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 2011

PERFORMANCE HIGHLIGHTS

Revenue for the first half of 2011 was approximately RMB3,182,714,000, representing a slight increase of approximately 2.8% over the corresponding period of 2010.

Reported profit attributable to the owners of the Company for the first half of 2011 was RMB286,516,000 (30 June 2010: RMB563,491,000), representing a decrease of approximately 49.2% over the corresponding period of 2010.

If the effect of the fair value change of convertible bonds and equity swap had been excluded, the adjusted profit attributable to the owners of the Company for the first half of 2011 would have been approximately RMB374,750,000, representing a decrease of approximately 27.5% over the corresponding period of 2010.

Basic and diluted earnings per share were RMB0.21 and RMB0.21 respectively.

The Board did not recommend payment of an interim dividend for the six months ended 30 June 2011.

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 2011, 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 2011

	NOTES	Six months ended 30 June 2011 RMB'000 (Unaudited)	2010 RMB'000 (Unaudited)
Revenue	4	**3,182,714**	3,096,829
Cost of sales		**(2,322,468)**	(2,155,717)
Gross profit		**860,246**	941,112
Other income		**55,253**	91,894
Other gain and loss	5	**(88,234)**	46,919
Distribution and selling costs		**(113,523)**	(98,366)
Administrative expenses		**(223,104)**	(210,632)
Research and development costs		**(36,468)**	(27,031)
Other expenses		**—**	(32,409)
Finance costs		**(117,507)**	(68,399)
Share of results of associates		**2,923**	110
Share of results of jointly controlled entities		**18,966**	28,273
Profit before taxation		**358,552**	671,471
Taxation	6	**(74,164)**	(108,579)
Profit for the period	7	**284,388**	562,892
Other comprehensive income (expense) for the period			
Exchange difference arising on translation		**352**	(1)
Total comprehensive income for the period		**284,740**	562,891
Profit (loss) for the period attributable to:			
Owners of the Company		**286,516**	563,491
Non-controlling interests		**(2,128)**	(599)
		284,388	562,892
Total comprehensive income (expense) attributable to:			
Owners of the Company		**286,868**	563,490
Non-controlling interests		**(2,128)**	(599)
		284,740	562,891
EARNINGS PER SHARE	9		
Basic (RMB)		**0.21**	0.45
Diluted (RMB)		**0.21**	0.37

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2011

	NOTES	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**5,301,531**	4,869,764
Prepaid lease payments		**546,584**	399,304
Goodwill		**17,715**	17,715
Intangible assets		**176,609**	196,570
Interests in associates		**147,817**	56,744
Interests in jointly controlled entities		**643,127**	624,162
Available-for-sale investments		**108,066**	148,646
Deposit for land lease		**467,819**	380,458
Prepayment for acquisition of property, plant and equipment		**64,622**	59,265
Deferred tax assets		**33,767**	36,730
		7,507,657	6,789,358
CURRENT ASSETS			
Inventories		**2,065,813**	1,257,663
Prepaid lease payments		**11,829**	8,554
Trade and other receivables	10	**4,464,010**	3,810,804
Amounts due from associates		**28,876**	—
Amounts due from jointly controlled entities		**53,458**	9,339
Pledged bank deposits		**1,073,934**	766,839
Derivative financial instrument	14	**—**	18,392
Restricted cash		**—**	146,798
Bank balances and cash		**1,721,133**	2,123,768
		9,419,053	8,142,157

	NOTES	30 June 2011 RMB'000 (Unaudited)	31 December 2010 RMB'000 (Audited)
CURRENT LIABILITIES			
Trade and other payables	11	**3,092,143**	2,612,631
Dividend payable to a non-controlling shareholder of a subsidiary		**6,189**	—
Amount due to a related party		**900**	1,435
Amounts due to associates		**13,900**	1,312
Amounts due to jointly controlled entities		**52,442**	6,665
Tax liabilities		**56,656**	175,259
Borrowings - due within one year	12	**3,102,387**	1,208,651
Financial liabilities designated as at fair value through profit or loss - convertible bonds - due within one year	13	**—**	1,219,933
		6,324,617	5,225,886
NET CURRENT ASSETS		**3,094,436**	2,916,271
TOTAL ASSETS LESS CURRENT LIABILITIES		**10,602,093**	9,705,629
NON-CURRENT LIABILITIES			
Borrowings - due after one year	12	**3,156,338**	2,043,050
Deferred tax liabilities		**81,389**	86,166
Deferred income		**82,128**	62,072
		3,319,855	2,191,288
		7,282,238	7,514,341
CAPITAL AND RESERVES			
Share capital		**102,543**	103,345
Reserves		**7,100,223**	7,289,385
Equity attributable to owners of the Company		**7,202,766**	7,392,730
Non-controlling interests		**79,472**	121,611
		7,282,238	7,514,341

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 ("IAS 34"), *Interim Financial Reporting*.

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 and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2011 are same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2010 except that in the current interim period, the Group has applied, for the first time, a number of new or revised Standards, and Interpretations ("new or revised IFRSs") issued by the International Accounting Standards Board (the "IASB").

The application of the new or revised IFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

The Group has not early applied new or revised standards that have been issued but are not yet effective. The following new or revised standards have been issued after the date the consolidated financial statements for the year ended 31 December 2010 were authorised for issuance and are not yet effective:

IFRS 10	Consolidated Financial Statements[1]
IFRS 11	Joint Arrangements[1]
IFRS 12	Disclosure of Interests in Other Entities[1]
IFRS 13	Fair Value Measurement[1]
IAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income[2]
IAS 19 (Revised 2011)	Employee Benefits[1]
IAS 27 (as revised in 2011)	Separate Financial Statements[1]
IAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]

[1] Effective for annual periods beginning on or after 1 January 2013

[2] Effective for annual periods beginning on or after 1 July 2012

The above new or revised standards on consolidation, joint arrangements and disclosures were issued by the IASB in May 2011 and are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that these new or revised standards are applied early at the same time. The directors of the Company anticipate that these new or revised standards will be applied in the Group's consolidated financial statements for financial year ending 31 December 2013 and the potential impact is described below.

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements. Under IFRS 10, there is only one basis for consolidation, that is control. In addition, IFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in IFRS 10 to deal with complex scenarios. Overall, the application of IFRS 10 requires a lot of judgement.

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. Under IFRS 11, there are two types of joint arrangements: joint ventures and joint operations. The classification in IFRS 11 is based on parties' rights and obligations under the arrangements. In contrast, under IAS 31, there are three different types of joint arrangements: jointly controlled entities, jointly controlled assets and jointly controlled operations.

In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportionate accounting. The application of IFRS 11 might result in changes in the classification of the Group's joint arrangements and their accounting treatments.

The Group has already commenced an assessment of the impact of these new or revised IFRSs but is not yet in a position to state whether they would have a significant impact on its results of performance and financial position.

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 determined on the basis of geographical 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 reportable and 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 reportable and operating segment for the period under review.

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Revenue		
– PRC	**2,697,917**	2,658,357
– Europe	**76,467**	154,277
– Others	**408,330**	284,195
	3,182,714	3,096,829
Segment profit		
– PRC	**664,772**	761,822
– Europe	**12,317**	44,212
– Others	**100,236**	81,443
	777,325	887,477
Other income, gain and loss	**(63,583)**	94,082
Finance costs	**(117,507)**	(68,399)
Share of results of associates	**2,923**	110
Share of results of jointly controlled entities	**18,966**	28,273
Unallocated expenses	**(259,572)**	(270,072)
Profit before taxation	**358,552**	671,471

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	
	2011	2010
	RMB'000	RMB'000
Loss on derivative financial instrument	**(53,988)**	(25,444)
(Loss) gain on convertible bonds	**(34,246)**	72,363
	(88,234)	46,919

6. TAXATION

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
PRC Enterprise Income Tax		
– Current period	**81,153**	102,932
– (Over) underprovision in prior years	**(5,174)**	1,562
	75,979	104,494
Deferred tax	**(1,815)**	4,085
	74,164	108,579

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. These tax concessions were expired in 2010.

Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed"), Nanjing High Accurate Marine Equipment Co., Ltd. ("Nanjing Marine"), Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing Accurate"), Nanjing Gaote Gear Box Manufacturing Co., Ltd. ("Nanjing Gaote"), Nanjing Sky Electronic Enterprise Co., Ltd ("Sky Electronic") and CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd ("Shougao") are approved for 3 years as enterprises that satisfied the condition as high technology development enterprises and are thus subject to a preferential tax rate of 15% for the 3 years from date of approval. The approval was obtained in the year ended 31 December 2008 for Nanjing High Speed, Nanjing Marine and Nanjing Accurate and 31 December 2009 for Nanjing Gaote, Sky Electronic and Shougao. Accordingly, the tax rate for these 6 companies during the 6 months ended 30 June 2011 and 2010 was 15%.

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):

	Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
Allowance for inventories (included in cost of sales)	**1,846**	2,648
Amortisation of intangible assets (included in cost of sales)	**26,900**	15,497
Bank interest income	**(11,563)**	(5,502)
Depreciation of property, plant and equipment	**199,435**	149,723
Exchange (gain) loss, net	**(4,453)**	32,409
Government grants (included in other income)	**—**	(43,383)
(Gain) loss on disposal of property, plant and equipment	**(835)**	400
Recognition (reversal) of impairment loss recognised on trade receivables	**1,242**	(3,349)
Release of prepaid lease payments	**5,614**	3,730

8. DIVIDENDS

During the period, a final dividend of HK33 cents, equivalent to RMB28 cents, (2010: HK30 cents, equivalent to RMB26 cents) per ordinary share amounting to approximately RMB374,918,000 in total in respect of the year ended 31 December 2010 was declared and paid to shareholders of the Company.

The directors do not propose the payment of an interim dividend for the six-month period ended 30 June 2011 (30 June 2010: 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	
	2011	2010
	RMB'000	RMB'000
Earnings		
Earnings for the purposes of basic earnings per share:		
Profit for the period attributable to owners of the Company	**286,516**	563,491
Effect of dilutive potential ordinary shares:		
Fair value changes on convertible bonds	**–**	(72,363)
Earnings for the purposes of diluted earnings per share	**286,516**	491,128

	2011	2010
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**1,371,982**	1,245,064
Effect of dilutive potential ordinary shares:		
Share options	**6,024**	8,050
Convertible bonds	**–**	75,316
Weighted average number of ordinary shares for the purposes of diluted earnings per share	**1,378,006**	1,328,430

Note: The calculation of diluted earnings per share for the six months ended 30 June 2011 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 2011 RMB'000	31 December 2010 RMB'000
Notes receivable	**1,219,775**	1,273,633
Accounts receivables	**2,608,604**	1,953,787
Bills receivable	**240,073**	349,077
Less: allowance for doubtful debts	**(73,546)**	(71,955)
Total trade receivables	**3,994,906**	3,504,542
Advances to suppliers	**290,599**	223,301
Value added tax recoverable	**132,779**	51,088
Others	**45,726**	31,873
Total trade and other receivables	**4,464,010**	3,810,804

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 accounts receivables based on invoice date, net of allowance for doubtful debts, at the reporting date:

	30 June 2011 RMB'000	31 December 2010 RMB'000
Bills receivable	**240,073**	349,077
Notes receivable	**1,219,775**	1,273,633
Accounts receivables:		
0 - 90 days	**1,721,900**	682,180
91 - 120 days	**256,281**	663,406
121 - 180 days	**290,142**	290,714
181 - 365 days	**114,629**	99,450
Over 365 days	**152,106**	146,082
	3,994,906	3,504,542

At 30 June 2011, notes receivable and bills receivable in aggregate of RMB1,459,848,000 (31 December 2010: RMB1,622,710,000) is based on remaining maturity date ranged from 1 to 90 days.

11. TRADE AND OTHER PAYABLES

	30 June 2011 RMB'000	31 December 2010 RMB'000
Accounts payables	**1,332,607**	960,245
Notes payable (Note)	**793,286**	750,361
Total trade payables	**2,125,893**	1,710,606
Advances from customers	**478,479**	399,700
Purchase of property, plant and equipment	**275,769**	276,585
Payroll and welfare payables	**82,131**	81,388
Accrued expenses	**13,681**	9,570
Value added tax payable	**19,456**	62,449
Others	**96,734**	72,333
Total trade and other payables	**3,092,143**	2,612,631

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 based on invoice date at the end of the reporting period:

	30 June 2011 RMB'000	31 December 2010 RMB'000
0 - 30 days	**667,429**	645,049
31- 60 days	**511,638**	308,554
61 - 180 days	**867,771**	721,167
181 - 365 days	**49,986**	21,032
Over 365 days	**29,069**	14,804
	2,125,893	1,710,606

12. BORROWINGS

During the period, the Group obtained new borrowings in the amount of approximately RMB4,925,968,000 (six months ended 30 June 2010: RMB3,011,474,000). The borrowings bear fixed or floating interest at interest rates ranging from 3.5% to 5.3% per annum and are repayable within 1 to 5 years. The Group also repaid borrowings of approximately RMB1,943,944,000 (six months ended 30 June 2010: RMB1,158,958,000) during the period. Borrowings are secured by the Group's own assets as set out in note 16.

13. CONVERTIBLE BONDS

On 14 May 2008, the Company issued Renminbi ("RMB") denominated United States Dollars ("USD") settled zero coupon convertible bonds, with an aggregate principal amount of RMB1,996.3 million and 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 at 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. The bonds was matured on 14 May 2011 at an amount equal to the USD equivalent of its principal amount in RMB multiplied by 109.3443%. 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. Please refer to annual report 2010 for detailed description of the bonds.

On 16 May 2011, the Company redeemed the entire outstanding principal of RMB1,147,000,000 of the bonds, for a consideration of approximately US$192,936,000, being an amount equal to the USD equivalent of the principal amount of the bonds in RMB multiplied by 109.3443%, with a loss of RMB34,246,000 recognised in profit or loss.

At 31 December 2010, 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 were carried out by Greater China Appraisal Limited, an independent asset appraisal firm of professional valuers.

The inputs into the Binomial Option Pricing Model at 31 December 2010 are as follows:

	31 December 2010
Share price	HK$12.04
Exercise price	HK$16.9817
Risk-free rate of interest	0.29%
Dividend yield	2.49%
Time to expiration	0.37 years
Volatility	29.05%
Borrowing rate of issuer	7.88%

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). 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 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, which was subsequently reduced to RMB147 million as a result of the early termination in 2009. Please refer to annual report 2010 for detailed description of the Equity Swap.

On 16 May 2011, the Equity Swap Counterparty delivered to the Company 12,612,707 shares of the Company, whereupon the Equity Swap Counterparty's obligation to repay the remaining proportional amount of the initial exchange amount (i.e. HK$172,520,390) to the Company shall be extinguished. The repurchase of shares by the Company was made at a price equivalent to the initial price of HK$13.6783 per share for a total of 12,612,707 shares.

A loss of RMB53,988,000 in respect of the maturity of the Equity Swap was recognised in the profit or loss, which was determined by reference to the difference between the market share price at the maturity date and the initial price, together with the carrying value of the restricted cash and the Equity Swap at the maturity date.

The fair value of the derivative financial instrument outstanding at 31 December 2010 was 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 31 December 2010 are as follows:

	31 December 2010
Initial price	HK$13.68
Share price	HK$12.04
Risk-free rate of interest	0.29%
Dividend yield	2.49%
Time to expiration	0.37 years
Volatility	29.05%

15. CAPITAL COMMITMENTS

	30 June 2011 RMB'000	31 December 2010 RMB'000
Commitments for the acquisition of property, plant and equipment contracted but not provided in the condensed consolidated financial statements	**390,682**	499,021

16. PLEDGE OF ASSETS

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

	30 June 2011 RMB'000	31 December 2010 RMB'000
Bank deposits	**1,073,934**	766,839
Property, plant and equipment	**42,776**	—
Land use rights	**10,537**	—
	1,127,247	766,839

17. ACQUISITION OF A SUBSIDIARY

On 18 April 2011, the Group acquired the entire equity interest of Global Power Asia Limited, which owns 90% equity interest of AE&E Nanjing Boiler Company Limited (the "Global Group") through China Transmission Holdings Limited, a wholly-owned subsidiary of the Group, at a cash consideration of EUR5,000,000 (equivalent to approximately RMB47,306,000). The principal activities of the Global Group are manufacturing of industrial boilers, heat recovery equipment and related products and were acquired with the objective of further diversification.

Acquisition-related costs amounting to RMB80,000 have been excluded from the cost of acquisition and have been recognised as an expense in the period, within the "administrative expenses" line item in the condensed consolidated statement of comprehensive income.

Assets and liabilities recognised at fair value at the date of acquisition:

	Global Group RMB'000
Non-current assets	
Property, plant and equipment	88,806
Prepaid lease payment	67,537
Current assets	
Inventories	18,166
Trade and other receivables	24,866
Bank balances and cash	52,731
Current liabilities	
Trade and other payables	(174,544)
Bank borrowing	(25,000)
	52,562

The receivables acquired (which principally comprised trade receivables) with a fair value of RMB24,866,000 had gross contractual amounts of RMB55,966,000. The best estimate at acquisition date of the contractual cash flows not expected to be collected is RMB31,100,000.

The initial accounting for the above business combination have been determined on a provisional basis, awaiting completion of professional valuations. The impact of the acquisition was therefore only been provisionally determined and may also be impacted after completion of professional valuations.

Non-controlling interest

The non-controlling interest (10%) in Global Group recognised at the acquisition date was measured at its proportionate share of Global Group's identifiable net assets at the acquisition date.

Goodwill arising on acquisition

	RMB'000
Consideration transferred	47,306
Plus: non-controlling interests	5,256
Less: fair value of identifiable net assets acquired	(52,562)
Goodwill arising on acquisition	—

Net cash inflow arising on acquisition

	RMB'000
Consideration paid in cash	(47,306)
Less: cash and cash equivalent balances acquired	52,731
	5,425

Impact of acquisition on the results of the Group

Included in the profit for the interim period is a loss of RMB4,234,000 attributable to Global Group. Revenue for the period includes RMB2,997,000 in respect of Global Group.

Had the acquisition of Global Group been completed at 1 January 2011, total group revenue for the period would have been RMB3,187,541,000, and profit for the period would have been RMB271,443,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of operations of the Group that actually would have been achieved had the acquisition been completed on 1 January 2011, nor is it intended to be a projection of future results.

18. RELATED PARTY DISCLOSURES

(I) Related party transactions

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

Name of company	Relationship	Nature of transactions	Six months ended 30 June 2011 RMB'000	2010 RMB'000
ZF Nanjing Marine Propulsion Co., Ltd.	Associate	Sales of goods	**—**	9,033
Nanjing Longwin Windpower Equipment Manufacturing Co., Ltd.	Associate	Purchase of goods	**60,279**	28,936
Nanjing High Accurate Construction Equipment Co., Ltd.	Jointly controlled entity	Sales of goods	**22,512**	61,060
Jiangsu Hongsheng Heavy Industries Group Co., Ltd.	Jointly controlled entity	Sales of goods	**48,608**	33,234
		Purchase of goods	**19,796**	27,363

(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 (to) associates and amounts due from (to) 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.

(III) Compensation of key management personnel

	Six months ended 30 June 2011 RMB'000	2010 RMB'000
Fees	**—**	—
Salaries and other emoluments	**7,530**	7,880
	7,530	7,880

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in a wide range of industrial applications. During the period under review, the Group recorded total sales revenue of approximately RMB3,182,714,000, representing an increase of 2.8% over the corresponding period of 2010. The gross profit margin recorded for the year was approximately 27.0%. Profit attributable to owners of the Company was approximately RMB286,516,000, representing a decrease of 49.2% over the corresponding period of 2010. If the effect of the fair value change of convertible bonds and equity swap had been excluded, the adjusted profit attributable to owners of the Company would have been approximately RMB374,750,000, representing a decrease of 27.5% over the corresponding period of 2010. Basic and diluted earnings per share attributable to the owners of the Company amounted to approximately RMB0.21 and RMB0.21 respectively.

Principal business review

1. **Wind gear transmission equipment**

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

   The wind gear transmission equipment is a major product that has been developed by the Company. Sales revenue of wind gear transmission equipment business decreased by approximately 0.5% as compared with the corresponding period of last year to approximately RMB2,185,363,000 (30 June 2010: RMB2,196,070,000). The decrease was attributable to (1) the decrease in average selling price of wind power gearbox products; and (2) the temporary postponement of the delivery of wind gearbox products requested by certain customers as a result of a significant reduction in the quantity of power generated by the wind turbine generators being connected to power grids from late May to the end of June 2011. Such significant reduction was due to the fact that the China government requested rectification of the quality of the wind turbine generators from late May to the end of June 2011 in order to address the concerns on the flaw in the low voltage ride through ability of the wind turbine generators.

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. During the period under review, the Group had already delivered 16 units of 3MW wind gearbox to our costumes.

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 the Group's enhanced global operation, we believe that the Group will attract more wind turbine 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 has developed the domestic market for marine gear transmission equipment since year of 2009 and the market development is on schedule. During the period under review, as the global economic condition has not yet fully recovered, turnover of marine gear transmission equipment slightly increased to approximately RMB126,403,000 (30 June 2010: RMB108,961,000), representing an increase of 16.0% 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 twofold by 2020. In order to capture this tremendous business opportunity, the Group previously conducted research and development of transmission equipment for high-speed locomotives, metros and urban light rails. Our products have been installed in the metros used in Beijing, Shanghai and Nanjing for field tests and received high recognition during the period under review, resulting in a significant increase in domestic and international sales orders. 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 RMB16,966,000 for the Group (30 June 2010: RMB14,973,000).

4. **Traditional transmission products**

Continue to be one of the major suppliers in the traditional transmission products market

The Group's traditional gear transmission equipment products are mainly provided for customers from various industries including metallurgy, construction materials, transportation, freight, petrochemicals, aerospace and mining.

Affected by the downturn of the global economy and stringent monetary policies adopted by the PRC government to slow down its overheated economy, the Group has reduced the prices of some of our traditional products accordingly. However, leveraging on its self-developed technologies and focusing on energy conservation and environmental protection related products such as transmission equipment used in construction materials industry, the Group has formulated its development strategies driven by new products, and maintained its market position as one of the major suppliers in the traditional transmission products market.

5. **Computer numerical controlled ("CNC") products**

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" and also of the Twelfth 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 last year. 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 above-mentioned subsidiary and recorded sales of approximately RMB29,204,000 (30 June 2010: RMB29,481,000).

6. Diesel engine products

Diesel engine products industry

In December 2010, in order to the optimize the application of marine gear transmission equipment, the Group acquired Nantong Diesel Engine Co., Ltd. ("Nantong Diesel Engine") which is located in Nantong city of Jiangsu province that lies in developed Yangtze delta.

Nantong Diesel Engine was formerly known as Nantong Diesel Engine Factory, founded in 1958. The company was reformed as a state-owned stock company upon an approval of Commission of Restructuring Economic Systems in Jiangsu Province in 1993 and then as a privately owned stock company after the withdrawal of state-owned capital stock in 2003. Pursuant to a strategic restructuring, the company was restructured with China High Speed Transmission Equipment Group Co., Ltd. as a subsidiary of the Group in 2010.

Diesel engine products developed by Nantong Diesel Engine include marine diesel engines, generating diesel engines and gas engines.

The company owns proprietary intellectual property rights of its products which have been credited as "Famous Brand Product of China Fishery Vessel & Machine Industry", "State Key New Product", "Key Protective Product in Jiangsu Province" and "Quality Credit Product in Jiangsu Province", and also awarded as "Scientific & Technological Advancement Prize of State Mechanical Industry".

During the period under review, diesel engine products generated sales revenue of approximately RMB141,222,000 for the Group.

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 RMB484,797,000 (30 June 2010: RMB438,472,000), accounting for 15.2 % to total sales (30 June 2010: 14.2%) and representing a slight increase of 1.0% 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 greater 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. As at 30 June 2011, a total of 135 patents are granted by the State, of which 16 patents are newly granted in 2011. In addition, 52 patent applications have been submitted and pending for approval. The Group 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 Centre in Germany.

PROSPECTS

Increasing attention has been drawn to nuclear power security all over the world since the nuclear leakage incidence broke out in Fukushima nuclear power plant in Japan. Replacement of nuclear energy with wind power or other alternative energy resources has become a hot topic over the world. As in Europe, Germany, which is the leader in wind power technology, announces that all domestic nuclear plant will be shut down and replaced by power generating facilities using other new energy resources by 2022. In addition, according to German Renewable Energy Federation, Euro 200 billion will be invested to develop wind and photovoltaic power generation by the end of 2020, most of which will be used for construction of additional power generating units and related equipment.

Wind has become the primary source of power in the United States. According to American Wind Energy Association, the number of wind energy projects under construction will be doubled in 2011 as compared with last year, and there are also signs of another accelerated development of wind energy industry. Besides, wind power industry of emerging countries also grows rapidly. In India, wind power has emerged as the fastest growing renewable energy industry, and according to Ministry of New and Renewable Energy of India, aggregate installed capacity of wind power generation in India has become the world's fifth largest in the first half of this year. Leveraging on its geographic advantage of long coastline, India will exert great effort to develop its offshore wind power generation and capitalize on the growth potential of offshore wind power business.

The PRC government has been committing to the development of a low-carbon economy, and strives to achieve emission reduction objectives for 2020. Renewable energy resources are greatly promoted to reduce the reliance upon fossil energy. According to statistics of the Chinese Renewable Energy Industries Association, in 2010, the newly installed capacity of wind power generation in China reached 16,000 MW, while the cumulative installed capacity reached 41,827 MW, which has surpassed the level of the United States and become the first in the world. Although the domestic wind power market continues to fluctuate recently that competition among manufacturers of wind power generating units increases and there are concerns on the flaw in the low voltage ride through ability of the wind turbine generators, we still believe that such short-term market adjustment is a normal phenomenon to an industry after its rapid development. In the long run, as wind power will continue to be the most important renewable energy in the PRC as well as the world, its future development is promising.

As such, the Group plans to actively enhance its wind power equipment business by closely following the wind power development trends in the PRC and abroad. The 3MW wind gear transmission boxes technology is successfully developed and delivered to customers with smooth operation. The Group will also aim to develop larger wind gear transmission equipment by conducting research and development of 5MW or larger wind gear transmission equipment. In addition, orders for our wind power products from overseas customers have increased significantly as a result of the high quality of our products. The Group will continue to focus on development of overseas markets to expand its income streams.

For other business segments, the Company's operations are benefited from industrial growth. Under the 12th Five Year Plan, "Several Opinions on the Implementation of Favourable Importing Strategy for Locomotives During the 12th Five Year Period" (關於「十二五」期間實施積極的機電產品進口進戰略的若干意見) jointly issued by seven departments including the Ministry of Commerce, the National Development and Reform Commission and the Ministry of Finance encourages technology innovation in emerging industries including clean energy, high-end CNC machine tools, marines and locomotives. The Group will capture the opportunity to proactively expand its locomotives and marine gear transmission equipment businesses. The Group's transmission equipment for locomotives has been well received and highly recognized by domestic and overseas customers and our gear boxes are generally used in Beijing, Shanghai and Nanjing. Our products for export and under progress are sold to countries including Holland, India, Argentina, Chili and Brazil. Currently, our order book for transmission equipment for locomotives from domestic and overseas customers continues to expand.

Our traditional gear transmission equipment business grows fastly and its business scale continues to enlarge along with the rapid development of domestic gear industry. According to the report of the Research In China, as at 2010, the gross revenue of the industry amounted to RMB94.64 billion, representing an increase of 28.1% as compared with last year. The Company will continue to maintain steady and sound development of such business and expand its overseas markets. Currently, our products are mainly exported to developing countries such as India, Vietnam, Brazil and the Middle East.

Business diversification is our long-term goal to maintain rapid development of the Group's business in the future. Therefore, the Group has actively commenced the research and development of its own machinery products for coal mines and high-density heavy machine tool.

Machinery products for coal mine can be classified into "Three Machines and One Support（三機一架）", which are integrated roadheader, continuous miner, scraper conveyor and hydraulic roof supports.

Complicated, high-speed, precise and intelligent technology is the major development trend for the machine tool industry nowadays. This Group will focus on developing high performance CNC machine tool, which is a type of technology-intensive product featuring high speed, precision, high reliability, multi-axes movement, complication and flexibility. We aim to raise competitiveness of the Group both in the PRC and aboard by upgrading product technology.

The Group plans to lead the market through strengthening of product research and development. In addition to developing innovated products, the Group will also develop other technologies both internally and through cooperation with other institutions. It will continue to adjust its product mix to enhance quality of products by developing, researching, upgrading and innovating products so to satisfy market demands.

Looking forward, the Group will explore the potential of all existing business segments and achieve product diversification in order to consolidate its core business, develop new source of growth and maintain balanced product structure. The Group will continue to enhance its competitiveness by actively developing new business, expanding overseas markets and increasing market shares in line with the changes in the market.

FINANCIAL PERFORMANCE

	Revenue Six months ended 30 June	
	2011	2010
	RMB'000	RMB'000
High-speed heavy-load gear transmission equipment	**10,255**	13,165
Gear transmission equipment for construction materials	**262,084**	344,908
General purpose gear transmission equipment	**61,126**	63,268
Gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills	**176,610**	283,603
Wind gear transmission equipment	**2,185,363**	2,196,070
Marine gear transmission equipment	**126,403**	108,961
Transmission equipment for high speed locomotives and urban light rails	**16,966**	14,973
CNC products	**29,204**	29,481
Diesel engine products	**141,222**	N/A
Others	**173,481**	42,400
Total	**3,182,714**	3,096,829

Revenue

The Group's sales revenue during the period under review was approximately RMB3,182,714,000, representing a slight increase of 2.8% as compared with the same period last year, mainly attributable to the diesel engine products segment. During the period under review, diesel engine products generated sales revenue of approximately RMB141,222,000 for the Group. Owing to the reduction of average price of wind gear transmission equipment during the period under review, its sales revenue slightly decreased by 0.5% from approximately RMB2,196,070,000 for the six months ended 30 June 2010 to approximately RMB2,185,363,000 for the six months ended 30 June 2011. Sales revenue of marine gear transmission equipment increased by 16.0% from approximately RMB108,961,000 for the six months ended 30 June 2010 to approximately RMB126,403,000 for the six months ended 30 June 2011, and sales revenue of transmission equipment for high-speed locomotives and urban light rails increased by 13.3% from approximately RMB14,973,000 for the six months ended 30 June 2010 to approximately RMB16,966,000 for the six months ended 30 June 2011.

Gross profit margin and gross profit

The Group's consolidated gross profit margin was approximately 27.0% during the period under review, representing a decrease of 3.4% as compared with the corresponding period last year. The decrease was mainly attributable to the decrease in the average selling price of wind gear products and the adjustment of the selling prices of some traditional products based on the market environment. Consolidated gross profit for the six months ended 30 June 2011 reached approximately RMB860,246,000 (30 June 2010: RMB941,112,000), representing a decrease of 8.6% as compared with the corresponding period last year.

Other income, other gain and loss

The total amount of other income of the Group for the six months ended 30 June 2011 was approximately RMB55,253,000 (30 June 2010: RMB91,894,000), representing a decrease of 39.9% 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 2011, other gain and loss recorded a net loss of approximately RMB88,234,000 (30 June 2010: a net income of RMB46,919,000), which comprised loss on fair value changes of 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 2011 were approximately RMB113,523,000 (30 June 2010: RMB98,366,000), representing an increase of 15.4% over the corresponding period last year. The increase was mainly attributable to increased packaging and promotion expenses. The percentage of distribution and selling costs to sales revenue for the six months ended 30 June 2011 was 3.6% (30 June 2010: 3.2%), representing an increase of 0.4% to sales revenue over the corresponding period last year.

Administrative expenses

Administrative expenses of the Group increased from approximately RMB210,567,000 for the six months ended 30 June 2010 to approximately RMB223,104,000 for the six months ended 30 June 2011, partially due to the increase in number of staff and staff costs, and the increase in amortisation of intangible assets. The percentage of administrative expenses to sales revenue was 7.0%, representing a slight increase of 0.2% as compared with the corresponding period last year.

Other expenses

Other expenses of the Group during the period under review were nil (30 June 2010: RMB32,474,000, among which RMB65,000 was allocated to administrative expenses), which was mainly due to a net gain on foreign exchange recorded during the period under review.

Finance costs

During the period under review, the finance costs of the Group was approximately RMB117,507,000 (30 June 2010: RMB68,399,000), representing an increase of 71.8% as compared with the corresponding period last year, which was mainly due to the increase in bank loans and interest rates of loans.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2011, the equity attributable to owners of the Company amounted approximately to RMB7,202,766,000 (31 December 2010: RMB7,392,730,000). The Group had total assets of approximately RMB16,926,710,000 (31 December 2010: RMB14,931,515,000), representing an increase of approximately RMB1,995,195,000, or 13.4%, as compared with that at the beginning of the year. Total current assets of the Group were approximately RMB9,419,053,000 (31 December 2010: RMB8,142,157,000), representing an increase of 15.7% as compared with that at the beginning of the year and accounting for 55.6% of total assets (31 December 2010: 54.5%). Total non-current assets were approximately RMB7,507,657,000 (31 December 2010: RMB6,789,358,000), representing an increase of approximately 10.6% as compared with that at the beginning of the year and accounting for 44.4% of the total assets (31 December 2010: 45.5%).

As at 30 June 2011, total liabilities of the Group were approximately RMB9,644,472,000 (31 December 2010: RMB7,417,174,000), representing an increase of RMB2,227,298,000 as compared with that at the beginning of the year. Total current liabilities were approximately RMB6,324,617,000 (31 December 2010: RMB5,225,886,000), representing an increase of 21.0% as compared with that at the beginning of the year. Total non-current liabilities were approximately RMB3,319,855,000 (31 December 2010: RMB2,191,288,000), representing an increase of approximately 51.5% as compared with that at the beginning of the year.

As at 30 June 2011, the net current asset of the Group was approximately RMB3,094,436,000 (31 December 2010: RMB2,916,271,000), representing an increase of RMB178,165,000, or 6.1%, as compared with that at the beginning of the year.

As at 30 June 2011, total cash and bank balances of the Group were approximately RMB2,795,067,000 (31 December 2010: RMB3,037,405,000), including pledged bank deposits of RMB1,073,934,000 (31 December 2010: RMB766,839,000) and restricted cash of nil (31 December 2010: RMB146,798,000). The restricted cash as at 31 December 2010 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 2011, the Group had total bank loans of approximately RMB6,258,725,000 (31 December 2010: RMB3,251,701,000), of which short-term bank loans were RMB3,102,387,000 (31 December 2010: RMB1,208,651,000), accounting for approximately 49.6% (31 December 2010: 37.2%) 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 for the first half of 2011 ranges from 2.31% to 7.20% (31 December 2010: 3.51% to 7.97%).

Taking into account of the internal financial resources of and the banking facilities available to the Group, and net proceeds of approximately HK$2,223,000,000 raised by the allotment of 130,000,000 top-up placing shares in September 2010, 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 49.7% as at 31 December 2010 to 57.0% as at 30 June 2011.

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).

On 16 May 2011, the Company redeemed an outstanding principal amount of RMB1,147,000,000, being all the outstanding principal amount of the Bonds, for US$192,935,793, being an amount equal to the US Dollar equivalent of the principal amount of the Bonds in RMB multiplied by 109.3443%. Upon redemption, the bonds were cancelled forthwith.

The Company's source of funding for redemption includes its internal fund and substantial part of the proceeds raised from a syndicated loan in the second quarter of 2011. The syndicated loan comprises a term loan facility of US$16,500,000 (which bears an interest rate equivalent to LIBOR plus 2.05%) and HK$1,050,000,000 (which bears an interest rate equivalent to HIBOR plus 2.05%). The terms of both tranches are three years.

As at 30 June 2011, loss on fair value changes of such convertible bonds was approximately RMB34,246,000 (30 June 2010: gain of RMB72,363,000).

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).

On 6 November 2009, the Company and the Equity Swap Counterparty entered into the Amended and Restated Equity Swap, pursuant to which, among other things, the Company was granted an option to require the Equity Swap Counterparty to settle a termination of the remaining equity swap, in whole or in part, by way of the Share Delivery Option as an alternative to cash settlement.

On 11 May 2011 the Company gave notice to the Equity Swap Counterparty of its election of the physical delivery of the Company's shares as the settlement method in respect of the scheduled termination of the remaining equity swap in whole under the equity swap transaction, as amended. In accordance with the terms of settlement, the Equity Swap Counterparty delivered to the Company 12,612,707 shares, whereupon the Equity Swap Counterparty's obligation to repay the remaining proportional amount of the initial exchange amount (in the amount of HK$172,520,390.16) to the Company would be extinguished. The termination date under the equity swap transaction, as amended, was 14 May 2011, and the settlement took place on 16 May 2011. Such physical settlement constituted an off market share repurchase of 12,612,707 shares by the Company at a price equivalent to the initial price of HK$13.6783 per share (excluding costs) for a total price of HK$172,520,390.16. The repurchased shares were cancelled on 27 May 2011.

During the six months ended 30 June 2011, loss on the Equity Swap was approximately RMB53,988,000 (30 June 2010: RMB25,444,000).

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.

PLEDGE OF ASSETS

Save as disclosed in note 16 to the financial statements, the Group has made no further pledge of assets as at 30 June 2011.

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 2011, the balance of the Hong Kong dollar net proceeds which the Company received from the global offerings on 4 July 2007 and the net proceeds of approximately US$280,000,000 derived from the issue of convertible bonds on 14 May 2008, the amount recovered from the early termination of the equity swap contract of approximately HK$883,505,000 and the net proceeds of approximately HK$2,223,000,000 from the 130,000,000 top-up placing shares on 21 September 2010 were mostly converted into Renminbi. In addition, for bank borrowings that may expose to foreign exchange rate risks, would be the Group's bank borrowing denominated in U.S. dollars as at 30 June 2011 amounting to approximately US$16,500,000. The Group may thus be exposed to foreign exchange risks.

The net gains from foreign exchange recorded by the Group for the period under review were approximately RMB4,453,000 (30 June 2010: net losses of RMB32,409,000), 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 2011.

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 2011, the Group employed approximately 7,122 employees (30 June 2010: 5,092). Staff costs of the Group for the first half of 2011 were approximately RMB350,432,000 (30 June 2010: RMB200,282,000). 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 recognises the importance of corporate governance practices to the success of a listed company. The Company is committed to achieving a high standard of corporate governance in the interest of the shareholders of the Company.

For the six months ended 30 June 2011, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") except for the deviation from Code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiries of all directors by the Company, all directors have confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2011.

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

Save for the physical settlement of the equity swap on 16 May 2011 (which constituted the off market share repurchase of 12,612,707 shares by the Company at a price equivalent to the initial price of HK$13.6783 per share (excluding costs) for a total price of HK$172,520,390.16) as disclosed in the paragraph "Capital Structure - Equity Swap", 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 2011.

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

Hong Kong, 31 August 2011

As at the date of this announcement, the executive directors of the Company 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*