



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 2007

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Yueming
Mr. Chen Yongdao
Mr. Lu Xun
Mr. Li Shengqiang
Mr. Liu Jianguo
Mr. Liao Enrong

Non-executive Directors

Mr. Zhu Keming
Mr. Zhang Wei
Mr. Wang Qi
Mr. Richard Andrew Cornish Piliero

Independent non-executive Directors

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

Audit Committee

Mr. Jiang Xihe (*Chairman*)
Mr. Zhu Junsheng
Mr. Wang Qi

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, KY1-1107
Cayman Islands

Hong Kong branch share registrar and transfer office

Computershare Hong Kong Investor Services Limited
Shops 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

Hong Kong Legal Advisers

Charltons

CORPORATE INFORMATION

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 2007 was RMB872,951,000, representing an increase of 96.6% over the corresponding period in 2006.

Profit attributable to equity holders of the Company for the first half of 2007 was RMB133,773,000, representing an increase of 430.0% over the corresponding period in 2006.

Basic earnings per share was RMB15 cents.

There is no interim dividend proposed for the six-month period ended 30 June 2007.

BUSINESS REVIEW

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 2007 (the “Period under Review”).

REVIEW OF OPERATIONS

The Company was successfully listed on the main board of the Stock Exchange on 4 July 2007. Based on the offer price of HK\$7.08 per share, the net proceeds from the share offer were approximately HK\$2.4 billion. This marked a new milestone for the Company. After listing, the Company will improve its operational transparency and further increase its presence in the international market, so as to lay a solid foundation for achieving its objective of becoming a leading manufacturer of mechanical transmission equipment in the world.

To maintain its leading position in the PRC mechanical transmission equipment industry, the Company made a number of investments during the Period under Review to expand its production capacity. The Company continued to strengthen its technological and research and development efforts and developed various products that meet our customers’ needs in light of market demand. The Company has built up strategic cooperative partnership with major industrial product manufacturers such as General Energy Company, ZF Friedrichshafen AG and Goldwind Science and Technology Co., Ltd., resulting in significant improvements in the quality and performance of our transmission equipment. At the same time, the Company actively expanded its production facilities and purchased equipment relating to the manufacturing of wind gear transmission equipment and mechanical transmission equipment for vessels, light rails and high speed rails, with a view to further improving its products and enhancing productivity. During the Period under Review, the production capacity and sales of gear transmission equipment that may be applied in construction, mining, aerospace, metallurgy and petrochemical sectors continued to increase, through which the Company continued to consolidate its leading position in the PRC mechanical transmission equipment industry and expand its market share.

During the Period under Review, the Company devoted substantial resources in research, design and development to reinforce its research and development team. Such continued investments in research and development helped the Company to improve the quality of its products, enhance the technological capability of its research and development team, introduce diversified product portfolio, improve its production mix and broaden its product range. The product design and research and development capability of the Company are well recognized by various well-known business partners in the world. As at 30 June 2007, the Group had 11 patents (including 2 invention patents, 3 design patents and 6 utility model patents) registered in the PRC and also 12 patents the registration applications of which were under review. In addition, notices for the granting of patents have been issued in respect of eight utility model patents and the Group is in the process of obtaining the relevant patent certificates.

BUSINESS REVIEW

FUTURE PROSPECTS

The development of the mechanical transmission equipment industry in the PRC has been driven by the growth of various manufacturing industries in the PRC. According to China Gear Manufacturers Association, there are approximately 1,000 more mechanical transmission equipment manufacturers of various scales in the PRC. Mechanical transmission equipment has been applied in various industries and is one of the important components in the manufacture of wind turbine generators. In light of global shortage of energy supply and increased awareness of environmental protection, wind power generation has been regarded as one of the most significant technologies to cope with the global shortage of energy resources. Wind power generation has been experiencing rapid development in the PRC and attracting more attentions throughout the world in recent years, and also has promising prospects in the market.

Looking forward, the Company will focus on the research and development activities in relation to the wind gear transmission equipment business and further expand the joint development and manufacture of the 1.5MW wind gear transmission equipment with General Energy Company. It also starts to develop wind gear transmission equipment of 2.5MW and 3MW. To improve its research and development capability, the Company will continue to devote resources in research, design and development and secure the most advanced and reliable software and computation programs to enhance comprehensively its technological capabilities in product design and development and assessing mechanical transmission equipment. The Company expects to acquire additional production facilities imported from Europe in the second half of the year to fully improve its production capacity and product quality. Meanwhile, the Company intends to improve the technological level of its existing production lines to achieve higher operational efficiency, thus enabling the Group to offer more transmission equipment products that may be applied in various industries, consolidate its position and increase its market share in the global market.

MANAGEMENT DISCUSSION AND ANALYSIS

	Revenue for the six months ended 30 June	
	2007 RMB'000	2006 RMB'000
High-speed Series Gear Transmission Equipment	13,459	8,362
Gear Transmission Equipment for Construction Materials	165,176	93,876
General Purpose Gear Transmission Equipment	61,101	53,271
Gear Transmission Equipment for Bar-rolling		
Wire-rolling and Plate-rolling Mills	166,649	85,808
Wind Gear Transmission Equipment	308,179	100,008
Marine Gear Transmission Equipment	23,245	1,652
Others	135,142	101,090
	872,951	444,067

REVENUE

The Group's revenue during the Period under Review was approximately RMB872,951,000, an increase of approximately 96.6% as compared with the same period last year. Such 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 208.2% in sales revenue of wind power generation gear transmission equipment from approximately RMB100,008,000 for the six months ended 30 June 2006 to RMB308,179,000 for the six months ended 30 June 2007, and increases of 76.0% and 94.2% in gear transmission equipment for construction materials and gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills from approximately RMB93,876,000 and approximately RMB85,808,000 for the six months ended 30 June 2006 to approximately RMB165,176,000 and approximately RMB166,649,000 for the six months ended 30 June 2007 respectively.

GROSS PROFIT MARGIN AND GROSS PROFIT

The Group's consolidated gross profit margin dropped during the Period under Review due to a change in the product sales structure. However, consolidated gross profit for the six months ended 30 June 2007 reached approximately RMB233,128,000 (30 June 2006: RMB131,122,000), an increase of 77.8% as compared with the same period last year. This was mainly attributable to increased sales of wind power generation gear transmission equipment.

OTHER INCOME

The other income of the Group during the six months ended 30 June 2007 was about RMB67,139,000 (30 June 2006: RMB12,733,000), an increase of approximately 427.3% as compared with the same period last year.

The other income is mainly comprised of part of the interest income on proceeds from listing, sales of scrap metal and government subsidies.

MANAGEMENT DISCUSSION AND ANALYSIS

DISTRIBUTION COSTS

The distribution costs of the Group for the six months ended 30 June 2007 were approximately RMB34,379,000 (30 June 2006: RMB23,105,000), representing an increase of 48.8% over the same period last year. The increase was mainly attributable to increased sales revenue. However, the percentage of distribution costs in sales revenue for the six months ended 30 June 2007 was 3.9% (30 June 2006: 5.2%), representing a decrease of 1.3% over the same period last year. This was mainly attributable to a decrease in some sales 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 RMB60,853,000 in the same period last year to approximately RMB95,834,000, mainly due to the increase in staff costs and the expenses incurred for the initial public offering of the Company's shares during the Period under Review.

FINANCE COSTS

For the first half of 2007, finance costs of the Group were RMB19,916,000 (30 June 2006: RMB17,940,000), a slight increase from the same period last year.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2007, the equity attributable to equity holders of the Company amounted to RMB690,682,000 (31 December 2006: RMB526,999,000). The Group had total assets of RMB2,487,012,000 (31 December 2006: RMB2,222,583,000), an increase of RMB264,429,000, or 11.9%, compared with that at the beginning of the year. Total current assets of the Group were RMB1,259,837,000, representing a slight decrease of 0.8% as compared with 31 December 2006 and accounting for 50.7% of total assets. Total non-current assets were RMB1,227,175,000 (31 December 2006: RMB953,072,000), representing an increase of RMB274,103,000 and accounting for 49.3% of the total assets.

As at 30 June 2007, total liabilities of the Group were RMB1,792,607,000 (31 December 2006: RMB1,691,355,000), which represented an increase of 6% compared with that at the beginning of the year. Total current liabilities were RMB1,411,944,000 (31 December 2006: RMB1,404,610,000), representing an increase of RMB7,334,000 as compared with that at the beginning of the year whereas total non-current liabilities were RMB380,663,000 (31 December 2006: RMB286,745,000), representing an increase of RMB93,918,000 as compared with that at the beginning of the year.

As at 30 June 2007, total net current liabilities of the Group was RMB152,107,000 (31 December 2006: RMB135,099,000), representing an increase of RMB17,008,000 as compared with that at the beginning of the year.

As at 30 June 2007, the cash and bank balances of the Group was RMB285,606,000 (31 December 2006: RMB388,877,000).

As at 30 June 2007, the Group had total bank loans of about RMB965,598,000 (31 December 2006: RMB897,201,000), of which short-term bank loans were approximately RMB587,807,000 (31 December 2006: RMB612,615,000). The short-term bank loans are repayable within one year. The Group's short-term bank loans bear fixed interest rates of between 5.94% and 7.02%.

MANAGEMENT DISCUSSION AND ANALYSIS

Following the share offer on 4 July 2007, the Group recorded net cash inflow from the share offer of approximately HK\$2.4 billion. Directors believe that the Group will have a sound and strong financial position as well as sufficient resources for meeting its working capital requirements and foreseeable capital expenditure.

PLEDGE OF ASSETS

As at 30 June 2007, bank deposits of RMB147,904,000 (31 December 2006 : RMB 192,779,000) and notes receivable of RMB4,450,000 (31 December 2006 : RMB4,250,000) were pledged to banks to secure notes payable utilized by the Group. Save as the above, the Group has made no further pledge of assets in the first half of 2007.

GEARING RATIO

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) was 72.1% (31 December 2006: 76.1%), representing a slight drop as compared with that at the beginning of the year.

CAPITAL STRUCTURE

On 8 February 2007, the Company had issued 7,648 ordinary shares of US\$0.01 to GE Capital Equity Investments Ltd. at an aggregate consideration of US\$8.5 million. The Group's operations were financed mainly by shareholder's equity and internal resources. The Group will continue to adopt its treasury policy of placing 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 Euro dollars, most of the Group's revenue are 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.

The Group's bank borrowing denominated in U.S. dollars as at 30 June 2007 was US\$10 million. As the proceeds from the global offering of the Group on 4 July 2007 were received in Hong Kong dollars, the Group may be exposed to foreign exchange risks. However, the Group will review and monitor the foreign exchange risks between Renminbi and Hong Kong dollars and U.S. dollars and may enter into foreign exchange hedging arrangements when appropriate and necessary.

CONTINGENT LIABILITIES

As at 30 June 2007, the directors were not aware of any material contingent liabilities.

COMMITMENTS

As at 30 June 2007, the Group had expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment and prepaid lease payments of RMB320,204,000 and RMB51,560,000 respectively (31 December 2006: RMB243,587,000 and RMB13,000,000).

MANAGEMENT DISCUSSION AND ANALYSIS

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 short term bank loans, which had fixed interest rates. Accordingly, the Group believe that it is not exposed to significant fair value interest rate risk. The Group currently does not have an interest rate hedging policy.

EMPLOYEES

As at 30 June 2007, the Group employed approximately 2,400 employees (30 June 2006: 1,900). Staff cost of the Group for the first half of 2007 approximated to RMB90,523,000 (30 June 2006: RMB76,180,000). The cost included basic salaries and benefits as well as staff benefits such as discretionary bonus, medical and insurance plans, pension scheme, unemployment insurance plan 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 2007.

SIGNIFICANT INVESTMENT HELD

There was no significant investment held by the Group as at 30 June 2007.

MATERIAL ACQUISITION AND DISPOSAL

Other than the reorganization as disclosed in the prospectus dated 20 June 2007 of the Company, 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 recognizes the importance of corporate governance practice to the success of a listed company. The Company is committed to achieving high standard of corporate governance in the interest of the shareholders of the Company.

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”) since 4 July 2007 (date of listing of the shares of the Company) 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 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 since 4 July 2007 (date of listing of the shares of the Company).

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

The shares of the Company were listed on the main board of the Stock Exchange on 4 July 2007 and accordingly neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company’s listed securities on the Stock Exchange during the six months ended 30 June 2007.

SHARE OPTION SCHEME

The 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 for the six months ended 30 June 2007.

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 external auditor and offering advices and recommendations to the Board of the Company. The audit committee comprises three members, namely Mr. Jiang Xihe, Mr. Zhu Junsheng and Mr. Wang Qi, 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 2007 have been reviewed by the audit committee.

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 evaluate the performance of the senior management of the Group and offer recommendations with respect to the remuneration of the senior management and recommend candidates to the Board.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30 June 2007, interests or short positions of the directors or chief executives in the shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) were not required to be notified to the Company and the Stock Exchange under the provisions of Divisions 7 and 8 of Part XV of the SFO as the Company was not a "listed corporation" as defined in and for the purpose of Divisions 7 and 8 of Part XV of SFO on that date.

As at 10 July 2007, after the Company's listing and after the exercise of the over-allotment option, none of the directors or the chief executives 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 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN SHARES

As at 30 June 2007, interests or short positions in any shares or underlying shares of the Company were not required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO as the Company was not a "listed corporation" as defined in and for the purpose of Divisions 2 and 3 of Part XV of the SFO on that date.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Immediately upon the listing of the Company's shares on the Stock Exchange on 4 July 2007, 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 interest	Number of securities held	Approximate shareholding percentage (%)
Fortune Apex Limited (<i>note 2</i>)	Beneficial owner	329,386,024 (L) 45,000,000(S) (<i>note 1</i>)	27.45 3.75
Wiaearn Holdings Limited (<i>note 3</i>)	Beneficial owner	60,284,023	5.02
Mr. Pan Jinhong (<i>note 3</i>)	Interest of a controlled corporation	60,284,023	5.02
Luckever Holdings Limited (<i>note 4</i>)	Beneficial owner	157,568,700	13.13
Mr. Liu Xuezhong (<i>note 4</i>)	Interest of a controlled corporation and interest of spouse	157,568,700	13.13
Ms. Li Yuelan (<i>note 4</i>)	Interest of a controlled corporation and interest of spouse	157,568,700	13.13
Value Partners Limited (<i>note 5</i>)	Investment Manager	148,668,133	12.39
Mr. Cheah Cheng Hye (<i>note 6</i>)	Interest of a controlled corporation	148,668,133	12.39
GE Capital Equity Investments Ltd.	Beneficial owner	60,000,000	5.00
General Electric Company (<i>note 7</i>)	Interest of a controlled corporation	60,000,000	5.00

CORPORATE GOVERNANCE AND OTHER INFORMATION

Notes:

- The letters “L” and “S” denote the person’s long position and short position in such shares, respectively.
- Fortune Apex Limited owns 27.45% 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 Liguó (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 (<i>executive director</i>)	30.3813%
2	Mr. Liu Jianguo (<i>executive director</i>)	12.3989%
3	Mr. Lu Xun (<i>executive director</i>)	10.4520%
4	Mr. Chen Yongdao (<i>executive director</i>)	10.5343%
5	Mr. Li Cunzhang (<i>executive director</i>)*	8.8945%
6	Mr. Li Shengqiang (<i>executive director</i>)	8.9725%
7	Mr. Liao Enrong (<i>executive director</i>)	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 Liguó	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.

- Wiaearn Holdings Limited owns 5.02% interest in the issued share capital of the Company. Mr. Pan Jinhong owns 100% interest in the issued share capital of Wiaearn Holdings Limited. Pursuant to the SFO, Mr. Pan Jinhong is deemed to be interested in the 60,284,023 shares of the Company in which Wiaearn Holdings Limited is currently interested.
- Luckever Holdings Limited owns 13.13% 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 157,568,700 shares of the Company in which Luckever Holdings Limited is currently interested.

CORPORATE GOVERNANCE AND OTHER INFORMATION

5. Value Partners Limited is the investment manager of each of nine funds and/or sub-funds which in aggregate hold 94,273,765 shares of the Company and is therefore deemed to be interested in the shares held by such nine funds and/or sub-funds in aggregate in the Company pursuant to the SFO.

Development Partners Fund is directly interested in 54,394,368 shares of the Company. Value Partners Limited has 100% control over Middlestar Management Limited, which in turn holds 60% interest in Development Partners Limited. Development Partners Limited holds 84.33% interest in Development Partners (Cayman) Limited, which in turn holds 100% interest in Development Partners Fund. Since Development Partners Fund is a corporation controlled by Value Partners Limited within the meaning of the SFO, Value Partners Limited is deemed to be interested in the shares held by Development Partners Fund in the Company under the SFO.

6. Mr. Cheah Cheng Hye is the beneficial owner of 35.65% of the issued share capital of Value Partners Limited and is therefore deemed to be interested in the Shares held by Value Partners Limited pursuant to the SFO.
7. General Electric Company is a company listed on the New York Stock Exchange (NYSE: GE) and wholly owns GE Capital Equity Investments Ltd. through intermediate companies, namely General Electric Capital Services, Inc. and General Electric Capital Corporation, and is therefore deemed to be interested in the shares held by GE Capital Equity Investments Ltd. pursuant to the SFO.

CORPORATE GOVERNANCE AND OTHER INFORMATION

As at 10 July 2007, after the Company's listing and after the exercise of the over-allotment option, 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 interest	Number of securities held (note 1)	Approximate shareholding percentage (%)
Fortune Apex Limited (note 2)	Beneficial owner	329,386,024	26.46
Wiaearn Holdings Limited (note 3)	Beneficial owner	60,284,023	4.84
Mr. Pan Jinhong (note 3)	Interest of a controlled corporation	60,284,023	4.84
Luckever Holdings Limited (note 4)	Beneficial owner	157,568,700	12.66
Mr. Liu Xuezhong (note 4)	Interest of a controlled corporation and interest of spouse	157,568,700	12.66
Ms. Li Yuelan (note 4)	Interest of a controlled corporation and interest of spouse	157,568,700	12.66
Value Partners Limited (note 5)	Investment Manager	148,668,133	11.94
Mr. Cheah Cheng Hye (note 6)	Interest of a controlled corporation	148,668,133	11.94

CORPORATE GOVERNANCE AND OTHER INFORMATION

Notes:

- All the securities held are in long positions.
- Fortune Apex Limited owns 26.46% 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 Liguó (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 (<i>executive director</i>)	30.3813%
2	Mr. Liu Jianguo (<i>executive director</i>)	12.3989%
3	Mr. Lu Xun (<i>executive director</i>)	10.4520%
4	Mr. Chen Yongdao (<i>executive director</i>)	10.5343%
5	Mr. Li Cunzhang (<i>executive director</i>)*	8.8945%
6	Mr. Li Shengqiang (<i>executive director</i>)	8.9725%
7	Mr. Liao Enrong (<i>executive director</i>)	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 Liguó	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.

- Wiaearn Holdings Limited owns 4.84% interest in the issued share capital of the Company. Mr. Pan Jinhong owns 100% interest in the issued share capital of Wiaearn Holdings Limited. Pursuant to the SFO, Mr. Pan Jinhong is deemed to be interested in the 60,284,023 shares of the Company in which Wiaearn Holdings Limited is currently interested.
- Luckever Holdings Limited owns 12.66% 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 157,568,700 shares of the Company in which Luckever Holdings Limited is currently interested.

CORPORATE GOVERNANCE AND OTHER INFORMATION

5. Value Partners Limited is the investment manager of each of nine funds and/or sub-funds which in aggregate hold 94,273,765 shares of the Company and is therefore deemed to be interested in the shares held by such nine funds and/or sub-funds in aggregate in the Company pursuant to the SFO.

Development Partners Fund is directly interested in 54,394,368 shares of the Company. Value Partners Limited has 100% control over Middlestar Management Limited, which in turn holds 60% interest in Development Partners Limited. Development Partners Limited holds 84.33% interest in Development Partners (Cayman) Limited, which in turn holds 100% interest in Development Partners Fund. Since Development Partners Fund is a corporation controlled by Value Partners Limited within the meaning of the SFO, Value Partners Limited is deemed to be interested in the shares held by Development Partners Fund in the Company under the SFO.

6. Mr. Cheah Cheng Hye is the beneficial owner of 35.65% of the issued share capital of Value Partners Limited and is therefore deemed to be interested in the Shares held by Value Partners Limited pursuant to the SFO.

Save as disclosed above and so far as the directors are aware of, as at 10 July 2007 after the Company's listing and after the exercise of the over-allotment option, there was no other person, other than the directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

By order of the Board
Hu Yueming
Chairman

Hong Kong, 14 September 2007

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The Board is pleased to present the unaudited consolidated results of the Group for the six months ended 30 June 2007 together with comparative figures as follows. These interim financial statements have not been audited, but have been reviewed by the Company's audit committee and the Company's auditors, Deloitte Touche Tohmatsu.

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 22 to 36, which comprises the condensed consolidated balance sheet of China High Speed Transmission Equipment Group Co., Ltd. as of 30 June 2007 and the related condensed consolidated income statement, statement 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.

Without qualifying our review conclusion, we draw to your attention that the comparative condensed consolidated income statement for the six-month period ended 30 June 2006 and the comparative condensed consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period ended 30 June 2006 disclosed in the interim financial information have not been reviewed in accordance with standards applicable to review engagements issued by the Hong Kong Institute of Certified Public Accountants.

Deloitte Touche Tohmatsu
Certified Public Accountants

Hong Kong
14 September 2007

CONDENSED CONSOLIDATED INCOME STATEMENT*For the six months ended 30 June 2007*

	NOTES	Six months ended 30 June	
		2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Revenue	3	872,951	444,067
Cost of sales		(639,823)	(312,945)
Gross profit		233,128	131,122
Other income		67,139	12,733
Distribution costs		(34,379)	(23,105)
Administrative expenses		(95,834)	(60,853)
Research and development costs		(7,924)	(4,629)
Finance costs		(19,916)	(17,940)
Share of loss of an associate		(1,230)	—
Loss on changes in fair value of convertible bonds		—	(3,227)
Profit before taxation		140,984	34,101
Taxation	4	(7,059)	(5,154)
Profit for the period	5	133,925	28,947
Attributable to:			
Equity holders of the Company		133,773	25,240
Minority interests		152	3,707
		133,925	28,947
Dividends	6	34,789	—
Earnings per share – Basic (RMB)	7	0.150	0.043

CONDENSED CONSOLIDATED BALANCE SHEET

At 30 June 2007

	NOTES	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	8	1,121,970	866,835
Prepaid lease payments – non-current portion		23,666	20,291
Intangible assets		27,921	29,877
Interest in an associate		9,934	11,164
Available-for-sale investments		1,350	1,350
Deposit paid for acquisition of prepaid lease payments		40,000	22,060
Deferred tax assets		2,334	1,495
		1,227,175	953,072
CURRENT ASSETS			
Inventories		380,198	347,509
Prepaid lease payments – current portion		326	305
Trade and other receivables	9	591,357	530,242
Amount due from an associate		936	—
Amounts due from related parties		1,414	2,578
Pledged bank deposits		147,904	192,779
Bank balances and cash		137,702	196,098
		1,259,837	1,269,511
CURRENT LIABILITIES			
Trade and other payables	10	817,950	777,028
Amounts due to related parties		—	11,127
Tax payable		6,187	3,840
Bank borrowings – due within one year	11	587,807	612,615
		1,411,944	1,404,610

CONDENSED CONSOLIDATED BALANCE SHEET*At 30 June 2007*

	NOTES	30 June 2007 RMB'000 (Unaudited)	31 December 2006 RMB'000 (Audited)
NET CURRENT LIABILITIES		(152,107)	(135,099)
TOTAL ASSETS LESS CURRENT LIABILITIES		1,075,068	817,973
NON-CURRENT LIABILITIES			
Bank borrowings – due after one year	11	377,791	284,586
Deferred tax liabilities		2,872	2,159
		380,663	286,745
		694,405	531,228
CAPITAL AND RESERVES			
Share capital	12	12	12
Share premium and reserves		690,670	526,987
Equity attributable to equity holders of the Company		690,682	526,999
Minority interests		3,723	4,229
		694,405	531,228

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2007

	Attributable to equity holders of the Company										
	Share capital RMB'000	Share premium RMB'000	Deemed	Capital reserve RMB'000	Statutory surplus reserve RMB'000	Statutory welfare reserve RMB'000	Other reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
			capital								
			contribution reserve 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
Issue of ordinary shares	–	64,311	–	–	–	–	–	–	64,311	–	64,311
Profit for the period and total recognised income	–	–	–	–	–	–	–	133,773	133,773	152	133,925
Dividend recognised as distribution	–	–	–	–	–	–	–	(34,789)	(34,789)	–	(34,789)
Appropriation	–	–	–	–	1,104	–	–	(1,104)	–	–	–
Acquisition of additional equity interest 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
At 1 January 2006 (audited)	8	–	–	11,885	17,597	17,597	52,335	34,346	133,768	50,223	183,991
Capital contributions from minority shareholders	–	–	–	–	–	–	–	–	–	114,740	114,740
Profit for the period and total recognised income	–	–	–	–	–	–	–	25,240	25,240	3,707	28,947
Transfer	–	–	–	–	17,597	(17,597)	–	–	–	–	–
Disposal of a subsidiary to related parties	–	–	–	2,238	–	–	–	–	2,238	(9,962)	(7,724)
Appropriation	–	–	–	–	374	–	–	(374)	–	–	–
Acquisition of additional equity interests in subsidiaries	–	–	–	106,413	–	–	–	–	106,413	(108,601)	(2,188)
At 30 June 2006 (unaudited)	8	–	–	120,536	35,568	–	52,355	59,212	267,659	50,107	317,766

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2007*

	Six months ended 30 June	
	2007 RMB'000 (Unaudited)	2006 RMB'000 (Unaudited)
Net cash from operating activities	143,472	116,685
Net cash used in investing activities:		
Purchase of property, plant and equipment	(288,993)	(99,681)
Acquisition of additional equity interests in a subsidiary/subsidiaries	(270)	(2,188)
Disposal of a subsidiary	—	19,896
Other investing cash flows	25,913	(84,469)
	(263,350)	(166,442)
Net cash from financing activities:		
New bank borrowings raised	450,305	273,100
Issue of ordinary shares	64,311	—
Repayment of bank borrowings	(381,908)	(317,700)
Dividends paid	(34,789)	—
Issue of convertible bonds	—	219,426
Capital contribution from minority shareholders	—	114,740
Other financing cash flows	(36,437)	(175,758)
	61,482	113,808
Net (decrease) increase in cash and cash equivalents	(58,396)	64,051
Cash and cash equivalents at 1 January	196,098	63,517
Cash and cash equivalents at 30 June, represented by bank balances and cash	137,702	127,568

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

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” issued by the International Accounting Standards Board (the “IASB”).

The Group had net current liabilities as at 30 June 2007 and 31 December 2006. It finances its operations by short-term and long-term bank borrowings while more reliance on the use of short-term borrowings as the corresponding borrowing costs are lower comparing to long-term financing. The directors of the Company are of the opinion that, taking into account the presently available banking facilities and internal financial resources of the Group and the estimated net proceeds from the offering and placing of Company’s shares in July 2007, the Group has sufficient working capital to meet its present obligation for at least the next 12 months commencing from the date of this report. Hence, the condensed consolidated financial statements have been prepared on a going concern basis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's financial information for the year ended 31 December 2006 included in the Accountants' Report section of the prospectus issued by the Company dated 20 June 2007 (the "Prospectus").

In the current interim period, the Group has applied, for the first time, a new standard, amendment and interpretations ("new IFRSs") issued by the IASB and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB, which are effective for the Group's financial year beginning 1 January 2007.

The adoption of these new IFRSs 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.

The Group has not made advance application of the following new or revised standards or interpretations that have been issued but are not yet in effect.

IAS 1 (Revised)	Presentation of Financial Statements ¹
IAS 23 (Revised)	Borrowing Costs ¹
IFRS 8	Operating Segments ¹
IFRIC 11	IFRS 2: Group and Treasury Share Transactions ²
IFRIC 12	Service Concession Arrangements ³
IFRIC 13	Customer Loyalty Programmes ⁴
IFRIC 14	IAS19-The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction ³

¹ Effective for annual periods beginning on or after 1 January 2009

² Effective for annual periods beginning on or after 1 March 2007

³ Effective for annual periods beginning on or after 1 January 2008

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

The directors of the Company anticipate that the application of these standards or interpretations will have no material impact on the results and the financial position of the Group.

3. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the net amounts received and receivables for goods sold, net of sales taxes and return, for the period.

The Group is engaged in the production and sale of gear products and over 90% of the Group's sales are made to customers in the People's Republic of China (the "PRC") during the current and prior periods. Accordingly, no analysis of business and geographical segment is presented.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

4. TAXATION

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
PRC enterprise income tax		
– Current year	7,620	5,154
– Overprovision in respect of prior period	(435)	—
	7,185	5,154
Deferred tax	(126)	—
	7,059	5,154

PRC enterprise income tax is calculated at the tax rates prevailing under the relevant laws and regulations in the PRC.

Nanjing High Speed & Accurate Gear (Group) Co., Ltd. (“NGC”), a subsidiary of the Company, is an advanced technology enterprise and is established in Nanjing Economic Technology Industry Development Zone, Jiangsu Province. During the year ended 31 December 2005, the legal form of NGC has changed from a domestic enterprise to a foreign invested enterprise and further changed to a foreign wholly-owned enterprise on 28 August 2006, the applicable income tax rate is 15% for both six-month periods ended 30 June 2007 and 2006. In accordance with the tax legislations applicable to foreign invested enterprise, NGC is entitled to exemptions from PRC enterprise income tax for the two years commencing from its first profit-making year of operations, after offsetting all unexpired tax losses carried forward from the previous years, and thereafter, entitled to a 50% relief from PRC enterprise income tax for the next three years (the “Tax Exemption”). Year ended 31 December 2006 is the first year for NGC to enjoy the Tax Exemption.

Nanjing High Speed Gear Manufacturing Co., Ltd., Nanjing Dongalloy Machinery & Electronics Co., Ltd. and Nanjing Ningjiang Gear Box Manufacturing Co., Ltd., subsidiaries of the Company, are also advanced technology enterprises and located in Jiangning Science Park, Nanjing New & High Technology Industry Development Zone and Nanjing Civil Science Park respectively. The applicable income tax rate is 15%. All other subsidiaries of the Company established in the PRC are subject to an income tax rate of 33%.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

5. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2007 RMB'000	2006 RMB'000
Allowance for inventories	2,593	2,277
Amortisation of intangible assets	3,215	2,086
Bank interest income	(2,527)	(1,840)
Depreciation of property, plant and equipment	36,411	27,974
Impairment loss on trade and other receivables	5,816	1,242
Interest income arising from global offering of the Company's shares	(57,281)	—
Listing expense charged to profit or loss	14,238	—
Loss on disposal of property, plant and equipment	2,575	423
Release of prepaid lease payments	326	219

6. DIVIDENDS

During the period, a dividend of US\$40.565, equivalent to RMB313.97, (2006: nil) per share was paid to shareholders as the final dividend for 2006.

There is no interim dividend proposed for the six-month period ended 30 June 2007.

7. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the ordinary equity holders of the Company for six months ended 30 June 2007 and 2006 were based on profit for the period attributable to equity holders of the Company of RMB133,773,000 and RMB25,240,000 and on weighted average number of 890,055,000 and 588,374,000 shares in issue, respectively, which have been adjusted for the effect of the capitalisation issue of 899,847,036 shares subsequent to 30 June 2007.

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

No diluted earnings per share is presented for the period ended 30 June 2006 because assuming the conversion of convertible bonds would result in an increase in earnings per share.

8. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB288,993,000 (1 January 2006 to 31 December 2006: RMB396,379,000) for the business expansion.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

9. TRADE AND OTHER RECEIVABLES

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

The aged analysis of the Group's trade receivables at the balance sheet date are as follows:

	30 June 2007 RMB'000	31 December 2006 RMB'000
Trade receivables:		
0 - 30 days	151,128	208,837
31 - 60 days	89,236	61,308
61 - 90 days	72,302	48,313
91 - 120 days	52,027	49,877
121 - 180 days	23,212	60,647
181 - 365 days	32,866	35,121
1 - 2 years	10,207	14,315
2 - 3 years	1,320	791
	432,298	479,209
Other receivables	159,059	51,033
	591,357	530,242

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

10. TRADE AND OTHER PAYABLES

The aged analysis of the Group's trade payables at the balance sheet date are as follows:

	30 June 2007 RMB'000	31 December 2006 RMB'000
Trade payables:		
0 - 30 days	198,506	165,429
31 - 60 days	100,618	88,207
61 - 180 days	99,088	215,504
181 - 365 days	21,408	8,376
1 -2 years	8,965	4,389
2 - 3 years	5,314	1,381
Over 3 years	5,666	2,161
	439,565	485,447
Other payables	378,385	291,581
	817,950	777,028

11. BANK BORROWINGS

During the period, the Group obtained new bank borrowings amounting to approximately RMB450,305,000 and made repayment of bank borrowings amounting to approximately RMB381,908,000. The borrowings bear interest at market rate and have fixed terms of repayment. The proceeds were used for the working capital of operation.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

12. SHARE CAPITAL

	Notes	Number of shares (in thousand)	Amount USD'000	Equivalent to RMB'000
Ordinary of US\$0.01 each				
Authorised:				
At 1 January 2007		90,000	900	7,053
Increase on 8 June 2007	(i)	2,910,000	29,100	226,980
At 30 June 2007		3,000,000	30,000	234,033
Issued and paid:				
At 1 January 2007		145	1	12
Issue of new shares	(ii)	8	—	—
At 30 June 2007		153	1	12

Notes:

- (i) Pursuant to the written resolutions passed by the members of the Company on 8 June 2007, the authorised share capital of the Company was increased from USD900,000 to USD30,000,000 (equivalent to approximately RMB234,033,000) by the creation of additional 2,910,000,000 ordinary shares of US\$0.01 each.
- (ii) On 8 February 2007, GE Capital Equity Investments Ltd. ("GE Capital") entered into a share subscription agreement with the Company pursuant to which GE Capital agreed to subscribe for 7,648 ordinary shares of the Company at an aggregate consideration of US\$8,500,000, equivalent to RMB64,311,000. The shares issued rank pari passu in all respects with the then existing shares.

13. COMMITMENTS

	30 June 2007 RMB'000	31 December 2006 RMB'000
Expenditure contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of:		
– property, plant and equipment	320,204	243,587
– prepaid lease payments	51,560	13,000
	371,764	256,587

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

14. PLEDGE OF ASSETS

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

	30 June 2007 RMB'000	31 December 2006 RMB'000
Notes receivable	4,450	4,250
Bank deposits	147,904	192,779
	152,354	197,029

15. RELATED PARTY DISCLOSURES

(I) Related party transactions

Company	Relationship	Transactions	Six months ended 30 June	
			2007 RMB'000	2006 RMB'000
GE Capital	Shareholder	Sales of goods	32,312	—
ZF Nanjing Marine Propulsion Co., Ltd.	Associate	Sales of goods	1,199	—
Goldwind Science & Technology Co., Ltd. ("Goldwind")	Minority shareholder of a subsidiary (<i>note</i>)	Sales of goods	—	75,593
Nanjing Yuhuatai District Saihong Bridge Street Office	Minority shareholder of a subsidiary	Rental expenses	900	900
Nanjing High Speed Gear Industrial Development Co., Ltd.	Common beneficial shareholder	Rental expenses	550	—

Note: Goldwind has ceased to be the minority shareholder of the subsidiary of the Company since 30 December 2006.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

15. RELATED PARTY DISCLOSURES (Continued)

(II) Related party balances

Included in trade and other receivables as at 30 June 2007 are trade balance with GE Capital amounting to RMB29,241,000 (31 December 2006: Nil).

(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	
	2007 RMB'000	2006 RMB'000
Short-term benefits	2,160	2,338

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.

(IV) Acquisition of additional interests of a subsidiary

During the period ended 30 June 2007, the Group acquired the additional equity interest of a subsidiary from 高衛忠, the sole minority shareholder of the subsidiary, for a total consideration of approximately RMB270,000.

During the period ended 30 June 2006, the Group acquired the additional equity interest of a subsidiary from Nanjing Lianxin Venture Capital Co., Ltd., a former shareholder of NGC, for a total consideration of approximately RMB2,188,000.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2007

16. POST BALANCE SHEET EVENTS

Subsequent to 30 June 2007, the Group has the following significant post balance sheet events:

- a. On 4 July 2007, the Company allotted and issued 899,847,036 ordinary shares of US\$0.01 each as fully paid to the shareholders by the capitalisation of an amount of USD8,998,470 (equivalent to approximately RMB68,082,000) in the share premium account of the Company.

On the same date, the Company issued a total of 300,000,000 ordinary shares of US\$0.01 each at the price of HK\$7.08 per share by means of global offering.

- b. On 5 July 2007, the Company issued additional 45,000,000 ordinary shares of US\$0.01 each at the price of HK\$7.08 per share by means of full exercise of the over-allotment option as set out in the Prospectus.