.25%	2.87%
Dividend yield	0.56%	0.56%
Time to expiration	3 years	2.87 years
Volatility	53.30%	54.66%

As the derivative financial instrument will be matured on 14 May 2011, it is classified as non-current asset.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

14. COMMITMENTS

At the balance sheet date, the Group had the following commitments:

	30 June 2008 RMB'000	31 December 2007 RMB'000
Capital expenditure contracted but not provided in the condensed consolidated financial statements in respect of acquisition of:		
– property, plant and equipment	1,077,039	942,344
– 50.01% equity interest in a joint venture (note 17a)	548,619	—
– additional equity interests in an associate and become a subsidiary (note 17b)	28,200	—

15. PLEDGE OF ASSETS

At the balance sheet date, the following assets were pledged to banks to secure the Equity Swap and notes payable utilised by the Group:

	30 June 2008 RMB'000	31 December 2007 RMB'000
Restricted cash	978,540	—
Bank deposits	269,015	177,265
	1,247,555	177,265

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

16. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Relationship	Transactions	Six months ended 30 June 2008 RMB'000	Six months ended 30 June 2007 RMB'000
ZF Nanjing Marine Propulsion Co., Ltd.	Associate	Sales of goods	**22,186**	1,199
		Rental income	**568**	–
		Other income	**125**	–
GE Capital Equity Investments Ltd.	Shareholder	Sales of goods	**–**	32,312
Nanjing Yuhuatai District Saihong Bridge Street Office	Minority shareholder of a subsidiary	Rental expenses	**–**	900
Nanjing High Speed Gear Industrial Development Co., Ltd.	Common beneficial shareholder	Rental expenses	**–**	550

(II) Related party balances

The Group's outstanding balances with a related party are set out on the condensed consolidated balance sheet.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2008

16. RELATED PARTY DISCLOSURES *(Continued)*

(III) Compensation of key management personnel

The remuneration of directors and other members of key management of the Group during the period was as follows:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
Short-term benefits	**2,520**	2,160

The remuneration of directors and key executives were determined by the remuneration committee of the Company having regard to the performance of individuals and market trends.

17. POST BALANCE SHEET EVENTS

Subsequent to 30 June 2008, the Group has the following significant post balance sheet events:

a. Nanjing High Accurate Drive Equipment Manufacturing Corporation Ltd. ("Nanjing Drive"), a wholly-owned subsidiary of the Company, had entered into a joint venture agreement with Mr. Ou Hongyuan and Ms. Shao Yanping, independent third parties to the Group. Pursuant to it, Nanjing Drive agreed to make a capital contribution of approximately RMB548,619,000 to Jiangsu Hongsheng Heavy Industries Group Co., Ltd. ("Jiangsu Hongsheng") of which RMB52,915,000 will be contributed to the registered capital of Jiangsu Honsheng, representing 50.01% equity interest and will become a jointly controlled entity of the Group. The remaining RMB495,704,000 will be contributed to its capital reserves. The acquisition was completed in July 2008.

b. Nanjing Drive entered into an equity transfer agreement with a related company, Nanjing High Speed Gear Industrial Development Co., Ltd., with its shareholders also hold 100% interest in Luckever Holdings Limited, a substantial shareholder of the Company, to acquire its entire 69.98% equity interest in Nanjing Yongfa Marine Equipment Co., Ltd. ("Nanjing Yongfa"), which principally holding a land for a consideration of RMB28,200,000. Nanjing Yongfa changed from an associate to a wholly-owned subsidiary upon completion of the transaction in July 2008.