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 2009

* 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 Director

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

Room 1302, 13th Floor
Top Glory Tower
262 Gloucester Road
Causeway Bay
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

CORPORATE INFORMATION

AUTHORISED REPRESENTATIVES

Mr. Liao Enrong

Mr. Lui Wing Hong, Edward

AUDITOR

Deloitte Touche Tohmatsu

HONG KONG LEGAL ADVISER

Charltons

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 2009 was approximately RMB2,033,046,000, representing an increase of approximately 50.6% over the corresponding period of 2008.

Reported profit attributable to the owners of the Company for the first half of 2009 was RMB254,410,000 (30 June 2008: RMB252,767,000).

If the effect of the fair value change of convertible bonds, fair value change of equity swap, loss due to the early termination of equity swap and exchange loss resulted from the three factors mentioned above had been excluded, the adjusted profit attributable to the owners of the Company for the first half of 2009 would have been approximately RMB333,319,000, representing an increase of approximately 37.8% from the corresponding period last year.

Basic and diluted earnings per share was RMB0.2.

The Board did not recommend payment of an interim dividend for the six months ended 30 June 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in a wide variety of industrial and environmental applications. For the Period under Review, the Group recorded a total sales revenue of approximately RMB2,033,046,000, representing a substantial increase of approximately 50.6% over the corresponding period of 2008. Consolidated gross profit margin was approximately 31.1%. Profit attributable to owners of the Company was approximately RMB254,410,000, representing an increase of approximately 0.7% over the corresponding period of 2008. If the effect of the fair value change of convertible bonds, fair value change of equity swap, loss due to the early termination of equity swap and exchange loss resulted from the three factors mentioned above had been excluded, the adjusted profit attributable to owners of the Company for the first half of 2009 would have been approximately RMB333,319,000, representing an increase of approximately 37.8% from the corresponding period last year. Basic earnings per share attributable to the owners of the Company amounted to approximately RMB0.2.

Principal business review

1. **Wind gear transmission equipment**

   Significant progress has been made in the research and development of large wind gear transmission equipment and the numbers of customers and orders have increased substantially

   Wind gear transmission equipment has been the Company's new major product in recent years. Sales revenue of wind gear transmission equipment business surged by approximately 123.3% to approximately RMB1,281,298,000 (30 June 2008: RMB573,708,000) as compared with the corresponding period last year. The increase was mainly attributable to the proactive policies and measures adopted by the PRC government to encourage the use of renewable energy and green power generation including wind power. For example, the Renewable Energy Law of the PRC promulgated in 2006 introduces various supporting measures to promote the development and use of renewable energy including wind power.

   The Group is a leading supplier of wind gear transmission equipment in the PRC. Leveraging on its strong research, design and development capabilities, the Group's research and development has achieved excellent results. The 1.5 MW and 2 MW wind gear transmission equipment have successfully passed various technical tests at international advanced technical levels and are well recognised by its 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 more new business to the Group.

   Currently, the Group's customers from the wind power industry include a major wind turbine manufacturer in the PRC, as well as renowned international wind turbine manufacturers such as GE Energy, Vestas, REPower, Nordex, Fuji Heavy and others. With the Group's increasingly global operations, the Group has attracted more international wind turbine manufacturers and orders for wind gear transmission equipment increased significantly in the first half of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

2. **Marine gear transmission equipment**

Actively expand the domestic market

Marine gear transmission equipment is one of the Company's new products in recent years. Sales of marine gear transmission equipment were generated from overseas and domestic orders. In the face of the global financial crisis, the Company is actively expanding its presence in the domestic market.

The Group increased its capital investment to expand its production capacity in order to meet market demands. During the Period under Review, turnover of marine gear transmission equipment dropped by approximately 70.0% to approximately RMB69,451,000 (30 June 2008: RMB231,411,000) due to the impacts of financial crisis imposed on the European economies.

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

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

The use of high-speed locomotives and urban light rail locomotives as environmental-friendly transportation vehicles has become a major global trend. It is believed that the industry has promising potential. 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 locomotives 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 rail, and passed the product quality certification conducted by ALSTOM Group in April 2008. In addition, such equipment has been installed in the high-speed trains used in Beijing, Shanghai and Nanjing for field tests since the end of 2008. The Group will further expand both domestic and overseas markets, making this a new source of growth for the Group. During the Period under Review, such business has already started to generate certain sales revenue.

4. **Traditional transmission products**

Sales of new products remain strong

The Group's traditional gear transmission equipment products are mainly provided for customers from industries including metallurgy, construction materials, traffic, transportation, petrochemicals, aerospace and mining. During the Period under Review, sales revenue of high-speed heavy-load gear transmission equipment, gear transmission equipment for construction materials and gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills increased by 15.3%, 53.6% and 33.1% to approximately RMB13,533,000 (30 June 2008: RMB11,733,000), RMB342,188,000 (30 June 2008: RMB222,752,000) and RMB161,799,000 (30 June 2008: RMB121,577,000) respectively. Sales revenue of general purpose gear transmission equipment and other mechanical transmission equipment decreased by 12.2% and 15.5% to approximately RMB72,611,000 (30 June 2008: RMB82,680,000) and RMB89,929,000 (30 June 2008: RMB106,396,000) respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Under the macro-economic control imposed by the PRC government, the Group's gear transmission equipment for construction materials and gear transmission equipment for bar-rolling, wire-rolling and plate-rolling maintained steady sales growth, primarily attributable to the introduction of new products. The Group has adopted an approach of product development focusing on energy-saving and environmental protection. Vertical roller press grinding mills recently developed by the Group can save approximately 30% of the energy used by traditional transmission products and are well received in the market. In response to product upgrades 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. Such products are well received by the market.

LOCAL AND EXPORT SALES

During the Period under Review, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. Currently, overseas sales amounted to approximately RMB173,775,000 (30 June 2008: RMB305,088,000), accounting for 8.5% to total sales (30 June 2008: 22.6%) and representing a decrease of 14.1% to total sales over the corresponding period last year. At present, the overseas customer base of the Company extends to the U.S., India, Japan and Europe. In view of the economic recession in Europe and the U.S. since the end of 2008, the Company currently allocates more resources to the local market in response to the strong demand for the Company's products in China.

PATENTED PROJECTS

The business of the Group has high entry barriers and requires specific technical know-how. The Group enhances corporate growth by introducing new products and new technology. Various new products have made their debuts in the domestic market under the Group's on-going innovation of products and technology. Leveraging on its advanced technology and premium quality, the Company has obtained 92 national, provincial and municipal technology advancement awards. 22 of its products have been recognised as high-technology products and nearly 81 patents have obtained or are pending approval, of which 8 patents are innovation patents. The Company was the first producer to adopt ISO1328 and ISO06336 international standards. It was nominated as an enterprise for the 863 State Plan and a CIMS Application Model Enterprise by the Ministry of Science and Technology of the PRC. During 2007, the Company passed ISO14001:2004 environmental management system certification and BV statutory certification of ships issued by Bureau Veritas; the branches of its welding plants have passed CCS of the PRC, RL of Britain, GL of Germany, as well as BV statutory certification of ships in France.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Looking forward, renewable energy will continue to be a hot global topic with huge development potential and promising prospects in the long run. As a leading enterprise in the mechanical transmission industry in the PRC, the Group will further increase its investment in research and development and expand the application of its products in order to seize opportunities in the rapid-changing market. The Group will adopt the following measures to maintain the rapid growth of its business:

Develop domestic and overseas markets and increase market share

The development prospects for wind power in China are very optimistic as renewable energy is highly encouraged. The PRC Government has selected the renewable energy industry as one of the key industries in its stimulus packages and is promoting the development of the wind power industry. The National Development and Reform Commission has also raised the target for the installed capacity of wind power by 2020. In response to the national planning and industry development, as well as promoting overseas sales and cooperation, the Group will also endeavour to expand its domestic market to further increase its market share.

As one of the major renewable energies, the development of wind power is of great global concern. Leveraging on its superb quality and competitive prices, the Group's products have successfully entered the overseas market and have been well received by various major international wind power equipment manufacturers. It is expected that the orders will grow significantly in the future. The Group will take the opportunity to explore the international market, increase market share and accelerate sales growth.

The Group will reallocate its resources among overseas and domestic customers to meet the increasing demands for wind gear equipment in the PRC and further extend its market coverage.

Enhance research and development efforts and production capacity to satisfy demand

To consolidate its competitiveness, the Group will endeavour to enhance product quality and strengthen the research and development of technology and new products. In respect of new products, 2.5 MW and 3.0 MW wind gear transmission equipment jointly developed with GE Energy and one of the PRC customers respectively, are expected to complete relevant tests by the end of 2009 and commence production in 2010. With a view to promoting its reputation and increasing its market share, the Company will further develop transmission equipment products for different industrial applications. The Group will increase production capacity to meet the stronger market demand and acheive a higher degree of economies of scale.

MANAGEMENT DISCUSSION AND ANALYSIS

Explore new markets to pursue new opportunities

In light of the favourable national policies for equipment manufacturing industry, the Group will proactively explore new markets to pursue new opportunities while consolidating its position in the wind power equipment market. Driven by strong domestic demand boosted by the economic stimulus plans and infrastructure projects in the PRC, the cement industry is gradually recovering. The metallurgy industry is required to promote energy-saving and adopt new technology under a government policy. Sales of the Company's grinding products and metallurgy transmission equipment products are anticipated to maintain a steady growth.

Promising potential of transmission equipment for high speed locomotive and urban light rail markets

With the global call for environmental protection, the prospects for transmission equipment for high speed locomotives and urban light rails are bright. After years of extensive research, the Group will commence mass production of the products in the near future. The Group is confident that this business will generate a profit to sustain its future development.

Enhance product offerings and engage in upper stream businesses

In addition to its existing products, the Group will introduce more new products and adjust its product portfolio to further expand its markets and sources of business. Expanding into upper stream businesses is the Group's long term goal. The Group will invest in the production of raw materials through joint venture or other channels to lessen the dependence on suppliers and secure an upper stream supply chain to maximise this synergy.

INTERIM DIVIDEND

The Board did not recommend payment of any interim dividend for the six months ended 30 June 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

	Revenue Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
High-speed heavy-load gear transmission equipment	**13,533**	11,733
Gear transmission equipment for construction materials	**342,188**	222,752
General purpose gear transmission equipment	**72,611**	82,680
Gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills	**161,799**	121,577
Wind gear transmission equipment	**1,281,298**	573,708
Marine gear transmission equipment	**69,451**	231,411
Transmission equipment for high speed locomotives and urban light rails	**2,238**	–
Others	**89,928**	106,396
Total	**2,033,046**	1,350,257

Revenue

The Group's sales revenue during the Period under Review was approximately RMB2,033,046,000, an increase of 50.6% as compared with the same period last year. Such an increase was mainly due to the continued growth in sales volume during the Period under Review. In particular, this was mainly attributable to an increase of 123.3% in sales revenue of wind gear transmission equipment from approximately RMB573,708,000 for the six months ended 30 June 2008 to approximately RMB1,281,298,000 for the six months ended 30 June 2009 and increases of 53.6% and 33.1% in traditional transmission products including gear transmission equipment for construction materials and gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills from approximately RMB222,752,000 and approximately RMB121,577,000 for the six months ended 30 June 2008 to approximately RMB342,188,000 and approximately RMB161,799,000 for the six months ended 30 June 2009 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit margin and gross profit

The Group's consolidated gross profit margin increased by 0.2% during the Period under Review mainly as a result of lower material costs. Consolidated gross profit for the six months ended 30 June 2009 reached approximately RMB632,791,000 (30 June 2008: RMB417,327,000), an increase of 51.6% as compared with the corresponding period last year. This was mainly attributable to the increased sales of wind gear transmission equipment. The gross profit of wind gear transmission equipment increased from approximately RMB171,636,000 for the six months ended 30 June 2008 to approximately RMB397,203,000 for the six months ended 30 June 2009, representing an increase of 131.4%.

Other income, other gain and loss

The total amount of other income of the Group for the six months ended 30 June 2009 was approximately RMB34,435,000 (30 June 2008: RMB47,463,000), a decrease of 27.4% as compared with the corresponding period last year. Other income is mainly comprised of bank interest income, government grants and sales of wastages.

For the six months ended 30 June 2009, other gain and loss recorded a net loss of approximately RMB55,579,000 (30 June 2008: a net gain of approximately RMB75,529,000), which mainly comprised of fair value loss of convertible bonds, fair value gain of equity swap and loss arising from the early termination of equity swap.

Distribution and selling costs

The distribution and selling costs of the Group for the six months ended 30 June 2009 were approximately RMB51,867,000 (30 June 2008: RMB40,018,000), representing an increase of 29.6% over the corresponding 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 2009 was 2.6% (30 June 2008: 3.0%), representing a decrease of 0.4% to sales revenue over the corresponding 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 gear transmission equipment.

Administrative expenses

Administrative expenses of the Group increased from approximately RMB129,080,000 for the six months ended 30 June 2008 to approximately RMB139,526,000 for the six months ended 30 June 2009, mainly due to the increase in number of staff and staff costs, the intermediary professional fees incurred after the listing of the Company and depreciation charges. The percentage of administrative expenses to sales revenue was 6.9%, representing a decrease of 2.7% to sales revenue over the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Other expenses

Other expenses of the Group during the Period under Review were approximately RMB31,083,000 (30 June 2008: RMB64,697,000), which comprised of a net loss on foreign exchange of approximately RMB31,083,000 (30 June 2008: RMB29,762,000) and no expenses on the issuance of convertible bonds (30 June 2008: RMB34,935,000).

Finance costs

In the first half of 2009, the finance costs of the Group were approximately RMB57,715,000 (30 June 2008: RMB8,625,000), an increase of 5.7 times as compared with the corresponding period last year, which was mainly due to the increase in bank loans.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2009, the equity attributable to equity holders of the Company amounted to approximately RMB3,714,328,000 (31 December 2008: RMB3,731,086,000). The Group had total assets of approximately RMB9,878,836,000 (31 December 2008: RMB8,477,856,000), an increase of approximately RMB1,400,980,000 or 16.5%, as compared with that at the beginning of the year. Total current assets of the Group were approximately RMB5,569,203,000, representing an increase of approximately 14.6% as compared with that at the beginning of the year and accounting for approximately 56.4% of total assets. Total non-current assets were approximately RMB4,309,633,000 (31 December 2008: RMB3,616,700,000), representing an increase of approximately 19.2% as compared with that at the beginning of the year and accounting for approximately 43.6% of the total assets.

As at 30 June 2009, total liabilities of the Group amounted to approximately RMB6,146,538,000 (31 December 2008: RMB4,743,211,000), which represented an increase of approximately 29.6% as compared with that at the beginning of the year. Total current liabilities were approximately RMB4,596,915,000 (31 December 2008: RMB3,394,754,000), representing an increase of approximately 35.4% as compared with that at the beginning of the year whereas total non-current liabilities were approximately RMB1,549,623,000 (31 December 2008: RMB1,348,457,000), representing an increase of approximately 14.9% as compared with that at the beginning of the year.

As at 30 June 2009, the total net current assets of the Group amounted to approximately RMB972,288,000 (31 December 2008: RMB1,466,402,000), representing a decrease of RMB494,114,000 as compared with that at the beginning of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2009, total cash and bank balances of the Group amounted to approximately RMB2,719,266,000 (31 December 2008: RMB2,165,905,000), that includes pledged bank deposits of approximately RMB623,809,000 (31 December 2008: RMB502,696,000), and restricted cash of approximately RMB152,077,000 (31 December 2008: RMB981,566,000). This restricted cash represents the remaining balance of restricted deposits payable by the Group in respect of the Equity Swap entered with Morgan Stanley & Co. International plc on 22 April 2008.

As at 30 June 2009, the Group had total bank loans of approximately RMB2,684,041,000 (31 December 2008: RMB1,360,512,000), of which short-term bank loans were approximately RMB2,443,000,000 (31 December 2008: RMB1,292,166,000), accounting for approximately 91.0% of the total bank loans (31 December 2008: 95.0%). The short-term bank loans are repayable within one year. The Group's short-term bank loans bear fixed interest rates and the average effective interest rate ranges from 4.86% to 5.31%.

Taking into account of the internal financial resources of and the banking facilities available to the Group, and issued RMB denominated USD settled zero coupon convertible bonds of RMB1,996,300,000 in May 2008, the directors of the Company believe that the Group will have a sound and strong financial position as well as sufficient resources to meet its working capital requirements and foreseeable capital expenditure.

Gearing ratio

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) increased from 55.9% as at 31 December 2008 to 62.2% as at 30 June 2009.

Capital structure

Convertible bonds

On 14 May 2008, the Company issued RMB denominated USD settled zero coupon convertible bonds due 2011 in an aggregate principal amount of RMB1,996,300,000 (equivalent to approximately US$286,000,000) to Morgan Stanley & Co. International plc (as the lead manager) which is detailed as below:

(i) Reasons for the convertible bonds issue: to raise further capital for the purposes as set out in the paragraph headed "Use of proceeds" below whilst enlarging the shareholder base of the Company.

(ii) Type of the convertible bonds: convertible into ordinary shares.

(iii) Size and principal amount of the bonds: the aggregate principal amount of the bonds is RMB1,996.3 million.

MANAGEMENT DISCUSSION AND ANALYSIS

(iv) Issue price: 100% of the principal amount of the bonds.

(v) According to the announcement dated 18 June 2009, the conversion price was adjusted from HK$17.78 per share to HK$17.2886 per share from 19 June 2009 as a result of the payment of final dividends for the years ended 31 December 2007 and 31 December 2008.

(vi) Net proceeds: approximately US$280 million.

(vii) Use of proceeds: approximately US$142.8 million (representing approximately 51.0% of the net proceeds) will be applied to enter into an equity swap contract, and the remaining proceeds of approximately US$137.2 million (representing approximately 49.0% of the net proceeds) will be used to further enhance production capacity till 2010 to meet the increasing demand for gear boxes and gear transmission equipment from various industries such as wind power generation, marine and rail transportation, and applied as capital expenditure and daily working capital (including payment for imported equipment and components).

In the fourth quarter of 2008, the Company repurchased and cancelled the convertible bonds in a total principal amount of RMB848,200,000 by way of over-the-counter transactions at a total consideration of US$77,127,408 (equivalent to approximately RMB526,988,000). During the Period under Review, the Company did not repurchase and cancel any other convertible bonds.

As at 30 June 2009, the outstanding principal amount of the convertible bonds amounted to RMB1,148,100,000 (31 December 2008: RMB1,148,100,000). Based on the adjusted conversion price of HK$17.2886 per share and assuming full conversion of the bonds at the adjusted conversion price, the number of conversion shares falling to be issued in connection with the outstanding bonds will be 74,049,869 ordinary shares, representing approximately 5.9% of the existing issued share capital of the Company and approximately 5.6% of the issued share capital of the Company as enlarged by the full conversion of the bonds. As at 30 June 2009, there was no exercise of rights of redemption or conversion by any holders of the bonds.

As at 30 June 2009, loss on fair value changes of such convertible bonds was approximately RMB319,849,000 (30 June 2008: RMB46,040,000).

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 amounting to HK$1,113,013,000 (equivalent to approximately RMB981,566,000). Further details for the Equity Swap were set out in the Company's announcement dated 24 April 2008.

As at 4 May 2009, the Company and the Equity Swap Counterparty had undertaken the partial termination in respect of 68,758,000 shares under the Equity Swap at an average final price of HK$12.8495 per share (net of early termination fee and other costs and expenses). Further details were set out in the Company's announcement dated 5 May 2009.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2009, gain on fair value changes on the remaining Equity Swap was approximately RMB67,439,000 (30 June 2008: RMB121,569,000).

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.

PLEDGE OF ASSETS

As at 30 June 2009, bank deposits of approximately RMB623,809,000 (31 December 2008: RMB502,696,000) were pledged to secure notes payable utilised by the Group. Save as the above, the Group has made no further pledge of assets in the first half of 2009.

CONTINGENT LIABILITIES

As at 30 June 2009, the directors were not aware of any material contingent liabilities.

COMMITMENTS

As at 30 June 2009, the Group had expenditure contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment of approximately RMB1,207,948,000 (31 December 2008: RMB1,656,493,000). Details are set out in note 15 to the consolidated financial statements.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

The Group's operations are mainly conducted in the PRC. With the exception of export sales and the imported equipment, spare parts and materials which are transacted in U.S. dollars and Euros, most of the Group's revenue and expense 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 are not subject to significant foreign exchange rate risks. The Group has not used any foreign currency derivatives to hedge against the exposure in foreign exchange.

As at 30 June 2009, the balance of the Hong Kong dollar net proceeds from the global offering of the Company on 4 July 2007, the net proceeds of approximately US$280,000,000 derived from the issue of bonds on 14 May 2008 and the proceeds of approximately HK$883,505,000 from the early termination of equity swap contracts were mostly converted into Renminbi. In addition, the Group's bank borrowings denominated in U.S. dollars as at 30 June 2009 was approximately US$6,000,000. The Group may thus be exposed to foreign exchange risks.

The net losses on foreign exchange recorded by the Group for the Period under Review was approximately RMB31,083,000 (30 June 2008: RMB29,762,000), which was due to the appreciation of the Renminbi against major foreign currencies during the Period under Review. In light of the above, the Group will actively manage the net amount of foreign currency assets and liabilities by formulating foreign currency control measures and strategies, with a view to reducing its exposures to foreign exchange risks in 2009.

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 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 an interest rate hedging policy.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2009, the Group employed approximately 4,074 employees (30 June 2008: 3,204). Staff costs of the Group for the first half of 2009 approximated to RMB170,045,000 (30 June 2008: RMB122,316,000). 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 creative achievements in technology 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.

The Group's criteria in relation to the determination of directors' remuneration take into consideration factors including but not limited to salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

SIGNIFICANT INVESTMENT HELD

There was no significant investment held by the Group during the Period under Review.

MATERIAL ACQUISITION AND DISPOSAL

There was no material acquisition and disposal of subsidiaries and associated companies during the Period under Review.

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 practices 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 2009, 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 by the Company, 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 2009.

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 2009.

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, two of which 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 2009 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 adequate 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, two of which 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 remuneration policy and structure of all 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 2009, 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 recorded 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 Period under Review, 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 of the Company or had exercised such rights.

During any time in the Period under Review, none of the Company, its holding company nor its subsidiaries entered into any arrangements to allow the Directors or the chief executive of the Company 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 2009, 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	268,474,024 (long position)	21.56 (long position)
JPMorgan Chase & Co. *(Note 2)*	Beneficial owner, investment manager and custodian corporation/approved lending agent	86,158,896 (long position) 1,000,000 (short position) 80,233,896 (lending pool)	6.92 (long position) 0.08 (short position) 6.44 (lending pool)

CORPORATE GOVERNANCE AND OTHER INFORMATION

Note:

(1) Fortune Apex Limited owns 21.56% 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 instructions of any single member of the Management Shareholders.

CORPORATE GOVERNANCE AND OTHER INFORMATION

(2) These shares were held by JPMorgan Chase & Co. and corporations controlled by it in the following capacities:

Capacity	No. of shares
Beneficial owner	2,418,000 (long position)
	1,000,000 (short position)
Investment manager	3,507,000 (long position)
Custodian corporation/approved lending agent	80,233,896 (long position)

These shares were held by JP Morgan Chase Bank, N.A., J.P. Morgan Whitefriars Inc., J.P. Morgan Overseas Capital Corporation, J.P. Morgan International Finance Limited, Bank One International Holdings Corporation, J.P. Morgan International Inc., J.P. Morgan Securities Ltd., J.P. Morgan Chase International Holdings, J.P. Morgan Chase (UK) Holdings Limited, J.P. Morgan Capital Holdings Limited, JP Morgan Asset Management (Singapore) Limited, JP Morgan Asset Management (Asia) Inc., JP Morgan Asset Management Holdings Inc. and JP Morgan Asset Management (Taiwan) Limited, all of which are either directly or indirectly controlled corporations of JP Morgan Chase & Co..

Save as disclosed above and so far as the Directors are aware of, as at 30 June 2009, 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 recorded in the register referred to therein.

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. The share option scheme is a share incentive scheme and is established to recognise and acknowledge the contributions of the eligible participants who have had or may have made to the Group. The share option scheme will provide the eligible participants an opportunity to have a personal stake in the Company with the view to (i) motivating the eligible participants to optimise their performance and efficiency for the benefit of the Group; and (ii) attracting and retaining or otherwise maintaining on-going business relationships with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group. Options granted must be taken up within 12 months from the date of grant, upon payment of HK$1 per option. Options may be exercised at any time prior to the expiry from 10 years from the date of acceptance. The exercise price is determined by the Directors of the Company, and must be at least the higher of (i) the closing price of the Company’s shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company’s share.

CORPORATE GOVERNANCE AND OTHER INFORMATION

Share options do not confer rights to the holders to receive dividends or vote at shareholder's meetings.

The following table sets out the movements in the Company's share options during the Period under Review:

Grantee(s)	Date of grant	Exercise period *(note 1)*	Vesting period	Exercise price per share HK$ *(notes 2 & 3)*	Number of share options: Outstanding as at 1 January 2009	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as at 30 June 2009 *(notes 5 & 6)*
Qualified employees	6 November 2008	6 November 2008 to 5 November 2013	Nil	5.60	12,000,000	–	–	–	–	12,000,000
Total					12,000,000	–	–	–	–	12,000,000

Notes:

1. The exercise period of share options granted to employees is five years commencing from the date of acceptance.
2. The closing price of the Company's shares on the date of grant was HK$5.60.
3. The average closing price of the Company's shares for the five business days immediately preceding the date of grant was HK$5.536.
4. The share options were vested immediately at the date of grant.
5. No option had been exercised during the Period under Review.
6. The fair value of the share options determined at the date of grant using the Binomial model was approximately RMB30,030,000.

By order of the Board
Hu Yueming
Chairman

Hong Kong, 18 September 2009

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 2009 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 26 to 44, which comprises the condensed consolidated statement of financial position of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") and its subsidiaries as of 30 June 2009 and the related condensed consolidated statement of comprehensive income, statement of changes in equity and statement of cash flows 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 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company 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 inquiries, 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
18 September 2009

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2009

	NOTES	Six months ended 30 June 2009 RMB'000 (Unaudited)	2008 RMB'000 (Unaudited)
Revenue	3	2,033,046	1,350,257
Cost of sales		(1,400,255)	(932,930)
Gross profit		632,791	417,327
Other income		34,435	47,463
Other gain and losses	4	(55,579)	75,529
Distribution and selling costs		(51,867)	(40,018)
Administrative expenses		(139,526)	(129,080)
Research and development costs		(21,626)	(10,359)
Other expenses		(31,083)	(64,697)
Finance costs		(57,715)	(8,625)
Share of results of associates		249	(912)
Share of results of jointly controlled entities		(4,425)	—
Profit before taxation		305,654	286,628
Taxation	5	(51,533)	(33,620)
Profit for the period	6	254,121	253,008
Other comprehensive income (expense)			
Gain (loss) on fair value change of available-for-sale investments		3,453	(7,267)
Deferred tax liabilities (arising) reversal on fair value change of available-for-sale investments		(316)	999
Other comprehensive income (expense) for the period		3,137	(6,268)
Total comprehensive income for the period		257,258	246,740
Profit for the period attributable to:			
Owners of the Company		254,410	252,767
Minority interests		(289)	241
		254,121	253,008
Total comprehensive income attributable to:			
Owners of the Company		257,547	246,499
Minority interests		(289)	241
		257,258	246,740
Basic and diluted earnings per share (RMB)	8	0.20	0.20

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2009

	NOTES	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	3,094,974	2,361,940
Prepaid lease payments		271,688	242,256
Intangible assets		65,546	61,205
Interests in associates		18,734	18,485
Interests in jointly controlled entities		565,087	569,512
Available-for-sale investments		47,282	34,948
Prepayment for land lease		118,300	144,300
Prepayment for acquisition of property, plant and equipment		90,277	176,870
Deferred tax assets		16,088	7,184
Derivative financial instrument	14	21,657	—
		4,309,633	3,616,700
CURRENT ASSETS			
Inventories		1,453,297	1,335,674
Prepaid lease payments		5,184	5,125
Available-for-sale investments		—	20,500
Trade and other receivables	10	1,367,650	1,294,246
Amounts due from associates		18,051	24,026
Amounts due from jointly controlled entities		3,155	14,780
Amount due from a related party		2,600	900
Pledged bank deposits	16	623,809	502,696
Restricted cash		152,077	981,566
Bank balances and cash		1,943,380	681,643
		5,569,203	4,861,156

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2009

	NOTES	30 June 2009 RMB'000 (Unaudited)	31 December 2008 RMB'000 (Audited)
CURRENT LIABILITIES			
Trade and other payables	11	1,838,638	2,048,940
Dividend payable		274,305	—
Tax liabilities		40,972	53,648
Borrowings - due within one year	12	2,443,000	1,292,166
		4,596,915	3,394,754
NET CURRENT ASSETS		972,288	1,466,402
TOTAL ASSETS LESS CURRENT LIABILITIES		5,281,921	5,083,102
NON-CURRENT LIABILITIES			
Borrowings - due after one year	12	241,041	68,346
Financial liabilities designated as at fair value through profit or loss - convertible bonds	13	1,251,399	931,550
Deferred tax liabilities		29,474	23,937
Derivative financial instrument	14	—	292,794
Deferred income		27,709	31,830
		1,549,623	1,348,457
		3,732,298	3,734,645
CAPITAL AND RESERVES			
Share capital		94,629	94,629
Reserves		3,619,699	3,636,457
Equity attributable to owners of the Company		3,714,328	3,731,086
Minority interests		17,970	3,559
		3,732,298	3,734,645

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2009

	Attributable to owners of the Company											
	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	Share option reserve RMB'000	Retained profits RMB'000	Total RMB'000	Minority interests RMB'000	Total RMB'000
At 1 January 2008 (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
Profit for the period	–	–	–	–	–	–	–	–	252,767	252,767	241	253,008
Loss on fair value change of available-for-sale investments	–	–	–	–	–	–	(7,267)	–	–	(7,267)	–	(7,267)
Deferred tax liabilities reversal on loss on fair value change of available-for-sale investments	–	–	–	–	–	–	999	–	–	999	–	999
Total comprehensive income 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
Profit (loss) for the period	–	–	–	–	–	–	–	–	439,648	439,648	(520)	439,128
Loss on fair value change of available-for-sale investments	–	–	–	–	–	–	(2,487)	–	–	(2,487)	–	(2,487)
Deferred tax liabilities reversal on loss on fair value change of available-for-sale investments	–	–	–	–	–	–	419	–	–	419	–	419
Total comprehensive income for the period	–	–	–	–	–	–	(2,068)	–	439,648	437,580	(520)	437,060
Release upon strike off of a subsidiary	–	–	–	(388)	–	–	–	–	388	–	–	–
Recognition of equity-settled share-based payments	–	–	–	–	–	–	–	30,030	–	30,030	–	30,030
Appropriation	–	–	–	–	55,387	–	–	–	(55,387)	–	–	–
At 31 December 2008 (audited)	94,629	2,372,884	77,651	154,091	137,617	52,335	3,139	30,030	808,710	3,731,086	3,559	3,734,645
Profit (loss) for the period	–	–	–	–	–	–	–	–	254,410	254,410	(289)	254,121
Gain on fair value change of available-for-sale investments	–	–	–	–	–	–	3,453	–	–	3,453	–	3,453
Deferred tax liabilities arising on gain on fair value change of available-for-sale investments	–	–	–	–	–	–	(316)	–	–	(316)	–	(316)
Total comprehensive income for the period	–	–	–	–	–	–	3,137	–	254,410	257,547	(289)	257,258
Dividend recognised as distribution	–	–	–	–	–	–	–	–	(274,305)	(274,305)	–	(274,305)
Capital contribution from a minority shareholder	–	–	–	–	–	–	–	–	–	–	14,700	14,700
Appropriation	–	–	–	–	6,877	–	–	–	(6,877)	–	–	–
At 30 June 2009 (unaudited)	94,629	2,372,884	77,651	154,091	144,494	52,335	6,276	30,030	781,938	3,714,328	17,970	3,732,298

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2009

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash from operating activities	**53,014**	82,801
Net cash used in investing activities		
Increase in pledged bank deposits	**(121,113)**	(91,750)
Purchase of property, plant and equipment	**(626,013)**	(373,001)
Prepayment for acquisition of property, plant and equipment	**(90,277)**	(157,751)
Payment on partial termination of derivative financial instruments	**(50,181)**	—
Prepayment for acquisition of land lease	**(18,208)**	(53,590)
Expenditure on intangible assets	**(6,643)**	(19,528)
Decrease (increase) in restricted cash	**829,489**	(978,540)
Investment in associates	**—**	(23,017)
Other investing cash flows	**18,355**	(2,194)
	(64,591)	(1,699,371)
Net cash from financing activities		
New borrowings raised	**2,033,050**	10,000
Repayment of borrowings	**(709,521)**	(423,932)
Issue of convertible bonds	**—**	1,996,300
Other financing cash flows	**(50,215)**	(43,560)
	1,273,314	1,538,808
Net increase (decrease) in cash and cash equivalents	**1,261,737**	(77,762)
Cash and cash equivalents at 1 January	**681,643**	1,516,146
Cash and cash equivalents at 30 June, represented by bank balances and cash	**1,943,380**	1,438,384

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

1. BASIS OF PREPARATION

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 34 "Interim Financial Reporting".

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values.

The accounting policies used in the condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2008.

In the current interim period, the Group has applied, for the first time, the following new and revised standards, amendments and interpretations ("new and revised IFRSs") issued by the International Accounting Standards Board, which are effective for the Group's annual financial year beginning on 1 January 2009.

IAS 1 (Revised)	Presentation of Financial Statements
IAS 23 (Revised)	Borrowing Costs
IAS 32 & 1 (Amendments)	Puttable Financial Instruments and Obligations Arising on Liquidation
IFRS 1 & IAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
IFRS 2 (Amendment)	Vesting Conditions and Cancellations
IFRS 7 (Amendment)	Improving Disclosures about Financial Instruments
IFRS 8	Operating Segments
IFRIC 9 & IAS 39 (Amendments)	Embedded Derivatives
IFRIC 13	Customer Loyalty Programmes
IFRIC 15	Agreements for the Construction of Real Estate
IFRIC 16	Hedges of a Net Investment in a Foreign Operation
IFRSs (Amendments)	Improvements to IFRSs issued in 2008, except for the amendment to IFRS 5 that is effective for annual periods beginning on or after 1 July 2009
IFRSs (Amendments)	Improvements to IFRSs issued in 2009 in relation to the amendment to paragraph 80 of IAS 39

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

IAS 1 (Revised) has introduced a number of terminology changes, including revised titles for the condensed consolidated financial statements, and has resulted in a number of changes in presentation and disclosure. IFRS 8 is a disclosure standard that requires the identification of operating segments to be performed on the same basis as financial information that is reported internally for the purpose of allocating resources between segments and assessing their performance. The predecessor standard, IAS 14 "Segment Reporting", required the identification of two sets of segments (business and geographical) using a risks and returns approach. In the past, the Group's primary reporting format was geographical segments. The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with IAS 14 (see note 3). The adoption of the new and revised IFRSs has had no material effect on the reported results and financial position of the Group for the current or prior accounting periods. Accordingly, no prior period adjustment has been recognised.

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

IFRSs (Amendments)	Amendment to IFRS 5 as part of Improvements to IFRSs issued in 2008[1]
IFRSs (Amendments)	Improvements to IFRSs issued in 2009[2]
IAS 27 (Revised)	Consolidated and Separate Financial Statements[1]
IAS 39 (Amendment)	Eligible Hedged Items[1]
IFRS 1 (Amendment)	Additional Exemptions for First-time Adopters[3]
IFRS 2 (Amendment)	Group Cash-settled Share-based Payment Transactions[3]
IFRS 3 (Revised)	Business Combinations[1]
IFRIC 17	Distributions of Non-cash Assets to Owners[1]
IFRIC 18	Transfers of Assets from Customers[4]

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

[2] Amendments that are effective for annual periods beginning on or after 1 July 2009 or 1 January 2010, as appropriate

[3] Effective for annual periods beginning on or after 1 January 2010

[4] Effective for transfers on or after 1 July 2009

The adoption of IFRS 3 (Revised) may affect the Group's accounting for business combination for which the acquisition dates are on or after 1 January 2010. IAS 27 (Revised) will affect the accounting treatment for changes in the Group's ownership interest in a subsidiary.

The directors of the Company anticipate that the application of other new and revised standards, amendments or interpretations will have no material impact on the results and financial position of the Group.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

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 the production and sale of gear products.

The Group has adopted IFRS 8 "Operating Segments" with effect from 1 January 2009. IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker (the "CODM") in order to allocate resources to segments and to assess their performance. In contrast, the predecessor standard, IAS 14 "Segment Reporting", required an entity to identify two sets of segments (business and geographical) using a risks and returns approach, with the entity's "system of internal financial reporting to key management personnel" serving only as the starting point for the identification of such segments.

In the past, the Group's primary reporting format was geographical segments. The application of IFRS 8 has not resulted in a redesignation of the Group's reportable segments as compared with the primary reportable segments determined in accordance with IAS 14. Nor has the adoption of IFRS 8 changed the basis of measurement of segment profit or loss and segment assets. The Group's reportable segments under IFRS 8 are therefore identical to the geographical segments under IAS 14.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

3. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

The following is an analysis of the Group's revenue and results by operating segment for the Period under Review. People's Republic of China ("PRC") and Europe (mainly including Italy) are the two major operating segments reviewd by the CODM while the remaining market locations are grouped together to report to CODM for analysis.

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Revenue		
– PRC	**1,859,271**	1,045,169
– Europe	**60,682**	212,302
– Others	**113,093**	92,786
	2,033,046	1,350,257
Segment profit		
– PRC	**543,720**	324,221
– Europe	**17,746**	43,709
– Others	**33,073**	24,307
	594,539	392,237
Other income	**20,820**	32,535
Other gain and losses	**(55,579)**	75,529
Finance costs	**(57,715)**	(8,625)
Share of results of associates	**249**	(912)
Share of results of jointly controlled entities	**(4,425)**	—
Unallocated expenses	**(192,235)**	(204,136)
Profit before taxation	**305,654**	286,628

Segment profit represents the profit earned by each segment without allocation of certain expenses (including corporate administrative expenses, research and development costs and other expenses), other gain and losses, finance costs, share of results of associates and share of results of jointly controlled entities. This is the measure reporting to the Group's board of directors for the purposes of resources allocation and performance assessment.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

4. OTHER GAIN AND LOSSES

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
Gain on fair value change of derivative financial instrument	657,489	121,569
Loss on partial termination of derivative financial instrument	(393,219)	—
Loss on fair value change of convertible bonds	(319,849)	(46,040)
	(55,579)	75,529

5. TAXATION

	Six months ended 30 June	
	2009 RMB'000	2008 RMB'000
PRC enterprise income tax		
– Current period	50,575	40,950
– Under(over) provision in respect of prior period	4,640	(600)
– Other tax benefit	—	(12,765)
	55,215	27,585
Deferred tax		
– Current period	(3,682)	5,872
– Attributable to a change in tax rate	—	163
	(3,682)	6,035
	51,533	33,620

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

Taxation arising in the PRC is calculated at 25% (2008: 25%) 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

5. TAXATION *(Continued)*

Pursuant to the Income Tax Law Concerning Foreign Investment Enterprises and Foreign Enterprises, certain subsidiaries in the PRC are entitled to exemption from PRC EIT for two years commencing from their first profit-making year of operation and thereafter, they are entitled to a 50% relief from the PRC EIT for the following three years. The local income tax of 3% was exempted during the tax holiday.

Nanjing High Speed Gear Manufacturing Co., Ltd. and Nanjing High Accurate Marine Equipment Co., Ltd. are approved for 3 years as enterprises that satisfied the condition as high technology development enterprises and are subject to a preferential tax rate of 15% for the six months period ended 30 June 2009 and 2008.

Nanjing High Speed & Accurate Gear (Group) Co., Ltd. and Nanjing Gaote Gear Box Manufacturing Co., Ltd. are entitled to a 50% relief from EIT for the six months period ended 30 June 2009 and 2008.

There was no significant unprovided deferred taxation for the period or at the end of the reporting period.

6. PROFIT FOR THE PERIOD

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

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Allowance for inventories	**3,597**	2,357
Amortisation of intangible assets (included in administrative expenses)	**9,502**	9,671
Bank interest income	**(7,411)**	(27,619)
Depreciation of property, plant and equipment	**95,269**	54,012
Exchange loss, net (included in other expenses)	**31,083**	29,762
Gain on disposal of property, plant and equipment	**—**	(54)
Impairment loss on trade receivables	**1,766**	4,055
Release of prepaid lease payments	**2,727**	504
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 2009

7. DIVIDENDS

During the period, a dividend of HK25 cents, equivalent to RMB22 cents per share and amounting to approximately RMB274 million, (2008: HK8 cents, equivalent to RMB7 cents per share and amounting to approximately RMB88 million) per share was declared to shareholders as the final dividend for 2008.

The directors do not propose the payment of an interim dividend for the six-month period ended 30 June 2009 (2008: nil).

8. EARNINGS PER SHARE

The calculation of the basic and diluted earnings per share attributable to owners of the Company is based on the following data:

	Six months ended 30 June	
	2009	2008
	RMB'000	RMB'000
Earnings		
Profit for the period attributable to owners of the Company	**254,410**	252,767
	'000	'000
Number of shares		
Number of ordinary shares for the purposes of basic earnings per share	**1,245,000**	1,245,000
Effect of dilutive potential ordinary shares in respect of share options	**6,316**	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,251,316**	1,245,000

The calculation of diluted earnings per share for the six months ended 30 June 2008 does not assume the conversion of convertible bonds which would result in an increase in earnings per share.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment of RMB829,696,000 (six months ended 2008: RMB557,817,000) for the purpose of expanding the Group's business.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

10. TRADE AND OTHER RECEIVABLES

	30 June 2009 RMB'000	31 December 2008 RMB'000
Notes receivable	**166,606**	388,274
Accounts receivables	**919,277**	613,941
Less: allowance for doubtful debts	**(35,541)**	(33,775)
Total trade receivables	**1,050,342**	968,440
Advances to suppliers	**287,823**	277,302
Value added tax recoverable	**8,564**	29,628
Others	**20,921**	18,876
Total trade and other receivables	**1,367,650**	1,294,246

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

The following is an aged analysis of the trade receivables, presented based on the invoice date and net of allowance for doubtful debts, at the end of the reporting period:

	30 June 2009 RMB'000	31 December 2008 RMB'000
0 – 90 days	**852,608**	849,611
91 – 120 days	**33,816**	47,207
121 – 180 days	**70,767**	17,350
181 – 365 days	**40,721**	24,632
Over 365 days	**52,430**	29,640
	1,050,342	968,440

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

11. TRADE AND OTHER PAYABLES

	30 June 2009 RMB'000	31 December 2008 RMB'000
Notes payable (note)	627,740	572,875
Accounts payables	389,720	562,879
Total trade payables	1,017,460	1,135,754
Advances from customers	571,506	679,694
Payable for acquisitions of property, plant and equipment	165,860	139,048
Payroll and welfare payables	33,819	49,738
Accrued expenses	4,191	4,542
Value added tax payable	15,508	7,020
Others	30,294	33,144
Total trade and other payables	1,838,638	2,048,940

Note: Notes payable are secured by the Group's own assets as set out in note 16.

The following is an aged analysis of the Group's trade payables, presented based on the invoice date, at the end of the reporting period:

	30 June 2009 RMB'000	31 December 2008 RMB'000
0 – 30 days	788,516	984,310
31– 60 days	157,481	69,915
61 – 180 days	51,835	55,851
181 – 365 days	9,854	15,417
Over 365 days	9,774	10,261
	1,017,460	1,135,754

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

12. BORROWINGS

During the period, the Group obtained new borrowings in the amount of approximately RMB2,033,050,000 (six months ended 2008: RMB10,000,000). The borrowings bear fixed interest at interest rates ranging from 4.8% to 6.1% per annum and are repayable within 1 to 2 years. The Group also repaid borrowings of approximately RMB709,521,000 (six months ended 2008: RMB423,932,000) during the period.

13. CONVERTIBLE BONDS

On 14 May 2008, the Company issued RMB denominated USD settled zero coupon convertible bonds, of aggregate principal amount of RMB1,996.3 million. The convertible bonds are listed in Singapore and convertible at the option of bond holders 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 for conversion, 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 bonds have not been converted, they 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 options to (i) request for mandatorily conversion of all or some only of the convertible bonds provided that 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) redeem the outstanding convertible bonds in whole, but not in part, in the event that at least 90% of the convertible bonds have been redeemed, purchased, converted or cancelled. Due to the existence of a cash settlement option in the event of conversion, whereas the Company can settle in cash in lieu of delivery of the relevant shares to the bondholders, the convertible bonds are regarded as financial liabilities with embedded derivatives for the conversion and redemption options and the entire convertible bonds were designated as financial liabilities at fair value through profit or loss.

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

	RMB'000
As at 1 January 2009	931,550
Loss on fair value change of convertible bonds	319,849
As at 30 June 2009	1,251,399

The fair value of the entire convertible bond instrument containing the debt component and the embedded derivatives are measured using quoted asked price of the bond as at 30 June 2009.

14. DERIVATIVE FINANCIAL INSTRUMENT

Concurrently with the issuance of the RMB denominated USD settled zero coupon convertible bonds as disclosed in note 13, the Company entered into a cash settled equity swap transaction (the "Equity Swap") with Morgan Stanley & Co. International plc (the "Equity Swap Counterparty") for 81.4 million shares of the Company up to a value of HK$1,113 million (equivalent to approximately RMB982 million). The Company is required to deposit the corresponding initial exchange amount of RMB982 million (equivalent to HK$1,113 million) with the Equity Swap Counterparty as restricted cash for the Equity Swap which carried no interests.

Upon the termination of the Equity Swap, the Company will receive a payment from the Equity Swap Counterparty if the final price of the Company's share 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 RMB 12.27) and the final price will be determined with reference to the volume weighted average price of the Company's share on the date of settlement. Besides, the Equity Swap will be settled on termination date subject to early termination option of either parties under optional early termination events.

During the period, the Company has early terminated the Equity Swap in respect of 68,758,000 shares out of total 81,370,707 shares, equvalient to 84.5% of the Equity Swap. At the date of settlement, fair value of the Equity Swap is a financial asset of RMB343 million. Settlement amount of the partial early termination is RMB50 million, determined by reference to the difference between the market share price at the date of partial early terimination and initial price. Upon the terimination, the financial asset of the Equity Swap of RMB343 million is released and a total loss on partial early termination of approximately RMB393 million is resulted.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

14. DERIVATIVE FINANCIAL INSTRUMENT *(Continued)*

The movement of derivative financial instrument for the current period is set out below:

	RMB'000
As at 1 January 2009	(292,794)
Gain on fair value change	657,489
Payment on partial early termination	50,181
Loss on partial early termination	(393,219)
As at 30 June 2009	21,657

The fair value of the derivative financial instrument 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 follow:

	1 January 2009	30 June 2009
Exercise price	HK$13.68	HK$13.68
Risk-free rate of interest	0.66%	0.62%
Dividend yield	0.85%	0.62%
Time to expiration	2.41 years	1.91 years
Volatility	72.48%	82.33%

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

15. COMMITMENTS

At the end of the reporting period, the Group had the following commitments:

	30 June 2009 RMB'000	31 December 2008 RMB'000
Capital expenditure contracted but not provided in the condensed consolidated financial statements in respect of acquisition of property, plant and equipment	**1,207,948**	1,656,493

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

16. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged to banks to secure notes payable utilised by the Group:

	30 June 2009 RMB'000	31 December 2008 RMB'000
Bank deposits	623,809	502,696

17. RELATED PARTY DISCLOSURES

(I) Related party transactions

Name of company	Relationship	Nature of transactions	Six months ended 30 June 2009 RMB'000	Six months ended 30 June 2008 RMB'000
ZF Nanjing Marine Propulsion Co., Ltd.	Associate	Sales of goods	10,470	22,186
		Rental income	568	568
		Other income	98	125
Nanjing Longwin Windpower Equipment Manufacturing Co., Ltd.	Associate	Purchase of goods	3,861	—
Nanjing High Accurate Construction Equipment Co., Ltd.	Jointly controlled entity	Sales of goods	6,968	—
		Purchase of goods	2,494	—
Jiangsu Hongsheng Heavy Industries Group Co., Ltd.	Jointly controlled entity	Sales of goods	17,319	—
		Purchase of goods	22,216	—

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2009

17. RELATED PARTY DISCLOSURES *(Continued)*

(II) Related party balances

The Group's outstanding balances with a related party (holding company of a minority shareholder), associates and jointly controlled entities are set out on the condensed consolidated statement of financial position.

(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	
	2009	2008
	RMB'000	RMB'000
Short-term benefits	**2,896**	2,520

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.