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 2010

PERFORMANCE HIGHLIGHTS

Revenue for the first half of 2010 was approximately RMB3,096,829,000, representing an increase of approximately 52.3% over the corresponding period of 2009.

Reported profit attributable to the owners of the Company for the first half of 2010 was RMB563,491,000 (30 June 2009: RMB254,410,000), representing an increase of approximately 121.5% over the corresponding period of 2009.

Excluding the changes in fair values of convertible bonds and equity swap, the adjusted profit attributable to owners of the Company for the first half of 2010 was approximately RMB516,572,000, representing an increase of 55.0% over the corresponding period of 2009.

Basic and diluted earnings per share amounted to RMB0.45 and RMB0.37 respectively.

The Board did not recommend payment of an interim dividend for the six months ended 30 June 2010.

The board of directors (the "Board") 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 2010, together with the comparative figures are as follows. The interim financial statements are unaudited, but have been reviewed by the Company's audit committee and Deloitte Touche Tohmatsu, the Company's auditor.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2010

	NOTES	Six months ended 30 June 2010 RMB'000 (Unaudited)	2009 RMB'000 (Unaudited)
Revenue	4	**3,096,829**	2,033,046
Cost of sales		**(2,155,717)**	(1,400,255)
Gross profit		**941,112**	632,791
Other income		**91,894**	34,435
Other gain and loss	5	**46,919**	(55,579)
Distribution and selling costs		**(98,366)**	(51,867)
Administrative expenses		**(210,567)**	(139,526)
Research and development costs		**(27,031)**	(21,626)
Other expenses		**(32,474)**	(31,083)
Finance costs		**(68,399)**	(57,715)
Share of results of associates		**110**	249
Share of results of jointly controlled entities		**28,273**	(4,425)
Profit before taxation		**671,471**	305,654
Taxation	6	**(108,579)**	(51,533)
Profit for the period	7	**562,892**	254,121
Other comprehensive (expense) income			
Exchange difference arising on translation		**(1)**	—
Gain on fair value change of available-for-sale investments		**—**	3,453
Deferred tax liabilities arising on fair value change of available-for-sale investments		**—**	(316)
Other comprehensive (expense) income for the period		**(1)**	3,137
Total comprehensive income for the period		**562,891**	257,258
Profit for the period attributable to:			
Owners of the Company		**563,491**	254,410
Non-controlling interests		**(599)**	(289)
		562,892	254,121
Total comprehensive income attributable to:			
Owners of the Company		**563,490**	257,547
Non-controlling interests		**(599)**	(289)
		562,891	257,258
EARNINGS PER SHARE	9		
Basic (RMB)		**0.45**	0.20
Diluted (RMB)		**0.37**	0.20

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2010

	NOTES	**30 June 2010 RMB'000 (Unaudited)**	31 December 2009 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**4,286,376**	3,844,686
Prepaid lease payments		**286,938**	270,826
Goodwill		**15,082**	12,091
Intangible assets		**104,748**	107,605
Interests in associates		**33,934**	20,389
Interests in jointly controlled entities		**611,440**	583,167
Available-for-sale investments		**67,777**	62,500
Deposit for land lease		**122,635**	107,300
Prepayment for acquisition of property, plant and equipment		**55,274**	105,911
Deferred tax assets		**34,577**	27,095
Derivative financial instrument	14	**—**	55,991
		5,618,781	5,197,561
CURRENT ASSETS			
Inventories		**1,395,709**	1,312,810
Prepaid lease payments		**6,038**	5,784
Derivative financial instrument	14	**30,547**	—
Trade and other receivables	10	**3,221,565**	2,613,260
Amounts due from an associate		**27,844**	23,928
Amounts due from jointly controlled entities		**61,588**	7,090
Pledged bank deposits		**793,811**	451,389
Restricted cash		**150,507**	151,904
Bank balances and cash		**1,936,886**	471,193
		7,624,495	5,037,358

	NOTES	30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000 (Audited)
CURRENT LIABILITIES			
Trade and other payables	11	**2,249,254**	1,566,058
Dividend payable		**328,381**	—
Amount due to a related party		**900**	531
Amounts due to jointly controlled entities		**44,976**	23,568
Tax liabilities		**90,523**	141,689
Borrowings - due within one year	12	**2,732,780**	1,556,273
Financial liabilities designated as at fair value through profit or loss - convertible bonds - due within one year	13	**1,296,486**	—
		6,743,300	3,288,119
NET CURRENT ASSETS		**881,195**	1,749,239
TOTAL ASSETS LESS CURRENT LIABILITIES		**6,499,976**	6,946,800
NON-CURRENT LIABILITIES			
Borrowings - due after one year	12	**1,688,050**	1,012,041
Deferred tax liabilities		**60,318**	48,751
Financial liabilities designated as at fair value through profit or loss - convertible bonds - due after one year	13	**—**	1,368,949
Deferred income		**59,253**	66,707
		1,807,621	2,496,448
		4,692,355	4,450,352
CAPITAL AND RESERVES			
Share capital		**94,634**	94,633
Reserves		**4,561,512**	4,326,304
Equity attributable to owners of the Company		**4,656,146**	4,420,937
Non-controlling interests		**36,209**	29,415
		4,692,355	4,450,352

Notes

1. General

The Company is a public limited company incorporated in the Cayman Islands as an exempted company with limited liability on 22 March 2005 and its shares are listed on The Stock Exchange of Hong Kong Limited with effect from 4 July 2007.

2. 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" issued by the International Accounting Standards Board (the "IASB").

3. 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 2009 except as described below.

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 IASB.

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

The Group applies IFRS 3 (Revised 2008) "Business Combinations" prospectively to business combinations for which the acquisition date is on or after 1 January 2010. The requirements in IAS 27 (Revised) "Consolidated and Separate Financial Statements" in relation to accounting for changes in ownership interests in a subsidiary after control is obtained and for loss of control of a subsidiary are also applied prospectively by the Group on or after 1 January 2010.

As there was no transaction during the current interim period in which IAS 27 (Revised) are applicable, the application of IAS 27 (Revised) and the consequential amendments to other IFRSs had no effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

Results of the Group in future periods may be affected by future transactions for which IAS 27 (Revised) and the consequential amendments to the other IFRSs are applicable.

Except as described below, the adoption of the new and revised IFRSs has had no material effect on the condensed consolidated financial statements of the Group for the current or prior accounting periods.

IFRS 3 (Revised 2008) Business Combinations

IFRS 3 (Revised 2008) "Business Combinations" has been applied prospectively from 1 January 2010. Its application has affected the accounting for the acquisition of Si Kai Electronics Limited ("Si Kai") in the current period.

The impact of adoption of IFRS 3 (Revised 2008) has been:

- It allows a choice on a transaction-by-transaction basis for the measurement of non-controlling interests (previously referred to as "minority" interests). However, in the current period, in accounting for the acquisition of Si Kai, the Group has elected to measure the non-controlling interests at the proportionate share of the acquiree's net identifiable assets at the acquisition date.

- It requires acquisition-related costs to be accounted for separately from the business combination, As a result, the Group has recognised RMB65,000 of such costs as an expense in profit or loss, whereas previously they would have been accounted for as part of the cost of the acquisition.

  In the current period, these changes in policies have affected the accounting for the acquisition of Si Kai and resulted in a reduction in goodwill recognised in the condensed consolidated statement of financial position of RMB65,000 and a corresponding decrease in profit for the period in the condensed consolidated statement of comprehensive income arising on the recognition of acquisition-related costs when incurred as result of the application of IFRS 3 (Revised 2008).

Amendment to IAS 17 Leases

As part of Improvements to IFRSs issued in 2009, IAS 17 "Leases" has been amended in relation to the classification of leasehold land. Before the amendment to IAS 17, the Group was required to classify leasehold land as operating leases and to present leasehold land as prepaid lease payments in the condensed consolidated statement of financial position. The amendment to IAS 17 has removed such a requirement. The amendment requires that the classification of leasehold land should be based on the general principles set out in IAS 17, that is, whether or not substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the lessee.

In accordance with the transitional provisions set out in the amendment to IAS 17, the Group reassessed the classification of unexpired leasehold land as at 1 January 2010 based on information that existed at the inception of the leases and the amendment has no material impact on the condensed consolidated financial statements.

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

IFRSs (Amendments)	Improvement to IFRSs 2010[1]
IAS 24 (Revised)	Related Party Disclosures[4]
IAS 32 (Amendment)	Classification of Rights Issues[2]
IFRS 1 (Amendment)	Limited Exemption from Comparative IFRS 7 Disclosure for First-Time Adopters[3]
IFRS 9	Financial Instruments[5]
IFRIC 14 (Amendment)	Prepayments of a Minimum Funding Requirment[4]
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments[3]

1 Effective for annual periods beginning on or after 1 July 2010 and 1 January 2011, as appropriate

2 Effective for annual periods beginning on or after 1 February 2010

3 Effective for annual periods beginning on or after 1 July 2010

4 Effective for annual periods beginning on or after 1 January 2011

5 Effective for annual periods beginning on or after 1 January 2013

IFRS 9 "Financial Instruments" introduces new requirements for the classification and measurement of financial assets and will be effective from 1 January 2013, with earlier application permitted. The Standard requires all recognised financial assets that are within the scope of IAS 39 "Financial Instruments: Recognition and Measurement" to be measured at either amortised cost or fair value. Specifically, debt investments that (i) are held within a business model whose objective is to collect the contractual cash flows and (ii) have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost. All other debt investments and equity investments are measured at fair value. The application of IFRS 9 might affect the classification and measurement of the Group's financial assets.

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.

4. 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's operating segments are geographical segments by location of customers. The Group's chief operating decision makers (the "CODM"), being the Company's Board of Directors, make decisions according to the revenue and operating results of each segment.

The People's Republic of China ("PRC") and Europe (mainly Italy) are two major operating segments reviewed by the CODM while the remaining market locations are grouped together to report to the CODM for analysis.

Segment revenue and results

The following is an analysis of the Group's revenue and results by operating segment for the period under review.

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Revenue		
– PRC	**2,658,357**	1,859,271
– Europe	**154,277**	60,682
– Others	**284,195**	113,093
	3,096,829	2,033,046
Segment profit		
– PRC	**761,822**	543,720
– Europe	**44,212**	17,746
– Others	**81,443**	33,073
	887,477	594,539
Other income, gain and loss	**94,082**	(34,758)
Finance costs	**(68,399)**	(57,715)
Share of results of associates	**110**	249
Share of results of jointly controlled entities	**28,273**	(4,425)
Unallocated expenses	**(270,072)**	(192,236)
Profit before taxation	**671,471**	305,654

Segment profit represents the gross profit (including depreciation of production plants), government grants, sales of scrap materials and distribution and selling expenses earned/incurred by each segment. The remaining items in the profit or loss are unallocated.

5. Other gain and loss

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
(Loss) gain on derivative financial instrument	**(25,444)**	264,270
Gain (loss) on fair value change of convertible bonds	**72,363**	(319,849)
	46,919	(55,579)

6. Taxation

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
PRC enterprise income tax		
– Current period	**102,932**	50,575
– Underprovision in respect of prior period	**1,562**	4,640
	104,494	55,215
Deferred tax	**4,085**	(3,682)
	108,579	51,533

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

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards.

Pursuant to the relevant laws and regulation in the PRC, certain subsidiaries in the PRC are exempted from PRC income tax for two years commencing from their first profit-making year followed by a 50% reduction for the next three years.

Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed") and Nanjing High Accurate Marine Equipment Co., Ltd. ("Nanjing Marine") 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 2010 and 2009. The approval was obtained before the year ended 31 December 2007 for Nanjing High Speed and 31 December 2008 for Nanjing Marine.

Nanjing High Speed & Accurate Gear (Group) Co., Ltd. and Nanjing Gaote Gear Box Manufacturing Co., Ltd. are entitled to a 50% relief from the Enterprise Income Tax for the six months period ended 30 June 2010 and 2009.

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

7. Profit for the period

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Allowance for inventories (included in cost of sales)	**2,648**	3,597
Amortisation of intangible assets (included in cost of sales)	**15,497**	9,502
Bank interest income	**(5,502)**	(7,411)
Depreciation of property, plant and equipment	**149,723**	95,269
Exchange loss, net (included in other expenses)	**32,409**	31,083
Government grants (included in other income)	**(43,383)**	(7,077)
Loss on disposal of property, plant and equipment	**400**	—
(Reversal of) impairment loss recognised on trade receivables	**(3,349)**	1,766
Release of prepaid lease payments	**3,730**	2,727

8. Dividends

During the period, a dividend of HK30 cents, equivalent to RMB26 cents, (2009: HK25 cents, equivalent to RMB22 cents) per ordinary share was declared to shareholders as the final dividend for 2009.

The directors do not propose the payment of an interim dividend for the six-month period ended 30 June 2010 (2009: nil).

9. Earnings per share

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

	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
Earnings		
Earnings for the purposes of basic earnings per share:		
Profit for the period attributable to owners of the Company	**563,491**	254,410
Effect of dilutive potential ordinary shares:		
Fair value changes on convertible bonds (Note)	**(72,363)**	—
Earnings for the purposes of diluted earnings per share	**491,128**	254,410

Number of shares

	2010	2009
	'000	'000
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,245,064**	1,245,000
Effect of dilutive potential ordinary shares:		
Share options	**8,050**	6,316
Convertible bonds	**75,316**	—
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,328,430**	1,251,316

Note: The calculation of diluted earnings per share for the six months ended 30 June 2009 does not assume the conversion of convertible bonds which would result in an increase in earnings per share.

10. Trade and other receivables

	30 June 2010	31 December 2009
	RMB'000	RMB'000
Notes receivable	**997,934**	424,940
Accounts receivables	**1,756,761**	1,516,501
Bills receivable	**206,945**	375,000
Less: allowance for doubtful debts	**(45,901)**	(49,250)
Total trade receivables	**2,915,739**	2,267,191
Advances to suppliers	**249,905**	255,299
Value added tax recoverable	**4,749**	13,653
Others	**51,172**	77,117
Total trade and other receivables	**3,221,565**	2,613,260

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, net of allowance for doubtful debts, at the end of the reporting period:

	30 June 2010	31 December 2009
	RMB'000	RMB'000
0 - 90 days	**2,227,933**	1,657,578
91 - 120 days	**313,000**	148,121
121 - 180 days	**98,966**	94,501
181 - 365 days	**171,215**	131,791
Over 365 days	**104,625**	235,200
	2,915,739	2,267,191

11. Trade and other payables

	30 June 2010 RMB'000	31 December 2009 RMB'000
Accounts payables	**864,462**	506,112
Notes payable (Note)	**615,906**	300,459
Total trade payables	**1,480,368**	806,571
Advances from customers	**461,106**	395,015
Purchase of property, plant and equipment	**166,517**	214,217
Payroll and welfare payables	**28,392**	69,754
Accrued expenses	**2,818**	9,400
Value added tax payable	**81,234**	38,460
Others	**28,819**	32,641
Total trade and other payables	**2,249,254**	1,566,058

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 at the end of the reporting period:

	30 June 2010 RMB'000	31 December 2009 RMB'000
0 - 30 days	**759,153**	675,963
31- 60 days	**424,149**	83,986
61 - 180 days	**236,460**	29,449
181 - 365 days	**49,931**	9,127
Over 365 days	**10,675**	8,046
	1,480,368	806,571

12. Borrowings

During the period, the Group obtained new borrowings in the amount of approximately RMB3,011,474,000 (six months ended 30 June 2009: RMB2,033,050,000). The borrowings bear interest at interest rates ranging from 3.5% to 5.3% and are repayable within 1 to 5 years. The Group also repaid borrowings of approximately RMB1,158,958,000 (six months ended 30 June 2009: RMB709,521,000) during the period.

13. Convertible bonds

On 14 May 2008, the Company issued RMB denominated USD settled zero coupon convertible bonds, with an aggregate principal amount of RMB1,996.3 million. The convertible bonds are convertible at the option of bond holders into fully paid shares with a par value of US$0.01 each of the Company at a conversion price of HK$17.78 per share, which was subsequently adjusted to HK$17.2886 as a result of the payment of final dividend for 2007 and 2008 and further adjusted to HK$16.9817 as a result of the payment of final dividend for 2009 as required according to the conditions of the convertible bonds 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 option to mandatorily convert all or some only of the convertible bonds provided that: (i) the closing price of the shares, for 20 out of 30 consecutive trading days, was at least 120% of the early redemption amount in effect on such trading days divided by the conversion ratio; or (ii) at least 90% of the convertible bonds have been redeemed, purchased, converted or cancelled. Due to the 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 by paying cash 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 2010	1,368,949
Conversion of convertible bonds	(100)
Gain on fair value change of convertible bonds	(72,363)
As at 30 June 2010	1,296,486

During the period ended 30 June 2010, 6,566 ordinary shares of US$0.01 each of the Company were issued upon conversion of convertible bond with an aggregate principal amount of RMB100,000 (equivalent to HK$111,508) at the conversion price of HK$16.9817 in June 2010.

At 30 June 2010, the principal amount payable at maturity is RMB1,147,000,000 (2009: RMB1,147,100,000).

The fair value of the convertible bond instrument containing the debt component and the embedded derivatives is measured using effective interest method and Binomial Option Pricing Model respectively. The valuation of the fair values 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:

	30 June 2010	31 December 2009
Share price	**HK$16.56**	HK$18.96
Exercise price	**HK$16.9817**	HK$17.2886
Risk-free rate of interest	**0.62%**	0.39%
Dividend yield	**1.81%**	1.32%
Time to expiration	**0.83 years**	1.37 years
Volatility	**43.45%**	81.94%
Borrowing rate of issuer	**9.28%**	16.65%

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 interest.

The Equity Swap will mature on 14 May 2011, at which time 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 RMB12.27) 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 is subject to early termination option of either parties under optional early termination events.

During the period ended 30 June 2009, the Company has early terminated 68,758,000 shares out of total 81,370,707 shares, equivalent to 84.5% of the Equity Swap.

The partial termination of the Equity Swap was settled at RMB50 million which was determined by reference to the difference between the market share price at the date of partial early termination and initial price.

The fair values of the derivative financial instrument at the end of the respective reporting periods are measured using Black-Scholes 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 Black-Scholes Option Pricing Model at the respective valuation dates are as follow:

	30 June 2010	31 December 2009
Initial price	**HK$13.68**	HK$13.68
Risk-free rate of interest	**0.62%**	0.39%
Dividend yield	**1.81%**	1.32%
Time to expiration	**0.83 years**	1.37 years
Volatility	**43.45%**	81.94%

15. Capital Commitments

	30 June 2010 RMB'000	31 December 2009 RMB'000
Commitments for the acquisition of property, plant and equipment contracted but not provided in the condensed consolidated financial statements	**378,038**	666,806

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 2010 RMB'000	31 December 2009 RMB'000
Bank deposits	**793,811**	451,389

17. Related party disclosures

(I) Related party transactions

During the period, the Group entered into the following transactions with related parties:

			Six months ended 30 June	
Name of company	Relationship	Nature of transactions	2010 RMB'000	2009 RMB'000
ZF Nanjing Marine Propulsion Co., Ltd.	Associate	Sales of goods	**9,033**	10,470
		Rental income	**—**	568
		Other income	**—**	98
Nanjing Longwin Windpower Equipment Manufacturing Co., Ltd.	Associate	Purchase of goods	**28,936**	3,861
Nanjing High Accurate Construction Equipment Co., Ltd.	Jointly controlled entity	Sales of goods	**61,060**	6,968
		Purchase of goods	**—**	2,494
Jiangsu Hongsheng Heavy Industries Group Co., Ltd.	Jointly controlled entity	Sales of goods	**33,234**	17,319
		Purchase of goods	**27,363**	22,216

(II) Related party balances

Details of the Group's outstanding balances with related parties are set out on the condensed consolidated statement of financial position.

The amounts due from an associate and amounts due from jointly controlled entities relate to trade balances aged within 120 days. The amounts are unsecured, interest-free and within the credit period of 180 days.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in a wide variety of industrial applications. For the period under review, the Group recorded total sales of approximately RMB3,096,829,000, representing a substantial increase of approximately 52.3% over the corresponding period of 2009. Consolidated gross profit margin was approximately 30.4%. Profit attributable to owners of the Company was approximately RMB563,491,000, representing a significant increase of 121.5% over the corresponding period of 2009. Excluding the changes in fair values of convertible bonds and equity swap, the adjusted profit attributable to owners of the Company was approximately RMB516,572,000, representing an increase of approximately 55.0% over the corresponding period of 2009. Basic and diluted earnings per share attributable to the owners of the Company amounted to approximately RMB0.45 and RMB0.37 respectively.

Principal business review

1. Wind gear transmission equipment

Significant progress has been made in the research and development of large wind gear transmission equipment

The wind gear transmission equipment is a new major product that has been developed by the Company in recent years. Sales of wind gear transmission equipment increased significantly by approximately 71.4% to approximately RMB2,196,070,000 as compared with RMB1,281,298,000 for 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. The increase was also attributable to the encouragement for the use of clean energy, including wind power, by the PRC government in support of the policy for the reduction in carbon dioxide emission.

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 achieved good results in terms of its research and development. 1.5MW and 2MW wind gear transmission equipment has been put into mass production and delivered to domestic and overseas customers. The product technology is of international advanced level and is well recognized by our customers. In addition, significant progress has been made in the research and development of 3MW wind gear transmission equipment which will secure more business for the Group.

Currently, the customers of the wind gear transmission equipment of the Group are the major local and overseas renowned integrated wind power equipment manufacturers such as GE Energy, Vestas, REPower, Nordex, Fuji Heavy and etc. With further expansion into the international market, we believe that the Group will attract more international integrated wind power equipment manufacturers.

2. Marine gear transmission equipment

Actively expanding 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 domestic market and developing more marine gear transmission equipment products.

The Company began to develop the domestic market for marine gear transmission equipment last year and the market development is on schedule. During the period under review, turnover of marine gear transmission equipment increased significantly to approximately RMB108,961,000 (30 June 2009: RMB69,451,000), representing an increase of approximately 56.9% over the corresponding period last year.

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

Remarkable research and development results and promising market potential

The use of high-speed trains, metros and urban light rail systems as environmentally-friendly transportation has become a major global trend. It is believed that the industry has promising potential. The development of intercity transportation in the PRC, one of the most densely populated countries in the world, will provide a tremendous market for manufacturers of high-speed locomotives and urban light rail transportation systems. The high-speed railway transportation network in Europe is expected to expand by threefold by 2020. In order to capture this tremendous business opportunity, the Group conducted research and development of transmission equipment for high-speed locomotives, metros and urban light rails, and passed the product quality certification conducted by ALSTOM Group in April 2008. Our products have been installed in the metros used in Beijing, Shanghai and Nanjing for field tests during the period under review. The Group will endeavour to further expand the domestic and overseas markets to make it a new motivator for the revenue growth of the Group. In the period under review, such business generated sales revenue of approximately RMB14,973,000 for the Group.

4. Traditional transmission products

Sales of new products remain strong

The Group's traditional gear transmission equipment products are mainly provided for customers from various industries including metallurgy, construction materials, traffic, transportation, petrochemicals, aerospace and mining. During the period under review, sales of gear transmission equipment for construction materials and gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills increased by 0.8% and 75.3% to approximately RMB344,908,000 (30 June 2009: RMB342,188,000) and RMB283,603,000 (30 June 2009: RMB161,799,000) respectively. Sales of high speed heavy load gear transmission equipment, general purpose gear transmission equipment and other mechanical transmission equipment decreased by 2.7%, 12.9% and 52.9% to approximately RMB13,165,000 (30 June 2009: RMB13,533,000), RMB63,268,000 (30 June 2009: RMB72,611,000) and RMB42,400,000 (30 June 2009: RMB89,928,000) respectively.

Despite 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 recorded sales growth, primarily attributable to the introduction of new products. The Group focused on the development of energy-saving and environmentally-friendly products. Vertical roller press grinding mills recently developed by the Group improve energy efficiency by approximately 30% when compared to traditional transmission products and are well received in the market. Benefitted from the PRC government policy which promoted the development and upgrade of equipment manufacturing industry and in response to equipment upgrades in the metallurgy industry, the Group has proactively developed complete sets of transmission equipment during the period under review such as cold-rolled, hot-rolled, strip and bar, wire rolling and plate-rolling mills which are well received by the market.

5. **Computer numerical controlled (“CNC”) equipment**

CNC products industry

Equipment manufacturing is a pillar industry of the national economy. Independent developing of equipment manufacturing industry is one of the strategic objectives of the “Eleventh Five-Year Plan”. “Machine tool is the core equipment of the equipment manufacturing industry. The modernisation of equipment manufacturing industry of China depends on the development of its machine tool industry. We must enhance the manufacturing capacity of our machine tool, in particular CNC machine tool, to support the development of equipment manufacturing industry,” said Wen Jiabao, the Premier of the State Council. Besides, the price for heavy machine tools is very high as the market is dominated by few international manufacturers. The Group intends to take the opportunity to develop precise and efficient general and special machine tool products to explore the high-end market and by providing advanced machine tools for equipment manufacturing industry.

In order to seize the developing market of CNC machine tools, the Group has acquired a local manufacturer specializing in the research and development of CNC system and CNC machine tools. Such manufacturer possessed the proprietary intellectual property rights of its self-developed CNC system and machine tools. Its high-end machine tools technology further strengthened the technology platform of the Group.

During the period under review, the Group provided CNC machine tool products to customers through the newly-acquired subsidiary and recorded sales of approximately RMB29,481,000 (six months ended 30 June 2009: nil).

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. The overseas sales amounted to approximately RMB438,472,000 (30 June 2009: RMB173,775,000), accounting for 14.2 % to total sales (30 June 2009: 8.5%) and representing an increase of 5.7% 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. Since the economies in Europe and the U.S. was yet to be recovered during the period under review, the Company currently allocates more resources to the domestic 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 over 100 national, provincial and municipal technology advancement awards, outstanding new products awards, certification for new products, certification for high and new tech products and certification of high and new tech enterprise. 139 patent applications have been filed, of which 112 patents are granted. 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 Computer Integrated Manufacturing System (CIMS) Application Model Enterprise by the Ministry of Science and Technology of the PRC. Until now, the Company passed ISO9001:2008 quality management system certification, ISO14001:2004 environmental management system certification and GB/T28001-2001 Occupational Health and Safety Management System Certification. Nanjing High Accurate Marine Equipment Co., Ltd., a subsidiary of the Company, has obtained the workshop approval issued by Bureau Veritas (BV) in France. The welding workshop of the Company has obtained the workshop approvals issued by China Classification Society (CCS), Lloyd's Register of Shipping (LR) in UK, Germanischer Lloyd (GL) in Germany and Bureau Veritas (BV) in France. Our wind power products have obtained certifications from Technischer Uberwachungs-Verein (TUV), Germanischer Lloyd (GL) and DEWI-OCC Offshore and Certification Center in Germany.

PROSPECTS

Looking forward, renewable energy has great potential and promising prospects in the long run. The PRC government has introduced a number of policies to support the development of new energy industry. On the other hand, medium and long term emission reduction plans are adopted by various governments. Emission reduction is a global target. As a leading enterprise in the mechanical transmission industry in the PRC, the Group will endeavour to seize the opportunity to keep its foothold in the domestic market and expand overseas markets, increase its product lines, improve its product quality and consolidate its leading position in the industry.

As one of the fastest developing countries in terms of wind power, the PRC government encourages the use of renewable energy and clean energy in power generation by adopting supportive policies and measures, including the upward adjustment of the target for the installed capacity of wind power from 100,000MW to 150,000MW by 2020 to trigger the demand of wind gear equipment. The Group is selected by many customers as their major supplier due to our excellent services and premier product quality. The Group has confidence to further expand its share in the domestic market. The Group intends to increase its wind gear production capacity to 9,000MW and 12,000MW for 2010 and 2011 respectively.

Wind power is the fastest developing renewable energy in the world. Boasting competitive prices and superb quality, the Group's products are very competitive in overseas markets. The Group will secure more oversea orders due to its established relationships with various international wind power equipment manufacturers. During the period under review, the Group has undergone business negotiation with an Indian wind power equipment manufacturer, which is expected to become our new overseas customer in the second half of the year. The Group expects that wind power gear transmission equipment business will continue to be its growth driver in the coming years.

To maintain its leading position, the Group will endeavor to enhance its product quality and strengthen the research and development of technology and new products. Our research and development of wind power products will focus on megawatt wind power gear transmission equipment. In the first half of 2010, the Group provided a 3MW wind power gear box using hybrid direct driving technology to Goldwind Technology which is operating in full load. The Group will speed up the development of different types of wind power gear boxes. The Group has entered into agreements with various domestic companies to jointly develop 3MW wind power gear so as to improve its development capability and production technology. The Group will endeavour to further enhance its operation efficiency, expand its market share and promote its products in international markets.

The Group believes that the market of high speed train, metros and urban light rail equipment has great potential. In 2009, sales in such market recorded significant growth and it is expected to generate greater sales revenue for the Group in 2010. For the domestic market, it is believed that the Group will benefit from the significant investments in railway construction by the PRC government, the construction of subway networks in various cities and the rapid development of intercity high speed railway networks.

For overseas markets, the Group will closely monitor the global economic development and increase its share in the overseas marine gear transmission equipment market when opportunities arise. Since 2009, the Group has actively developed domestic marine gear transmission equipment market and has recorded significant sales. In order to further increase its share in domestic market and gross margin, the Group will provide products with value-added features to satisfy customers' demands. The Group expects that the sales of marine gear transmission products will be more than that of 2009.

The Group maintains its leading position as a supplier of traditional transmission products in the domestic market. The Group intends to expand into new overseas markets, including India, Vietnam and other developing countries, to secure more export orders.

The Group will continue to diversify its product portfolio by introducing more mechanical-electrical integration products. In addition to the existing four major business segments, the Group plans to actively develop more new CNC products. The Group also plans to upgrade the machine tool production technology of its subsidiary to improve the quality of machine tool facilities and increase sales.

The Group will continue to enhance the implementation of its strategy of mechanical-electrical integration and further improve its transmission equipment, such as electronic control system, inverter and electromagnetic slurry equipment. The Group believes such value-added products can meet various demands of our customers.

FINANCIAL PERFORMANCE

	Revenue	
	Six months ended 30 June	
	2010	2009
	RMB'000	RMB'000
High-speed heavy-load gear transmission equipment	**13,165**	13,533
Gear transmission equipment for construction materials	**344,908**	342,188
General purpose gear transmission equipment	**63,268**	72,611
Gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills	**283,603**	161,799
Wind gear transmission equipment	**2,196,070**	1,281,298
Marine gear transmission equipment	**108,961**	69,451
Transmission equipment for high speed locomotives and urban light rails	**14,973**	2,238
CNC products	**29,481**	—
Others	**42,400**	89,928
Total	**3,096,829**	2,033,046

Revenue

The Group's sales revenue during the period under review was approximately RMB3,096,829,000, representing an increase of 52.3% 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 71.4% in sales revenue of wind gear transmission equipment from approximately RMB1,281,298,000 for the six months ended 30 June 2009 to approximately RMB2,196,070,000 for the six months ended 30 June 2010 and an increase of 75.3% in traditional transmission products including gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills from approximately RMB161,799,000 for the six months ended 30 June 2009 to approximately RMB283,603,000 for the six months ended 30 June 2010. During the period under review, sales of marine gear transmission equipment increased by 56.9% from approximately RMB69,451,000 for the six months ended 30 June 2009 to approximately RMB108,961,000 for the six months ended 30 June 2010.

Gross profit margin and gross profit

The Group's consolidated gross profit margin was approximately 30.4% during the year, representing a decrease of 0.7% as compared with the corresponding period last year. The decrease was mainly attributable to the increase of depreciation costs of manufacturing equipment and plant resulted from the enhanced production capacity of wind power. Consolidated gross profit for the six months ended 30 June 2010 reached approximately RMB941,112,000 (30 June 2009: RMB632,791,000), representing an increase of 48.7% 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 RMB397,203,000 for the six months ended 30 June 2009 to approximately RMB669,971,000 for the six months ended 30 June 2010, representing an increase of 68.7%.

Other income, other gain and loss

The total amount of other income of the Group for the six months ended 30 June 2010 was approximately RMB91,894,000 (30 June 2009: RMB34,435,000), an increase of 166.9% as compared with the corresponding period last year. Other income is mainly comprised of bank interest income, government grants and sales of wastages.

During the six months ended 30 June 2010, other gain and loss recorded a net gain of approximately RMB46,919,000 (30 June 2009: a net loss of approximately RMB55,579,000), which mainly comprised fair value gain on convertible bonds and loss on derivative financial instruments.

Distribution and selling costs

The distribution and selling costs of the Group for the six months ended 30 June 2010 were approximately RMB98,366,000 (30 June 2009: RMB51,867,000), representing an increase of 89.7% over the corresponding period last year. The increase was mainly attributable to increased sales. The percentage of distribution and selling costs to sales revenue for the six months ended 30 June 2010 was 3.2% (30 June 2009: 2.6%), representing an increase of 0.6% to sales revenue over the corresponding period last year. This was mainly attributable to the increase of the provision of quality margin based on the principle of prudence in view of the strong market demand for wind gear transmission equipment.

Administrative expenses

Administrative expenses of the Group increased from approximately RMB139,526,000 for the six months ended 30 June 2009 to approximately RMB210,567,000 for the six months ended 30 June 2010, mainly due to the increase in number of staff and staff costs, and depreciation charges arising from increased investment in fixed assets by the Company. The percentage of administrative expenses to sales revenue was slightly decreased by 0.1% as compared with the corresponding period last year.

Other expenses

Other expenses of the Group during the period under review were approximately RMB32,474,000 (30 June 2009: RMB 31,083,000), which mainly comprised a net loss on foreign exchange of approximately RMB32,409,000 (30 June 2009: RMB 31,083,000).

Finance costs

In the first half of 2010, the finance costs of the Group was approximately RMB68,399,000 (30 June 2009: RMB57,715,000), representing an increase of 18.5%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 2010, the equity attributable to owners of the Company amounted approximately to RMB4,656,146,000 (31 December 2009: RMB4,420,937,000). The Group had total assets of approximately RMB13,243,276,000 (31 December 2009: RMB10,234,919,000), representing an increase of approximately RMB3,008,357,000, or 29.4%, as compared with that at the beginning of the year. Total current assets of the Group were approximately RMB7,624,495,000 (31 December 2009: RMB5,037,358,000), representing an increase of 51.4% as compared with that at the beginning of the year and accounting for 57.6% of total assets (31 December 2009: 49.2%). Total non-current assets were approximately RMB5,618,781,000 (31 December 2009: RMB5,197,561,000), representing an increase of approximately 8.1% as compared with that at the beginning of the year and accounting for 42.4% of the total assets (31 December 2009: 50.8%).

As at 30 June 2010, total liabilities of the Group were approximately RMB8,550,921,000(31 December 2009: RMB5,784,567,000), representing an increase of 47.8% as compared with that at the beginning of the year. Total current liabilities were approximately RMB6,743,300,000 (31 December 2009: RMB3,288,119,000), representing an increase of approximately 105.1% as compared with that at the beginning of the year whereas total non-current liabilities were approximately RMB1,807,621,000 (31 December 2009: RMB2,496,448,000), representing a decrease of approximately 27.6% as compared with that at the beginning of the year.

As at 30 June 2010, the net current asset of the Group was approximately RMB881,195,000 (31 December 2009: RMB1,749,239,000), representing a decrease of RMB868,044,000, or 49.6%, as compared with that at the beginning of the year.

As at 30 June 2010, total cash and bank balances of the Group were approximately RMB2,881,204,000 (31 December 2009: RMB1,074,486,000), including pledged bank deposits of RMB793,811,000 (31 December 2009: RMB451,389,000) and restricted cash of RMB150,507,000 (31 December 2009: RMB151,904,000). These restricted cash represents the remaining balance of restricted deposits payable by the Group in respect of the Equity Swap entered into with Morgan Stanley & Co. International plc on 22 April 2008.

As at 30 June 2010, the Group had total bank loans of approximately RMB4,420,830,000 (31 December 2009: RMB2,568,314,000), of which short-term bank loans were RMB2,732,780,000 (31 December 2009: RMB1,556,273,000), accounting for approximately 61.8% (31 December 2009: 60.6%) of the total bank loans. The short-term bank loans are repayable within one year. The average effective interest rate of the Group's bank loans ranges from 3.5% to 5.3% (31 December 2009: 3.51% to 7.97%).

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 56.5% as at 31 December 2009 to 64.6% as at 30 June 2010.

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.

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

(v) According to the announcement dated 18 June 2010, the conversion price was adjusted from HK$17.2886 per share to HK$16.9817 per share from 18 June 2010 as a result of the payment of final dividends for the year ended 31 December 2009.

(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.

In the second quarter of 2010, the convertible bonds with a total nominal value of RMB100,000 were converted into 6,566 shares.

As at 30 June 2010, the outstanding principal of the convertible bonds amounted to RMB1,147,000,000 (31 December 2009: RMB1,147,100,000). Based on the adjusted conversion price of HK$16.9817 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 75,315,897 ordinary shares, representing approximately 6.0% of the existing issued share capital of the Company and approximately 5.7% of the issued share capital of the Company as enlarged by the full conversion of the bonds.

As at 30 June 2010, gain on fair value changes of such convertible bonds was approximately RMB72,363,000 (30 June 2009: loss of RMB319,849,000).

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.

On 6 November 2009, the Company entered into an amended and restated Equity Swap with the Equity Swap Counterparty. Under the amended and restated Equity Swap, the Company may elect for physical delivery of shares (the "Share Delivery Option") as an alternative to cash settlement. In the event that the Company elects to exercise the Share Delivery Option to settle a scheduled termination of the remaining Equity Swap in whole, the Equity Swap Counterparty will deliver to the Company the number of ordinary shares in the issued share capital of the Company specified in the Equity Swap as amended from time to time (i.e. 12,612,707 ordinary shares), whereupon the Equity Swap Counterparty will have no obligation to repay the remaining proportional amount of the Initial Exchange Amount (i.e. HK$172,520,390.16) to the Company. In the event that the Company elects to exercise the Share Delivery Option to settle a partial optional early termination of the Equity Swap, the Equity Swap Counterparty will deliver to the Company the terminated number of shares and the Equity Swap Counterparty's obligation to repay to the Company a proportional amount of the initial exchange amount shall no longer apply. Where the Company has elected for the Share Delivery Option to apply, the shares to be delivered by the Equity Swap Counterparty will be promptly cancelled by the Company. Exercising the Share Delivery Option on one or more occasions will constitute an off-market repurchase of up to a total of 12,612,707 ordinary shares (representing approximately 1.0% of the existing issued share capital of the Company) under the Hong Kong Code on Share Repurchases. The potential off-market repurchase of shares was approved by the extraordinary general meeting of shareholders by way of a special resolution on 15 January 2010. Further details of the amended and restated Equity Swap were set out in the Company's announcements dated 6 November 2009 and 15 January 2010 and circular dated 24 December 2009.

During the six months ended 30 June 2010, loss on the Equity Swap was approximately RMB25,444,000 (30 June 2009: gain on Equity Swap was RMB264,270,000).

The Group's loans and cash and cash equivalents were mainly denominated in Renminbi.

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.

OTHER SUPPLEMENTARY INFORMATION

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 2010, 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 the US dollar and Hong Kong dollar, which may be exposed to the risk of exchange rate fluctuations, were approximately US$20,000,000 and HK$300,000,000 respectively as at 30 June 2010. 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 were approximately RMB32,410,000 (30 June 2009: RMB31,083,000), 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 2010.

INTEREST RATE RISK

The loans of the Group are mainly sourced from bank borrowings. Therefore, the benchmark lending rate announced by the People's Bank of China ("PBOC") 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. With a good credit record, a part of the Group's cost of debt are charged at an interest rate below the prevailing interest rate of PBOC of RMB loans over the same period. 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. The Group currently does not have any interest rate hedging policy.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2010, the Group employed approximately 5,092 employees (30 June 2009: 4,074). Staff costs of the Group for the first half of 2010 were approximately RMB200,282,000 (30 June 2009: RMB170,045,000). 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.

CORPORATE GOVERNANCE PRACTICES

The Board recognizes 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 2010, 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 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 2010.

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 2010.

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

Hong Kong, 30 August 2010

As at the date of this announcement, the executive directors are Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Lu Xun, Mr. Li Shengqiang, Mr. Liu Jianguo, Mr. Liao Enrong and Mr. Jin Maoji; and the independent non-executive directors are Mr. Zhu Junsheng, Mr. Jiang Xihe and Mr. Chen Shimin.

* *For identification purposes only*