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)

Announcement
Unaudited interim results
for the six months ended 30 June 2018

FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2018 RMB'000 (Unaudited)	Six months ended 30 June 2017 RMB'000 (Unaudited and restated)	Change
Revenue	**3,466,794**	3,894,207	-11.0%
Gross profit	**799,501**	1,197,837	-33.3%
Profit for the period attributable to the owners of the Company	**179,331**	586,695	-69.4%
Basic earnings per share (RMB)	**0.110**	0.359	-69.4%
	As at 30 June 2018 RMB'000 (Unaudited)	As at 31 December 2017 RMB'000 (Audited)	Change
Total assets	**28,767,615**	27,438,175	4.8%
Total liabilities	**17,859,638**	16,462,174	8.5%
Net assets	**10,907,977**	10,976,001	-0.6%
Net assets per share (RMB)	**6.7**	6.7	—
Gearing ratio* (%)	**62.1**	60.0	2.1 percentage points

* *Gearing ratio = total liabilities/total assets*

The board (the "Board") of directors (the "Director(s)") of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2018, together with the comparative figures are as follows. The interim condensed consolidated financial statements are unaudited, but have been reviewed by the Company's audit committee.

Interim condensed consolidated statement of profit or loss and other comprehensive income

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June 2018 (Unaudited) RMB'000	2017 (Unaudited and restated) RMB'000
Revenue	2	**3,466,794**	3,894,207
Cost of sales		**(2,667,293)**	(2,696,370)
Gross profit		**799,501**	1,197,837
Other income and net gains	3	**287,295**	392,259
Selling and distribution expenses		**(150,597)**	(169,650)
Administrative expenses		**(303,630)**	(339,382)
Research and development costs		**(120,008)**	(113,434)
Other expenses		**(3,316)**	(138,964)
Finance costs	5	**(341,515)**	(238,834)
Share of profits and losses of:			
Joint ventures		**9,496**	35,990
Associates		**929**	(6,924)
Profit before tax	4	**178,155**	618,898
Income tax expense	6	**(5,430)**	(57,665)
Profit for the period		**172,725**	561,233
Other comprehensive expense			
Other comprehensive income (expense) to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Change in fair value		**—**	(106,895)
Income tax effect on change in fair value		**—**	26,723
		—	(80,172)
Exchange differences on translation of foreign operations		**1,754**	551
		1,754	(79,621)
Other comprehensive expense not to be reclassified to profit or loss in subsequent periods:			
Financial assets at fair value through other comprehensive income:			
Change in fair value		**(75,706)**	—
Income tax effect on change in fair value		**18,045**	—
		(57,661)	—
Other comprehensive expense for the period, net of tax		**(55,907)**	(79,621)
Total comprehensive income for the period		**116,818**	481,612

	Note	For the six months ended 30 June **2018** **(Unaudited)** **RMB'000**	2017 (Unaudited and restated) RMB'000
Profit/(loss) for the period attributable to:			
Owners of the Company		**179,331**	586,695
Non-controlling interests		**(6,606)**	(25,462)
		172,725	561,233
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**123,834**	507,199
Non-controlling interests		**(7,016)**	(25,587)
		116,818	481,612
Earnings per share attributable to ordinary equity holders of the Company:			
Basic and diluted	8	**0.110**	0.359

Interim condensed consolidated statement of financial position

As at 30 June 2018

	Notes	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**4,476,872**	4,409,741
Prepaid land lease payments		**664,119**	669,236
Goodwill		**2,991**	2,991
Other intangible assets		**29,138**	37,875
Interests in joint ventures		**109,454**	99,958
Interests in associates		**284,466**	158,014
Prepayment for acquisition of property, plant and equipment		**5,306**	4,795
Other receivable		**500,000**	71,429
Financial assets at fair value through other comprehensive income	9	**2,594,431**	—
Financial assets at fair value through profit or loss	9	**783,462**	—
Available-for-sale investments	10	**—**	3,612,278
Deposit for land lease		**301,590**	116,800
Deferred tax assets		**253,082**	241,182
Total non-current assets		**10,004,911**	9,424,299
CURRENT ASSETS			
Inventories		**2,990,113**	2,415,777
Prepaid land lease payments		**11,786**	14,860
Trade and bills receivables	11	**4,351,882**	6,515,259
Financial assets at fair value through other comprehensive income	9	**2,285,301**	—
Prepayments, deposits and other receivables		**1,629,516**	2,036,616
Financial assets at fair value through profit or loss	9	**1,153,569**	—
Structured bank deposits		**—**	108,000
Pledged bank deposits		**3,655,024**	2,892,955
Bank balances and cash		**2,685,513**	4,030,409
Total current assets		**18,762,704**	18,013,876
CURRENT LIABILITIES			
Trade and bills payables	12	**7,396,643**	6,637,045
Other payables and accruals		**948,973**	986,772
Receipts in advance and deposits received		**—**	542,429
Contract liabilities and deposits received		**417,089**	—
Interest-bearing bank and other borrowings	13	**5,868,486**	5,030,608
Taxation payable		**104,547**	123,724
Warranty provision		**111,001**	120,664
Total current liabilities		**14,846,739**	13,441,242
NET CURRENT ASSETS		**3,915,965**	4,572,634
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,920,876**	13,996,933

	Note	**30 June 2018 (Unaudited) RMB'000**	31 December 2017 (Audited) RMB'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	13	**2,759,073**	2,756,293
Deferred tax liabilities		**168,631**	178,981
Deferred income		**85,195**	85,658
Total non-current liabilities		**3,012,899**	3,020,932
Net assets		**10,907,977**	10,976,001
EQUITY			
Equity attributable to owners of the Company			
Share capital		**119,218**	119,218
Reserves		**10,724,736**	10,785,744
		10,843,954	10,904,962
Non-controlling interests		**64,023**	71,039
Total equity		**10,907,977**	10,976,001

Notes to the interim condensed consolidated financial statements

for the six months ended 30 June 2018

1. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

1.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting issued by the International Accounting Standards Board.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2017.

1.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017, except for the adoption of new standards, interpretations and amendments to International Financial Reporting Standards ("IFRSs"), which are mandatory effective for the annual periods beginning on or after 1 January 2018. The Group has not early adopted any other standards, interpretation or amendments that have been issued but are not yet effective.

Except for the impacts from IFRS 15 and IFRS 9 as described below, the application of the other interpretations and amendments to IFRSs, which are mandatory effective for the annual period beginning on or after 1 January 2018, has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements. The nature and the effect of these changes are disclosed below.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The analysis of the effect of adopting IFRS 15 is as follows:

(a) Sale of goods

The Group's contract with customers for the sale of mechanical transmission goods and other products generally include one performance obligation. The Group has concluded that revenue from sale of mechanical transmission goods and other products should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the Group concluded that the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

(b) Warranty obligations

The Group generally provides warranties for general repairs of defects which are assurance-type warranties under IFRS 15 and accounts for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with its practice prior to the adoption of IFRS 15. Therefore, the Group concluded that the adoption of IFRS 15 did not have an impact on the accounting for it's warranties.

(c) Advances received from customers

The Group receives advances from its customers for the goods sold. Prior to the adoption of IFRS 15, the Group presented these advances as receipts in advance in the consolidated statement of financial position. No interest was accrued on these advances received under the previous accounting policy.

Under IFRS 15, the Group applies the practical expedient of not adjusting the promised amount of the consideration for the effects of a financing component in contracts, where the Group expects, at contract inception, that the payment between the payment by the customer and the transfer of the promised goods or services is less than one year.

Under IFRS 15, these advances, which previously included in "receipts in advance and deposits received", are recorded as "contract liabilities and deposits received" before relevant revenue is recognised.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting. The impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

Under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss ("FVTPL"), amortised cost, or fair value through other comprehensive income ("FVTOCI"). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (the "SPPI criterion").

The new classification and measurement of the Group's financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade receivables, financial assets included in prepayments, deposits and other receivables, pledged bank deposits, bank balances and cash.

- Debt instruments at FVTOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's bills receivable that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell.

- Equity instruments at FVTOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes quoted and unquoted equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. Equity instruments at FVTOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's quoted and unquoted equity instruments were classified as available-for-sale investments.

- Financial assets at FVTPL comprise debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under IAS 39, these instruments were classified as available-for-sale investments.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains the same as it was under IAS 39.

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

IFRS 9 requires the Group to record an allowance for ECLs for debt financial assets not held at FVTPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the end of the reporting period. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. The Group concluded that the adoption of the ECL requirements of IFRS 9 consideration do not result in any significant impact on the amounts reported in the statement of consoldiated financial position on 1 January 2018 and the financial information during the six months ended 30 June 2018.

(c) Summary of effects arising from initial application of IFRS 9

The Group has applied IFRS 9 in accordance with the transition provision set out in IFRS 9 and elected not to restate comparative information for 2017 for financial instruments. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. The difference between carrying amounts of financial instruments as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in opening equity as at 1 January 2018.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is as follows:

	31 December 2017 (Audited)	**Reclassification**	**Remeasurement**	**1 January 2018 (Restated)**
	RMB'000	RMB'000	RMB'000	RMB'000
Non-current assets				
Available-for-sale investments	3,612,278	(3,612,278)	—	—
Financial assets at FVTPL	—	1,010,431	9,056	1,019,487
Financial assets at FVTOCI	—	2,601,847	63,291	2,665,138
Current assets				
Trade and bills receivables	6,515,259	(2,853,321)	—	3,661,938
Structured bank deposits	108,000	(108,000)	—	—
Financial assets at FVTPL	—	108,000	—	108,000
Financial assets at FVTOCI	—	2,853,321	—	2,853,321
Non-current liabilities				
Deferred tax liabilities	—	—	18,087	18,087
Equity				
Investment revaluation reserve	247,644	(63,206)	47,468	231,906
Retained profits	5,075,565	63,206	6,792	5,145,563

2. OPERATING SEGMENT INFORMATION

The Group is organised in one business division only. The Group's chief operating decision maker (the "CODM"), being the Company's Board of Directors, make decisions according to the revenue and operating results of each geographical area by location of customers and the related reports on the aging analysis of trade and bills receivables for the purposes of resources allocation and performance assessment. Accordingly the Group's operating segments are based on geographical location of customers.

No information of liabilities is provided to CODM for the assessment of performance of different geographical area. Therefore only segment revenue, segment results and segment assets are presented.

The People's Republic of China (the "PRC"), the United States of America (the "USA") and the Europe are three major operating segments reviewed by the CODM while the remaining market locations are grouped together to report to CODM for analysis.

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2018 and 2017, respectively.

For the six months ended 30 June 2018

	PRC	USA	Europe	Other countries	Total (Unaudited)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:					
Sales to external customers	**2,321,210**	**553,964**	**257,349**	**334,271**	**3,466,794**
Intersegment sales	**1,703,922**	**78,818**	**11,790**	**812,830**	**2,607,360**
Reconciliation:					
Elimination of intersegment sales					**(2,607,360)**
Revenue					**3,466,794**
Segment results	**436,169**	**124,521**	**58,392**	**52,951**	**672,033**
Reconciliation:					
Unallocated other income and net gains					**264,166**
Other expenses					**(3,316)**
Finance costs					**(341,515)**
Share of results of joint ventures					**9,496**
Share of results of associates					**929**
Corporation and other unallocated expenses					**(423,638)**
Profit before tax					**178,155**

For the six months ended 30 June 2017

	PRC	USA	Europe	Other countries	Total (Unaudited and restated)
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue:					
Sales to external customers	2,368,471	1,229,369	211,104	85,263	3,894,207
Intersegment sales	1,083,165	61,042	—	13,845	1,158,052
Reconciliation:					
Elimination of intersegment sales					(1,158,052)
Revenue					3,894,207
Segment results	720,474	309,569	18,340	12,066	1,060,449
Reconciliation:					
Unallocated other income and net gains					359,997
Other expenses					(138,964)
Finance costs					(238,834)
Share of results of joint ventures					35,990
Share of results of associates					(6,924)
Corporation and other unallocated expenses					(452,816)
Profit before tax					618,898

3. REVENUE AND OTHER INCOME AND NET GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue and other income and net gains is as follows:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
Revenue		
Sale of goods	**3,466,794**	3,894,207
Other income		
Bank interest income	**44,403**	31,632
Gross rental income	**1,006**	1,398
Government grants*	**5,503**	12,011
Sale of scraps and material	**17,626**	20,251
Investment income	**106,991**	20,270
Others	**37,622**	4,623
	213,151	90,185
Net gains		
Gain from land resumption	**—**	174,005
(Loss)/gain on disposal of property, plant and equipment, net	**(1,987)**	1,377
Gain on disposal of a subsidiary	**—**	137,374
(Loss)/gain on disposal of an associate	**(583)**	58
Foreign exchange differences, net	**5,295**	(10,740)
Fair value changes on financial assets at FVTPL	**51,005**	—
Reversal of impairment loss of trade receivables, net	**19,048**	—
Reversal of impairment loss of other receivables	**1,366**	—
	74,144	302,074
	287,295	392,259

* There are no unfulfilled conditions or contingencies relating to these grants.

4. PROFIT BEFORE TAX

The Group's profit before tax is arrived at after charging/(crediting):

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
Cost of inventories sold	**2,655,688**	2,614,051
Depreciation of property, plant and equipment	**240,712**	265,585
Amortisation of technical know-how (included in administrative expenses)	**486**	1,611
Amortisation of development costs (included in administrative expenses)	**8,251**	13,929
Amortisation of prepaid land lease payments	**8,191**	6,994
Write-down of inventories to net realisable value (included in cost of sales)	**11,605**	82,319
Items included in other expenses:		
Impairment loss of property, plant and equipment	**—**	1,600
Impairment loss of other intangible assets	**—**	5,697
Impairment loss of trade and bills receivables, net	**—**	84,101
Impairment loss of other receivables	**—**	13,761
Items included in other income and net gains:		
Reversal of impairment loss of trade receivables, net	**(19,048)**	—
Reversal of impairment loss of other receivables	**(1,366)**	—

5. FINANCE COSTS

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
Interest on finance leases	**—**	163
Interest on bank and other borrowings	**341,515**	238,671
	341,515	238,834

6. INCOME TAX EXPENSE

Income tax expense has been calculated at the rates of tax prevailing in the relevant tax jurisdictions in which the Group operates. The major components of income tax expense recognised in profit or loss are:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
Current - PRC		
Charge for the period	**34,671**	108,879
Over provision in respect of prior period	**(23,376)**	—
Current – Hong Kong		
Charge for the period	**5,312**	—
Deferred tax		
Credit for the period	**(11,177)**	(51,214)
Total tax charge for the period	**5,430**	57,665

PRC corporate income tax has been provided at the rate of 25% (six months ended 30 June 2017: 25%) on the taxable profits of the Group's PRC subsidiaries for the six months ended 30 June 2018.

The following subsidiaries are qualified as high technology development enterprises and thus subject to a preferential tax rate of 15% for 3 years from the date of approval:

Name of company	**Year ended during which approval was obtained**	**Year ended/ending during which approval will expire/expired**
Nanjing High Speed Gear Manufacturing Co., Ltd.	31 December 2017	31 December 2019
Nanjing High Speed & Accurate Gear (Group) Co., Ltd.	31 December 2017	31 December 2019
Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd. ("Nanjing Gaochuan Sky")	31 December 2015	31 December 2017 (note)
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd. ("CHSTE (Beijing) Shougao")	31 December 2015	31 December 2017 (note)
Nanjing High Accurate Rail Transportation Equipment Co., Ltd.	31 December 2017	31 December 2019

Note: The approval of Nanjing Gaochuan Sky and CHSTE (Beijing) Shougao was issued on 31 October 2015. As the preferential tax rate of 15% for 3 years became effective from the date of approval and up to October 2018, the subsidiaries applied the rate of 15% for the calculation of Enterprise Income Tax for the six months ended 30 June 2018. As at the reporting date, Nanjing Gaochuan Sky and CHSTE (Beijing) Shougao are in the process of applying to renew the qualification of the high technology development enterprises.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for six months ended 30 June 2018. No provision for Hong Kong profits tax had been made during the six months ended 30 June 2017.

Singapore corporate income tax

No provision for Singapore corporate income tax has been made as the Group did not generate any assessable profits arising in Singapore during the period (six months ended 30 June 2017: nil).

Withholding tax

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to 5% withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008. The aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totalled approximately RMB6,606 million at 30 June 2018 (31 December 2017: RMB6,327 million), in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

7. DIVIDENDS

2017 final dividend amounting to Hong Kong 18 cents (approximately RMB14.6 cents) per share was proposed by the directors of the Company on 29 March 2018, and subsequently approved at the annual general meeting on 18 May 2018. The aggregated amount of the 2017 final dividend declared amounted to approximately RMB239,102,000 and recognised as distribution during the period ended 30 June 2018.

2016 final dividend amounting to Hong Kong 23 cents (approximately RMB20.3 cents) per share was proposed by the directors of the Company on 31 March 2017, and subsequently approved at the annual general meeting on 19 May 2017. The aggregated amount of the 2016 final dividend declared amounted to approximately RMB332,412,000 and recognised as distribution during the period ended 30 June 2017.

The directors of the Company have determined that no dividend will be declared in respect of the current interim period (six months ended 30 June 2017: nil).

8. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2018	2017
	(Unaudited)	(Unaudited and restated)
	RMB'000	RMB'000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	**179,331**	586,695

	For the six months ended 30 June	
	2018	2017
	Number of shares	
	(Unaudited)	(Unaudited)
	'000	'000
Shares		
Number of ordinary shares for the purpose of basic and diluted earnings per share calculation	**1,635,291**	1,635,291

No adjustment is made to the diluted earnings per share for the six months ended 30 June 2018 and 2017 as there is no potential dilutive shares in issue.

9. FINANCIAL ASSETS AT FVTOCI AND FINANCIAL ASSETS AT FVTPL

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Financial assets at FVTOCI		
Non-current		
Listed equity investments (note a)	**364,889**	—
Unlisted equity investments (note b)	**2,229,542**	—
	2,594,431	—
Current		
Bills receivable	**2,285,301**	—
	4,879,732	—
Financial assets at FVTPL		
Non-current		
Unlisted debt investments (note c)	**783,462**	—
Current		
Unlisted debt investments (note d)	**1,153,569**	—
	1,937,031	—

Notes:

(a) At 30 June 2018, the balance includes the Group's investment in 50,093,000 H shares of 國電科技環保集團股份有限公司 Guodian Technology & Environment Group Corporation Limited of RMB18,582,000 (31 December 2017: RMB22,110,000), 16,962,000 shares of 日月重工股份有限公司 Riyue Heavy Industry Co., Ltd. of RMB317,695,000 (31 December 2017: RMB380,794,000) and 4,593,000 shares of 江蘇銀行股份有限公司Bank of Jiangsu Co., Ltd. of RMB28,612,000 (31 December 2017: RMB33,756,000).

(b) (i) On 17 April 2017, Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("Nanjing Drive") entered into a limited partnership agreement with thirty-four other partners in respect of, among other matters, the establishment of an investment fund in the PRC named "浙江浙商產融股權投資基金合夥企業 (有限合夥) Zhejiang Zheshang Chanrong Equity Investment Fund L.P." and the subscription of interest therein. The general partner and executive partner of the investment fund is 寧波錢潮涌鑫投資管理合夥企業(有限合夥) Ningbo Qianchao Yongxin Investment Management L.P., a limited partnership established in the PRC. The objective of the investment fund is to invest in businesses arising from government's economic reform especially in Zhejiang region. The Group considers that such investment could result in more investment opportunities and better investment returns by leveraging on the other partners' advantageous resources or experience in investment management. Pursuant to the limited partnership agreement, the full capital contribution to the investment fund is RMB50.38 billion, among which, RMB2 billion is to be contributed by Nanjing Drive as a limited partner. During the year ended 31 Decembeer 2017, RMB2 billion had been paid up by Nanjing Drive to the investment fund.

(ii) The remaining amount includes the unlisted equity investments with individual amount less than RMB500,000,000.

(c) (i) On 31 August 2017, Nanjing Drive entered into a limited partnership agreement with Ningbo Zhongbang Chanrong Holding Co., Ltd. (寧波眾邦產融控股有限公司) and Ningbo Jingbang Asset Management Co., Ltd. (寧波靖邦資產管理有限公司) in respect of the establishment of an investment fund in the PRC named Shanghai Guiman Enterprise Management L.P. (上海圭蔓企業管理合夥企業 (有限合夥)) (the "Guiman Fund"). Nanjing Drive is a limited partner and has invested RMB500,000,000 in the Guiman Fund.

(ii) The remaining amount includes the unlisted debt investments with individual amount less than RMB500,000,000

(d) The amount represened the Group's investments in financial products issued by certain banks and other financial institutions as at 30 June 2018.

10. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Listed equity investments	**—**	436,660
Unlisted equity investments	**—**	3,175,618
	—	3,612,278
For reporting purpose:		
Current portion	**—**	—
Non-current portion	**—**	3,612,278
	—	3,612,278

The Group has reclassified available-for-sale investments to financial assets at FVTOCI or financial assets at FVTPL at 1 January 2018 upon the adoption of IFRS 9 (see notes 2.2 and 9).

11. TRADE AND BILLS RECEIVABLES

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade receivables	**4,908,933**	4,238,036
Bills receivable	**—**	2,853,321
Impairment	**(557,051)**	(576,098)
	4,351,882	6,515,259

The Group generally allows a credit period of 180 days to its trade customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An ageing analysis of the trade receivables (31 December 2017: trade and bills receivables) as at the end of the reporting period, based on the invoice date and the date of issuance of the bills and net of provisions, is as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
0 - 90 days	**2,636,124**	3,609,544
91 - 120 days	**300,894**	479,238
121 - 180 days	**722,182**	958,477
181 - 365 days	**330,422**	963,645
1 - 2 years	**206,392**	344,473
Over 2 years	**155,868**	159,882
	4,351,882	6,515,259

12. TRADE AND BILLS PAYABLES

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade payables	**2,444,693**	1,855,137
Bills payable	**4,951,950**	4,781,908
	7,396,643	6,637,045

An ageing analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date and the date of issuance of the bills, is as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
0 - 30 days	**1,770,314**	1,753,609
31- 60 days	**654,877**	1,889,929
61 - 180 days	**3,517,859**	2,031,427
181 - 365 days	**1,261,885**	729,339
Over 365 days	**191,708**	232,741
	7,396,643	6,637,045

As at 30 June 2018, included in the trade and bills payables are trade payables of RMB7,074,000 (31 December 2017: RMB4,244,000) due to the Group's associates and RMB352,000 (31 December 2017: RMB178,000) due to the Group's joint ventures which are repayable on demand.

The trade payables are non-interest-bearing and are normally settled on terms of 90 to 180 days.

13. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2018		31 December 2017	
	Effective interest rate (%)	**RMB'000 (Unaudited)**	Effective interest rate (%)	RMB'000 (Audited)
Current				
Bank loans-unsecured	**1.05~5.80**	**4,403,759**	1.05~5.80	4,250,763
Bank loans-secured	**3.20~6.30**	**964,727**	2.80~5.78	279,845
Medium-term notes-unsecured	**8.50**	**500,000**	6.20	500,000
		5,868,486		5,030,608
Non-current				
Bank loans-secured	**2.94~5.78**	**347,270**	2.94~5.78	344,275
Corporate bonds-unsecured	**6.47~7.50**	**2,411,803**	6.47~6.50	1,912,018
Medium-term notes-unsecured	**—**	**—**	8.50	500,000
		2,759,073		2,756,293

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Analysed into:		
Bank loans repayable:		
Within one year	**5,368,486**	4,530,608
In the second year	**347,270**	343,150
In the third to fifth years, inclusive	**—**	1,125
	5,715,756	4,874,883
Other borrowings repayable:		
Within one year	**500,000**	500,000
In the second year	**900,000**	500,000
In the third to fifth years, inclusive	**1,511,803**	1,912,018
	2,911,803	2,912,018
	8,627,559	7,786,901

The secured borrowings at the end of the reporting period were secured by pledge of assets, details of which are set out in note 16.

14. DISPOSAL OF SUBSIDIARIES

During the period ended 30 June 2017

On 23 February 2017 and 27 March 2017, the Group entered into two equity transfer agreements with two independent third parties to dispose of its entire equity interests held in Nanjing High Accurate Marine Equipment Co., Ltd. ("Nanjing Marine") and Zhenjiang Tongzhou Propeller Co., Ltd. ("Zhenjiang Tongzhou") (collectively the "Marine Disposal Group") for an aggregate cash consideration of RMB607,000,000. In addition, the acquirer of Zhenjiang Tongzhou agreed to settle the payables to the Group of RMB245,312,000 on behalf of Zhenjiang Tongzhou, which was due to a subsidiary of the Group prior to the disposal. The Marine Disposal Group is engaged in the manufacturing and sales of marine gear transmission equipment. These disposals were completed on 27 February 2017 and 18 April 2017 respectively.

On 20 April 2017, the Group entered into an equity transfer agreement with an independent third party to dispose of its entire equity interests in Nanjing Jingjing Photoelectric Science & Technology Co., Ltd. ("Nanjing Jingjing") and its subsidiaries (collectively the "LED Disposal Group") for a cash consideration of RMB155,176,000. The LED Disposal Group is engaged in the manufacturing and sales of LED products. The disposal was completed on 20 April 2017.

The net assets of Marine Disposal Group and LED Disposal Group at the date of disposal and the resulting gain on disposal recognised were as follows:

	Marine Disposal Group RMB'000	LED Disposal Group RMB'000	Total RMB'000
Net assets disposed of:			
Property, plant and equipment	594,054	507,243	1,101,297
Prepaid land lease payments	95,690	23,419	119,109
Interest in a joint venture	—	537	537
Other intangible assets	21,059	—	21,059
Deferred tax assets	262	—	262
Inventories	248,753	96,842	345,595
Pledged bank deposits	5,725	9,803	15,528
Bank balances and cash	12,262	58,475	70,737
Trade and bills receivables	210,513	261,574	472,087
Prepayments and other receivables	68,635	150,341	218,976
Trade and bills payables	(84,512)	(206,639)	(291,151)
Other payables and accruals	(288,764)	(477,070)	(765,834)
Receipts in advance and deposits received	(353,184)	(9,262)	(362,446)
Interest-bearing bank and other borrowings	—	(310,000)	(310,000)
Taxation payable	(148)	(467)	(615)
Deferred tax liabilities	(3,280)	—	(3,280)
Deferred income	(1,700)	(6,512)	(8,212)
	525,365	98,284	623,649
Non-controlling interests	4,682	(3,529)	1,153
Gain on disposal recognised in profit or loss	76,953	60,421	137,374
Net consideration	607,000	155,176	762,176
Satisfied by:			
Cash	607,000	31,035	638,035
Deferred cash consideration (note)	—	124,141	124,141
	607,000	155,176	762,176

Note: For the disposal of LED Disposal Group, the deferred consideration was settled in two instalments in 2017.

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	Marine Disposal Group RMB'000	LED Disposal Group RMB'000	Total RMB'000
Cash consideration	607,000	31,035	638,035
Bank balances and cash disposed of	(12,262)	(58,475)	(70,737)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	594,738	(27,440)	567,298

15. CONTINGENT LIABILITIES

The Group entered an agreement (the "Agreement") effective from 1 January 2013 with a third party (the "Subcontractor"), pursuant to which, the Group assigns the Subcontractor and the Subcontractor agrees to repair certain of the wind gear products sold for the Group at a fixed fee at certain percentage of annual sales of those wind gear products of the Group (the "Fixed Fee"). The Group is not liable for any additional cost incurred by the Subcontractor in relation to the repair of those wind gear products, other than the Fixed Fee.

The Subcontractor however has not entered into any agreements with the customers of the wind gear products for the repair services. In the event of closure, liquidation, or inability of the Subcontractor to provide those repair services, the Group is still liable for such repair obligations should those customers claim for that against the Group. In the opinion of the directors, based on their experience, the financial position of the Subcontractor and their assessment of the current economic environment, the possibility of the default or inability by the Subcontractor to carry out the obligation is remote. Accordingly, no provision for the repair obligation of wind gear products has been made in the Group's financial statements at the end of the reporting period.

At 30 June 2018, the Group provided guarantees to one of the Group's associates in favour of its bank loans of RMB300,000,000 (31 December 2017: RMB320,000,000). This amount represented the balance that the Group could be required to be paid if the guarantees were called upon in its entirety. At the end of the reporting period, an amount of RMB10,009,000 (31 December 2017: RMB11,108,000) has been recognised in the consolidated statement of financial position as liabilities.

16. PLEDGE OF ASSETS

At the end of the reporting period, certain assets of the Group were pledged to secure certain banking facilities granted to the Group as follows:

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Trade receivables	**—**	19,502
Bills receivable	**541,841**	958,484
Property, plant and equipment	**118,027**	154,999
Prepaid land lease payments	**28,629**	45,846
Pledged bank deposits	**3,655,024**	2,892,955
	4,343,521	4,071,786

17. CAPITAL COMMITMENTS

	30 June 2018 (Unaudited) RMB'000	31 December 2017 (Audited) RMB'000
Contracted, but not provided for:		
Land and buildings	**62,400**	62,400
Plant and machinery	**214,682**	238,758
Capital contributions payable to associates	**84,260**	59,260
Capital contributions payable to financial assets at FVTOCI	**19,000**	—
Capital contributions payable to available-for-sale investments	**—**	35,000
	380,342	395,418

18. EVENTS AFTER THE REPORTING PERIOD

On 19 July 2018, Nanjing Drive has entered into a sale and purchase agreement with Nanjing Jundi Electromechanical Equipment Limited (南京駿迪機電設備有限公司) ("Nanjing Jundi") regarding the disposal of its 75% equity interest in CHSTE (Beijing) Shougao with a nominal consideration of RMB1, which was paid upon signing of the sale and purchase agreement.

On 25 July 2018, Nantong Zhenhua Hongsheng Heavy Forgery Machine Corporation Ltd. (南通市振華宏晟重型鍛壓有限公司) ("Nantong Zhenhua"), a company indirectly owned as to 95% equity interest by the Company, has entered into a building and land transfer agreement regarding the disposal of its land use rights located at Nantong City, Jiangsu Province together with the building thereon with Rugao Hongmao Heavy Forgery Machine Corporation Ltd. (如皋市宏茂重型鍛壓有限公司) ("Rugao Hongmao"), with a consideration of RMB104,000,000, of which, RMB34,000,000 was paid within 7 days after signing of the building and land transfer agreement and the remaining RMB70,000,000 will be payable within 1 year after signing of the building and land transfer agreement.

On 25 July 2018, Nanjing Drive has entered into a sale and purchase agreement with Datong Haode Equipment Leasing Limited (大同市浩德設備租賃有限公司) ("Datong Haode") regarding the disposal of its 15% equity interest in E'er Duo Si Shenchuan Mining Equipment Manufacturing Company Limited (鄂爾多斯市神傳礦用設備製造有限公司 with a consideration of RMB2,150,000, which was paid within 15 days after signing of the sale and purchase agreement.

Nanjing Jundi, Rugao Hongmao and Datong Haode are all independent third parties and independent with each other.

19. COMPARATIVE AMOUNTS

During the current interim period, certain comparative figures included in the interim condensed consolidated statement of profit or loss and other comprehensive income in respect of the six months ended 30 June 2017 have been reclassified to conform with the presentation of the Group's annual consolidated financial statements for the year ended 31 December 2017 and the current interim period.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

China High Speed Transmission Equipment Group Co., Ltd. (the "Company") and its subsidiaries (the "Group") are principally engaged in research, design, development, manufacture and distribution of various types of mechanical transmission equipment for a broad range of applications in wind power generation and industrial use. During the six months ended 30 June 2018 (the "Period under Review"), the Group recorded sales revenue of approximately RMB3,466,794,000 (30 June 2017: RMB3,894,207,000), representing a decrease of approximately 11.0% as compared with the corresponding period of 2017, and the gross profit margin was approximately 23.1% (30 June 2017: 30.8%). Profit attributable to the owners of the Company was approximately RMB179,331,000 (30 June 2017: RMB586,695,000), representing a decrease of 69.4% as compared with the corresponding period of 2017, and basic earnings per share was RMB0.110 (30 June 2017: RMB0.359), representing a decrease of 69.4% as compared with the corresponding period of 2017.

Principal Business Review

1. Gear Segment

(i) Wind gear transmission equipment

Large, diversified and overseas market development

The wind gear transmission equipment is a major product that has been developed by the Group. During the Period under Review, sales revenue of wind gear transmission equipment business decreased by approximately 14.4% to approximately RMB2,746,132,000 (30 June 2017: RMB3,208,896,000) as compared with the corresponding period last year. The decrease in revenue was mainly due to the decline in deliveries of wind gear transmission equipment during the Period under Review.

The Group is a leading supplier of wind gear transmission equipment in the PRC. By leveraging its strong research, design and development capabilities, the Group has a range of products including 750kW, 1.5MW, 2MW and 3MW wind gear transmission equipment which have been provided to domestic and overseas customers in bulk. The product technology has reached an internationally advanced technical level and is well recognised by customers in general. In addition to the provision of diversified large wind power gear boxes to customers, the Group has also successfully developed 5MW and 6MW wind power gear box with a technological level comparable to its international peers, thus enabling it to have the capability and technology to produce those products.

Currently, the Group maintains a strong customer portfolio. Customers of its wind power business include the major wind turbine manufacturers in the PRC, as well as renowned international wind turbine manufacturers such as GE Renewable Energy, Nordex, Senvion, Unison, Suzlon, Inox Wind, etc. With our quality products and good services, the Group has also received a wide range of recognition and trust from customers at home and abroad. The Group has wholly-owned subsidiaries in the USA, Germany, Singapore, Canada and India to support the sustainable development strategy of the Group and strive to have closer communication and discussion with potential overseas customers, with a view to providing further diversified services for global customers.

(ii) Industrial gear transmission equipment

Enhance market competitiveness through changes in production mode and sales strategies

The Group's traditional gear transmission equipment products are mainly supplied to customers in industries such as metallurgy, construction materials, traffic, transportation, petrochemical, aerospace and mining.

The Group adjusted the development strategy for traditional industrial gear transmission equipment. Above all, with the focus on energy-saving and environmentally-friendly products, the Group self-developed standardized and modular products which are internationally competitive, in order to facilitate the change in sales strategies and explore new markets and new industries; at the same time, the Group strengthened its efforts to provide and sell parts and components of relevant products as well as system solutions to its customers, helping them enhance their current production efficiency without increasing capital expenditure, thereby maintaining the Company's position as a major supplier in the traditional industrial transmission product market.

In respect of transmission equipment for high-speed rails, metro lines, urban train and tram segments, the Group has obtained International Railway Industry Standard (IRIS) certificate for its rail transportation products, which has laid a solid foundation for the Group's rail transportation products to expand into high-end international railway markets. Currently the products have been successfully applied to rail transportation transmission equipment in Beijing, Shanghai, Shenzhen, Nanjing, Qingdao, Dalian, Suzhou, Lanzhou, Nanchang, Shijiazhuang, Fuzhou, Jinan, Wenzhou, Xi'an, Wuhan, Hong Kong, Singapore, Brazil, India, Mexico, Tunisia and Australia. The Group will continue to actively extend the transmission equipment business into high-speed rails, metro lines, urban train and tram segments, and accelerate the research and development of rail transportation gear equipment products.

The metro gear box that are used in the metro of Shanghai, Hong Kong and Melbourne is PDM385 type two-stage metro gear box, which was developed by the Group on the basis of the assimilation of domestic and foreign standards and customer specifications and several years' experience in design and manufacturing. PDM385 type two-stage metro gear box is characterized by its compacted structure, low noise, and easy maintenance, etc. With a 1.2 million km, or 10-year maintenance-free life span, the key components can endure for a period of 35 years.

During the Period under Review, the industrial gear business segment generated sales revenue of approximately RMB601,515,000 for the Group (30 June 2017: RMB525,783,000), representing an increase of 14.4% as compared with the corresponding period last year.

2. Computer numerical controlled ("CNC") machine tool products

CNC machine tool products industry

CNC machine tool is the core equipment of the equipment manufacturing industry. Due to the sophistication of the application of machine tools in heavy equipments, the international markets of machine tools are dominated by a few manufacturers. Despite the Group's relentless efforts on developing advanced and efficient machine tools in order to establish a presence in the heavy and high-end equipment manufacturing markets, the Group reported consecutive decrease in revenue of CNC machine tool business since the financial year ended 31 December 2014.

During the Period under Review, CNC machine tool products generated sales revenue of approximately RMB24,561,000 (30 June 2017: RMB25,309,000), representing a decrease of 3.0% as compared with the corresponding period last year.

3. Diesel engine products

The Group's diesel engine products business is operated by Nantong Diesel Engine Co., Ltd. ("Nantong Diesel").

The products of Nantong Diesel cover a wide range of models, including marine diesel engines, diesel engines for power generation and gas engines. Its products are widely used in fishing vessels, inland river vessels, generating units, engineering machinery, agricultural irrigation and drainage facilities, air compression equipment and other ancillary machines.

Nantong Diesel possessed the proprietary intellectual property rights and was recognised as "Famous Brand Product of China Fishery Vessel & Machine Field", "China's Key New Product", "Jiangsu Province Key Protective Product" and "Jiangsu Province Credit Product". It was also awarded "Scientific & Technological Progress Prize of State Mechanical Industry".

Recovery in shipping industry was faltered because the global economy remained uncertain.

During the Period under Review, the Group's sales revenue from diesel engines products amounted to approximately RMB52,457,000 (30 June 2017: RMB52,229,000), representing an increase of 0.4% as compared with the corresponding period last year.

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. During the Period under Review, the overseas sales amounted to approximately RMB1,145,584,000 (30 June 2017: RMB1,525,736,000), representing a decrease of 24.9% as compared with the corresponding period last year. Overseas sales accounted for 33.0% of total sales (30 June 2017: 39.2%), representing a decrease of 6.2 percentage points over the corresponding period last year. At present, the overseas customers of the Group are based mainly in the U.S. and other countries and regions such as Europe, India and Japan. Although the economies in Europe and the U.S. were yet to be fully recovered during the Period under Review, the Group introduced different types of products in order to extend its coverage to the overseas markets.

PROSPECTS

Looking back to the first half of 2018, as for the international market, the global economy continued to recover albeit at divergent paces, as challenges for economic cooperation are evident. Among major economies, the U.S. economy posted strong half year performance benefiting from tax reduction and fiscal stimuluses, among others. Growth momentum of the Eurozone economy weakens as affected by political uncertainties. The performance of the UK economy was also unimpressive. This year is the 40th anniversary of China's reform and opening up, the Chinese government launched a new round of reforms and deregulation measures during the first half year. Market entry thresholds have been greatly reduced for many industries and enormous opportunities have emerged. In the first half of the year, GDP grew by 6.8% compared to the same period last year, making China a major growth driver of the global economy.

For the first half of 2018, due to the energy structure reform promoted by the state, newly installed grid-connected wind power capacity reached 7.94 million kW, growing by approximately 30% over the same period last year. Total wind power generation of China reached 191.7 billion kWh, up by 28.7% compared to the corresponding period last year. 1,143 average utilization hours or an increase of 159 hours over the same period last year were reported. The acceleration of offshore wind power installation was significant. The cumulative grid-connected installed capacity was 2.70 million kW. At the same time, under the guidance of the policies of the national ministries and commissions and together with the introduction of multiple policies to protect consumption of wind power and other new energies, there has been continuous improvement in wind power curtailment. For the first half year, the national wind power curtailment amounted to 18.2 billion kWh, decreasing by 22.55% compared to the corresponding period last year.

As a global leader of wind gear transmission equipment, the Group is keen to procure business upgrade, transformation and high quality growth. As a result, the Group secured one of the largest market shares in the global wind power equipment market. By leveraging its strong research, design and development capabilities, the Group has a range of products including 750kW, 1.5MW, 2MW and 3MW wind gear transmission equipment, and a wide variety of products are supplied to customers in China and other countries on a large scale with their technical standards reaching advanced international level. In addition to the provision of diversified large wind power gear boxes to customers, the Group has also successfully developed 5MW and 6MW wind power gear box with a technological level comparable to its international peers. Apart from that, during the Period under Review, the Group also launched to the market Gear-Sight 3000 product series in the wind power gear box status monitoring system category, which can accurately assess the operating status and condition of gear box.

Currently, the Group maintains a strong customer portfolio. Customers of its wind power business include the major wind turbine manufacturers in the PRC, as well as renowned international wind turbine manufacturers such as GE Renewable Energy, Nordex, Senvion, Unison, Suzlon, Inox Wind, etc. With our quality products and good services, the Group has also gained extensive recognition and trust from customers at home and abroad. The Group has wholly-owned subsidiaries in the USA, Germany, Singapore, Canada and India to support the sustainable development strategy of the Group and strive to have closer communication and discussion with potential overseas customers, and has newly set up a wholly-owned subsidiary in Vietnam to grasp opportunities in the emerging market, with a view to providing further diversified services for global customers.

While consolidating the established leading position in the wind power generation area, the Group applied its strengths in manufacturing and R&D to industrial gear transmission equipment so as to optimize the overall profit model. During the Period under Review, the Group managed to develop high-speed satellite gear box which is an integrated transmission system incorporating motor starter, gear box, clutch, lubrication and cooling system and monitoring system on its own. Various tests and verifications were gone through and satisfactory performance was achieved at the very first trail operation.

The Group’s self-developed vertical dual planetary gear reducers with power grades from 3,300kW to 6,000kW are running smoothly in China, Southeast Asia and the Middle East. In 2018, the Group successfully developed and delivered MLXSS700M dual planetary vertical mill reducer with a designed power level of 6800kW, which is the M series vertical mill gear box with the highest power level so far developed by the Group.

As we look ahead to the second half year, we should note that in the Guiding opinions on 2018 Energy Tasks released early this year, the National Energy Administration called for steady construction of wind power projects with plans to build additional power-generating capacity of about 25 million kW and newly installed capacity of about 20 million kW for the year. At the same time, as shown in the 2018 Wind Power Investment Monitoring and Early Warning Results issued by the National Energy Administration, the number of "red alert" regions subject to wind power investment restriction has been reduced from six provinces to three provinces, as Inner Mongolia, Heilongjiang and Ningxia have been taken off from the "red alert" list. The wind power industry is expected to enter a rapid development phase with the support of the favorable national policy. According to the wind power development plan under the "Thirteenth Five-Year Plan", the national scale of offshore wind power construction will reach 10 million kW and the cumulative grid-connected capacity will be over 5 million kW by 2020. According to the relevant data, by early 2018, total planned offshore wind power-generating installed capacity across the country has exceed 100 million kW, far more than the target of 15 million kW for construction of offshore wind power-generating capacity by 2020 as stated in the wind power development plan under the "Thirteenth Five-Year Plan". The development speed of offshore wind power business will be geared up to a new level in the future. The Group will continue to stay current with the product market, proactively adapt to the new normal of economic development, enhance product quality and economies of scale, enlarge market shares in the international markets, with a view to boosting profitability of the Group's core business.

FINANCIAL PERFORMANCE

During the Period under Review, the Group's sales revenue decreased by 11.0% to approximately RMB3,466,794,000.

	Revenue		
	Six months ended 30 June		
	2018	**2017**	**Change**
	RMB'000	*RMB'000*	
Gear Segment	3,347,647	3,734,679	-10.4%
– Wind Gear Transmission Equipment	2,746,132	3,208,896	-14.4%
– Industrial Gear Transmission Equipment	601,515	525,783	14.4%
Marine Gear Transmission Equipment *	–	23,573	N/A
CNC Machine Tool Products	24,561	25,309	-3.0%
Diesel Engine Products	52,457	52,229	0.4%
Others	42,129	58,417	-27.9%
Total	3,466,794	3,894,207	-11.0%

* The disposal of marine gear transmission equipment business was completed prior to 30 June 2017.

Revenue

During the Period under Review, the Group's sales revenue was approximately RMB3,466,794,000, representing a decrease of 11.0% as compared with the corresponding period last year. The decrease was mainly due to the decline in deliveries of wind gear transmission equipment.

During the Period under Review, sales revenue from wind gear transmission equipment was approximately RMB2,746,132,000 (30 June 2017: RMB3,208,896,000), representing a decrease of 14.4% as compared with the corresponding period last year; sales revenue from industrial gear transmission equipment was approximately RMB601,515,000 (30 June 2017: RMB525,783,000), representing an increase of 14.4% as compared with the corresponding period last year. During the Period under Review, the Group's sales revenue from CNC machine tool products and diesel engine products were approximately RMB24,561,000 and RMB52,457,000 (30 June 2017: RMB25,309,000 and RMB52,229,000), representing a decrease of 3.0% and an increase of 0.4% as compared with the corresponding period last year, respectively.

Gross profit margin and gross profit

During the Period under Review, the Group's consolidated gross profit margin was approximately 23.1% (30 June 2017: 30.8%), representing a decrease of 7.7 percentage points as compared with the corresponding period last year. Consolidated gross profit for the Period under Review amounted to approximately RMB799,501,000 (30 June 2017: RMB1,197,837,000), representing a decrease of 33.3% as compared with the corresponding period last year. During the Period under Review, the decrease in consolidated gross profit margin was mainly due to the decline in selling price of certain products, increase in cost of sales and effect from change in sale of product mix. The decrease in consolidated gross profit was mainly due to the decrease in sales revenue and gross profit margin.

Other income and net gains

During the Period under Review, the Group's other income was approximately RMB213,151,000 (30 June 2017: RMB90,185,000), representing an increase of 136.3% as compared with the corresponding period last year. Other income mainly comprised of bank interest income, investment income and income from sales of scraps and materials. The increase was mainly due to the increase in investment income.

During the Period under Review, the Group's net gains was approximately RMB74,144,000 (30 June 2017: RMB302,074,000), mainly comprised of the fair value changes on financial assets at FVTPL.

Selling and distribution expenses

During the Period under Review, the Group's selling and distribution expenses were approximately RMB150,597,000 (30 June 2017: RMB169,650,000), representing a decrease of 11.2% as compared with the corresponding period last year. Selling and distribution expenses mainly comprised of product packaging expenses, transportation expenses, staff costs and technical services fee. Selling and distribution expenses represented 4.3% (30 June 2017: 4.4%) of sales revenue for the Period under Review, about the same level as the corresponding period last year.

Administrative expenses

During the Period under Review, the Group's administrative expenses were approximately RMB303,630,000 (30 June 2017: RMB339,382,000), representing a decrease of 10.5% as compared with the corresponding period last year, which was mainly due to the decrease in salary and welfare, and bank charges regarding the issuance of corporate bonds. Administrative expenses as a percentage of sales revenue increased by 0.1 percentage point to 8.8% as compared with the corresponding period last year.

Other expenses

During the Period under Review, the Group's other expenses amounted to approximately RMB3,316,000 (30 June 2017: RMB138,964,000), primarily comprised of expenses for termination of employees' contracts.

Finance costs

During the Period under Review, the Group's finance costs were approximately RMB341,515,000 (30 June 2017: RMB238,834,000), representing an increase of 43.0% as compared with the corresponding period last year, which was mainly due to the increase in bank loans and corporate bonds during the Period under Review.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2018, the equity attributable to owners of the Company amounted to approximately RMB10,843,954,000 (31 December 2017: RMB10,904,962,000). The Group had total assets of approximately RMB28,767,615,000 (31 December 2017: RMB27,438,175,000), representing an increase of 4.8% as compared with the beginning of the year. Total current assets were approximately RMB18,762,704,000 (31 December 2017: RMB18,013,876,000), representing an increase of 4.2% as compared with the beginning of the year. Total non-current assets were approximately RMB10,004,911,000 (31 December 2017: RMB9,424,299,000), representing an increase of 6.2% as compared with the beginning of the year.

As at 30 June 2018, total liabilities of the Group were approximately RMB17,859,638,000 (31 December 2017: RMB16,462,174,000), representing an increase of approximately RMB1,397,464,000, or 8.5%, as compared with the beginning of the year. Total current liabilities were approximately RMB14,846,739,000 (31 December 2017: RMB13,441,242,000), representing an increase of 10.5% as compared with the beginning of the year, mainly due to the increase in trade payables, and bank and other borrowings. Total non-current liabilities were approximately RMB3,012,899,000 (31 December 2017: RMB3,020,932,000), representing a decrease of 0.3% as compared with the beginning of the year.

As at 30 June 2018, the net current assets of the Group were approximately RMB3,915,965,000 (31 December 2017: RMB4,572,634,000), representing a decrease of approximately RMB656,669,000, or 14.4%, as compared with the beginning of the year.

As at 30 June 2018, total cash and bank balances of the Group were approximately RMB6,340,537,000 (31 December 2017: RMB7,031,364,000), representing a decrease of approximately RMB690,827,000, or 9.8%, as compared with the beginning of the year. Total cash and bank balances included pledged bank deposits of RMB3,655,024,000 (31 December 2017: pledged bank deposits of RMB2,892,955,000 and structured bank deposits of RMB108,000,000).

As at 30 June 2018, the Group had total borrowings of approximately RMB8,627,559,000 (31 December 2017: RMB7,786,901,000), representing an increase of approximately RMB840,658,000, or 10.8%, as compared with the beginning of the year, of which borrowings within one year were RMB5,868,486,000 (31 December 2017: RMB5,030,608,000), accounting for approximately 68.0% (31 December 2017: 64.6%) of the total borrowings. The fixed or floating interest rates of the Group's borrowings for the Period under Review ranged from 1.05% to 8.50% per annum.

Taking into account the internal financial resources of and the banking facilities available to the Group, and the net current assets of RMB3,915,965,000, the Directors believe that the Group will have sufficient capital 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 60.0% as at 31 December 2017 to 62.1% as at 30 June 2018, mainly due to the increase in bank and other borrowings.

Capital structure

The Group's operations were financed mainly by shareholders' equity, banking and other facilities available to the Group and internal resources. The Group will continue to adopt its treasury policy of placing its cash and cash equivalents as interest-bearing deposits.

The Group's loans and cash and cash equivalents were mainly denominated in Renminbi, Euro and U.S. dollars. The Group's bank borrowings denominated in Euro and U.S. dollars as at 30 June 2018 amounted to €34,290,000 and USD74,000,000, respectively.

During the Period under Review, the Group's borrowings with fixed interest rates accounted for approximately 96,2% of total borrowings.

PLEDGE OF ASSETS

Save as disclosed in note 16 to the condensed consolidated financial statements, the Group has made no further pledge of assets as at 30 June 2018.

OTHER SUPPLEMENTAL INFORMATION

INTERIM DIVIDEND

The Board did not recommend payment of an interim dividend for the six months ended 30 June 2018.

FOREIGN EXCHANGE RISK

The Group's operations are mainly conducted in the PRC. With the exception of export sales and imported equipment which are transacted in U.S. dollars and Euro, the Group's domestic revenue and expenses are denominated in Renminbi. Therefore, the Board 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 does not need any foreign currency derivatives to hedge against the exposure in foreign exchange.

The Group's bank borrowings denominated in Euro and U.S. dollars as at 30 June 2018 amounted to €34,290,000 (equivalent to approximately RMB262,369,000) and USD74,000,000 (equivalent to approximately RMB489,628,000). Therefore, the Group may be exposed to certain foreign exchange rate risks in this regard.

The net gain of foreign exchange recorded by the Group during the Period under Review was approximately RMB5,295,000 (30 June 2017: net loss of RMB10,740,000). The foreign exchange gain was due to the fluctuation in the exchange rates of Renminbi against U.S. dollars during the Period under Review which resulted in a gain in export business transactions denominated in U.S. dollars. 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 exchange risks in 2019.

INTEREST RATE RISK

During the Period under Review, the loans of the Group are mainly sourced from bank loans, corporate bonds and medium-term notes. Therefore, the benchmark lending rate announced by the People's Bank of China and the LIBOR will have a direct impact on the Group's cost of debt and future changes in interest rate will also have certain impacts on the Group's cost of debt. The Group will strive to reduce the finance cost by actively monitoring the changes in credit policies, taking pre-emptive actions, strengthening capital management and expanding financing channels.

EMPLOYEES AND REMUNERATION

As at 30 June 2018, the Group employed approximately 6,619 employees (30 June 2017: 6,956 employees). Staff costs of the Group for the first half of 2018 amounted to approximately RMB629,844,000 (30 June 2017: RMB517,874,000). The costs included basic salaries, discretionary bonus and staff benefits such as medical and insurance plans, pension scheme, unemployment insurance plan, etc.

SIGNIFICANT INVESTMENTS DURING THE PERIOD UNDER REVIEW

The Group did not conduct any significant investment during the Period under Review.

SIGNIFICANT ACQUISITIONS AND DISPOSALS DURING THE PERIOD UNDER REVIEW

The Group did not conduct any significant acquisition or disposal of subsidiaries and associates during the Period under Review.

CORPORATE GOVERNANCE

During the six months period ended 30 June 2018, the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "Listing Rules") except for the deviation from code provision A.6.7 which states that independent non-executive directors and other non-executive directors should attend general meetings of the Company.

During the Period Under Review, some of the executive Directors, non-executive Directors and independent non-executive Directors, and the Company's Chairman and chairman of the nomination committee, the chairman of the audit committee, the chairman of the remuneration committee and the external auditors of the Company have attended the 2017 annual general meeting of the Company. Mr. Yuen Chi Ping, a non-executive Director, and Mr. Nathan Yu Li, an independent non-executive Director, were absent from the 2017 annual general meeting due to other important commitment.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the "Model Code") as its internal code of conduct regarding Directors' securities transactions. The Company has made specific enquiries of all Directors and all Directors have confirmed that they have complied with the required standard set out in the Model Code during the six months period ended 30 June 2018. The Company will continue to ensure the compliance with the Model Code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor its subsidiaries have purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2018.

By order of the Board
China High Speed Transmission
Equipment Group Co., Ltd.
Hu Yueming
Chairman

Hong Kong, 31 August 2018

As at the date of this announcement, the executive Directors of the Company are Mr. Chen Yongdao, Mr. Wang Zhengbing, Mr. Zhou Zhijin, Mr. Hu Jichun and Ms. Zheng Qing; the non-executive Directors are Mr. Hu Yueming and Mr. Yuen Chi Ping; and the independent non-executive Directors are Dr. Chan Yau Ching, Bob, Ms. Jiang Jianhua, Mr. Jiang Xihe and Mr. Nathan Yu Li.

* *For identification purpose only*