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 2012

PERFORMANCE HIGHLIGHTS

Revenue for the first half of 2012 was approximately RMB3,292,674,000, representing an increase of approximately 3.5% over the corresponding period of 2011.

Reported profit attributable to the owners of the Company for the first half of 2012 was RMB96,162,000 (30 June 2011: RMB286,516,000), representing a decrease of approximately 66.4% as compared with the corresponding period of 2011. If the effect of the fair value change of convertible bonds and equity swap had been excluded for the first half of 2011, the adjusted profit attributable to the owners of the Company for the first half of 2011 would have been approximately RMB374,750,000, and the profit in the first half of 2012 would represent a decrease of approximately 74.3% as compared with the corresponding period of 2011.

Basic and diluted earnings per share for the first half of 2012 were RMB0.071 and RMB0.071 respectively.

The Board did not recommend payment of an interim dividend for the six months ended 30 June 2012.

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 2012, 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 2012

	NOTES	**Six months ended 30 June** **2012** ***RMB'000*** **(Unaudited)**	2011 *RMB'000* (Unaudited)
Revenue	4	**3,292,674**	3,182,714
Cost of sales		**(2,435,307)**	(2,341,521)
Gross profit		**857,367**	841,193
Other income		**76,840**	50,800
Other gains and losses	5	**(7,600)**	(83,781)
Distribution and selling costs		**(132,497)**	(94,470)
Administrative expenses		**(267,721)**	(221,862)
Research and development costs		**(50,034)**	(36,468)
Other expenses	7	**(40,438)**	(1,242)
Finance costs		**(256,654)**	(117,507)
Share of results of associates		**(6,747)**	2,923
Share of results of jointly controlled entities		**(6,525)**	18,966
Profit before taxation		**165,991**	358,552
Taxation	6	**(82,517)**	(74,164)
Profit for the period	7	**83,474**	284,388
Other comprehensive income (expense) for the period			
Exchange difference arising on translation		**(313)**	352
Fair value gain (loss) on:			
available-for-sale financial assets		**(65,783)**	—
hedging instruments designated in cash flow hedges		**1,246**	—
Other comprehensive income (expense) for the period		**(64,850)**	352
Total comprehensive income for the period		**18,624**	284,740

	NOTES	Six months ended 30 June 2012 RMB'000 (Unaudited)	Six months ended 30 June 2011 RMB'000 (Unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		96,162	286,516
Non-controlling interests		(12,688)	(2,128)
		83,474	284,388
Total comprehensive income (expense) attributable to:			
Owners of the Company		31,312	286,868
Non-controlling interests		(12,688)	(2,128)
		18,624	284,740
EARNINGS PER SHARE	9		
Basic (RMB)		0.071	0.209
Diluted (RMB)		0.071	0.208

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2012

	NOTES	**30 June 2012** *RMB'000* **(Unaudited)**	31 December 2011 *RMB'000* (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment		**5,774,310**	5,588,890
Prepaid lease payments		**860,621**	609,362
Goodwill		**17,715**	17,715
Intangible assets		**311,473**	271,303
Interests in associates		**188,319**	186,066
Interests in jointly controlled entities		**645,759**	652,284
Available-for-sale investments		**298,576**	362,945
Deposit for land lease		**370,006**	400,000
Prepayment for acquisition of property, plant and equipment		**80,862**	31,373
Deferred tax assets		**28,118**	27,933
Derivative financial instruments	14	**1,363**	—
		8,577,122	8,147,871
CURRENT ASSETS			
Inventories		**1,768,875**	1,799,018
Prepaid lease payments		**18,587**	13,321
Trade and other receivables	10	**4,542,571**	4,937,637
Amounts due from associates		**99,665**	30,431
Amounts due from jointly controlled entities		**62,004**	26,744
Pledged bank deposits		**2,758,501**	1,252,922
Tax asset		**15,457**	18,448
Bank balances and cash		**2,291,124**	2,174,592
		11,556,784	10,253,113

	NOTES	30 June 2012 RMB'000 (Unaudited)	31 December 2011 RMB'000 (Audited)
CURRENT LIABILITIES			
Trade and other payables	11	2,923,375	2,825,862
Amounts due to associates		755	397
Amount due to a jointly controlled entity		953	11,686
Tax liabilities		61,046	87,361
Borrowings - due within one year	12	7,301,251	4,991,382
Warranty provision		85,852	81,261
		10,373,232	7,997,949
NET CURRENT ASSETS		1,183,552	2,255,164
TOTAL ASSETS LESS CURRENT LIABILITIES		9,760,674	10,403,035
NON-CURRENT LIABILITIES			
Borrowings - due after one year	12	1,836,098	2,627,075
Deferred tax liabilities		68,765	63,066
Deferred income		154,752	90,859
		2,059,615	2,781,000
		7,701,059	7,622,035
CAPITAL AND RESERVES			
Share capital		102,543	102,543
Reserves		7,395,699	7,370,038
Equity attributable to owners of the Company		7,498,242	7,472,581
Non-controlling interests		202,817	149,454
		7,701,059	7,622,035

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.

Except for new transactions that occurred during the current period as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2011.

Hedge accounting

The Group designates certain derivatives (primarily interest rate swap) as hedges of the cash flow of variable-rate bank borrowings (cash flow hedges).

At the inception of the hedging relationship the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income and accumulated in hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss as other gains or losses.

Amounts previously recognised in other comprehensive income and accumulated in equity (hedging reserve) are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the consolidated statement of comprehensive income as the recognised hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss recognised in other comprehensive income and accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

In the current interim period, the Group has also applied, for the first time, certain amendments to International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") that are mandatorily effective for the current interim period.

The application of these amendments to 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.

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 major operation is the manufacture and sale of gear products.

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

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

The segment of USA is added in this period as it becomes significant to the Group and the Group plans to develop the USA market. The comparative segment information for the six months ended 30 June 2011 has been restated to display those segment information of the USA in order to conform with the current period's segment presentation.

Segment revenue and results

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
		(Restated)
Segment revenue		
- PRC	**2,374,072**	2,697,917
- USA	**876,238**	396,370
- Europe	**31,738**	76,467
- Others	**10,626**	11,960
	3,292,674	3,182,714
Segment profit		
- PRC	**561,676**	664,772
- USA	**207,307**	97,300
- Europe	**7,509**	12,317
- Others	**2,514**	2,936
	779,006	777,325
Other income, gains and losses	**15,104**	(63,583)
Finance costs	**(256,654)**	(117,507)
Share of results of associates	**(6,747)**	2,923
Share of results of jointly controlled entities	**(6,525)**	18,966
Unallocated expenses	**(358,193)**	(259,572)
Profit before taxation	**165,991**	358,552

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

5. OTHER GAINS AND LOSSES

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Loss on derivative financial instruments - equity swap (note 14)	**—**	(53,988)
Loss on fair value changes on convertible bonds (note 13)	**—**	(34,246)
Gain on fair value change of derivative financial instruments - interest rate swap	**117**	—
Net exchange (losses) gains	**(7,717)**	4,453
	(7,600)	(83,781)

6. TAXATION

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current tax		
- PRC Enterprise Income Tax	**69,743**	81,153
- USA Corporate Income Tax	**258**	—
	70,001	81,153
Under (over) provision in prior years		
- PRC Enterprise Income Tax	**7,071**	(5,174)
- USA Corporate Income Tax	**(69)**	—
	7,002	(5,174)
Deferred tax (credit) charge	**5,514**	(1,815)
	82,517	74,164

No provision for Hong Kong Profits Tax and Singapore income tax has been made as the Group has no assessable profit arising in Hong Kong and Singapore, respectively.

Provision of the USA Federal and State Corporate Income Tax rates are made at the rates of 34% and 8.84% respectively for NGC Transmission Equipment (America) Inc., which is a 100% owned subsidiary incorporated in the USA.

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% (2011: 25%).

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

Name of company	**Year end during which approval was obtained**	**Year ending during which approval will expire**
Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed")	31 December 2011	31 December 2013
Nanjing High Accurate Marine Equipment Co., Ltd. ("Nanjing Marine")	31 December 2011	31 December 2013
Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate")	31 December 2011	31 December 2013
Nanjing Gaote Gear Box Manufacturing Co., Ltd. ("Nanjing Gaote")[(1)]	31 December 2009	31 December 2011
Nanjing Sky Electronic Enterprise Co., Ltd. ("Sky Electronic")[(1)]	31 December 2009	31 December 2011
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd. ("Shougao")[(1)]	31 December 2009	31 December 2011
Zhenjiang Tongzhou Propeller Co., Ltd. ("Tongzhou")	31 December 2010	31 December 2012

Note:

(1) On 31 December 2011, the approval of Nanjing Gaote, Sky Electronics and Shougao expired. As at the report date, Nanjing Gaote, Sky Electronics and Shougao are in the process of applying to qualify as the high technology development enterprises and the renewal and extension to enjoy the preferential tax rate at 15%. These subsidiaries applied the rate of 25% for the calculation of Enterprise Income Tax for the six months ended 30 June 2012 (2011: 15%).

At 30 June 2012, the Group has unused tax losses of RMB242,189,000 (31 December 2011: RMB100,632,000) available for offset against future profits. No deferred tax asset has been recognised in respect of such losses due to the unpredictability of future profit streams. The unused tax losses can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits.

At 30 June 2012, no deferred tax asset has been recognised in respect of the fair value change of available-for-sale investment held by the Company, due to the fact that the fair value change is not taxable under Hong Kong Profits Tax.

There is no other 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	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Allowance for inventories (included in cost of sales)	**6,121**	1,846
Amortisation of intangible assets	**32,102**	26,900
Bank interest income	**(15,283)**	(11,563)
Depreciation of property, plant and equipment	**261,248**	199,435
Exchange losses (gains)	**7,717**	(4,453)
Gain on disposal of property, plant and equipment	**(626)**	(835)
Impairment loss on trade receivables (included in other expenses) *(Note)*	**40,438**	1,242
Release of prepaid lease payments	**7,421**	5,614

Note: During the six-month ended 30 June 2012, the Group provided RMB40,438,000 (six-month period ended 30 June 2011: RMB1,242,000) of impairment loss on trade receivables. The impairment provided in current period are mainly from certain wind gear customers, as they have been in financial difficulties since 2011and there had been delayed in payments. The Group assesses that a portion of the receivables is expected to be uncollectible and impairment has been made accordingly.

8. DIVIDENDS

The directors do not recommend payment of an interim dividend for the six-month period ended 30 June 2012 (six-month period ended 30 June 2011: nil).

During the six-month period ended 30 June 2011, a final dividend of HK33 cents, equivalent to RMB28 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.

9. EARNINGS PER SHARE

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

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Earnings		
Earnings for the purposes of basic earnings and diluted earnings per share (Profit for the period attributable to owners of the Company)	**96,162**	286,516

	2012	2011
	'000	*'000*
	(Unaudited)	(Unaudited)
Number of shares		
Number of ordinary shares in issue (2011: Weighted average number of ordinary shares) for the purpose of basic earnings per share	**1,362,743**	1,371,982
Effect of dilutive potential ordinary shares:		
Share options	**—**	6,024
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,362,743**	1,378,006

The calculation of diluted earnings per share for the six months ended 30 June 2012 does not assume the conversion of any share option as their exercise price is above the average market price of the Company's shares during the period.

The calculation of diluted earnings per share for the six months ended 30 June 2011 excludes the effect arising from convertible bonds which will result an increase in earnings per share.

10. TRADE AND OTHER RECEIVABLES

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
Accounts receivable (note)	**3,358,111**	3,086,721
Bills receivable discounted to banks	**604,000**	841,377
Notes receivable	**282,958**	783,643
Less: allowance for doubtful debts	**(221,993)**	(181,555)
Total trade receivables	**4,023,076**	4,530,186
Advances to suppliers	**384,001**	295,953
Value-added tax recoverable	**73,420**	45,990
Other receivables	**62,074**	65,508
Total trade and other receivables	**4,542,571**	4,937,637

Note: At 30 June 2012, included in the accounts receivable is RMB174,733,000 (31 December 2011: RMB439,187,000), which represents accounts receivable with letters of credit issued by the customers' banks.

The Group generally allows a credit period of 180 days to its trade customers, with 10% of retention money to be collected in 1 to 3 years for some of its customers. The following is an aged analysis of the trade receivables based on invoice date, net of allowance for doubtful debts, at the reporting date:

	30 June 2012	31 December 2011
	RMB'000	*RMB'000*
	(Unaudited)	(Audited)
0 - 90 days	**2,527,700**	2,666,835
91 - 120 days	**210,399**	421,471
121 - 180 days	**287,099**	823,531
181 - 365 days	**695,487**	548,521
1 - 2 years	**287,210**	55,349
Over 2 years	**15,181**	14,479
	4,023,076	4,530,186

11. TRADE AND OTHER PAYABLES

	30 June 2012 *RMB'000* **(Unaudited)**	31 December 2011 *RMB'000* (Audited)
Accounts payable	**1,062,634**	1,173,395
Notes payable (note)	**880,917**	569,359
Total trade payables	**1,943,551**	1,742,754
Advances from customers	**505,383**	536,626
Purchase of property, plant and equipment	**244,792**	253,052
Payroll and welfare payables	**91,515**	175,539
Accrued expenses	**53,401**	48,184
Value-added tax payable	**28,950**	17,144
Deferred income	**6,104**	6,104
Other payables	**49,679**	46,459
Total trade and other payables	**2,923,375**	2,825,862

Note: Notes payable are secured by certain of the Group's own assets as set out in note 17.

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 2012 *RMB'000* **(Unaudited)**	31 December 2011 *RMB'000* (Audited)
0 - 30 days	**481,314**	625,363
31- 60 days	**638,135**	327,969
61 - 180 days	**718,967**	707,914
181 - 365 days	**60,664**	40,981
Over 365 days	**44,471**	40,527
	1,943,551	1,742,754

12. BORROWINGS

During the period, the Group obtained new borrowings in the amount of approximately RMB4,699,715,000 (six months ended 30 June 2011: RMB4,925,968,000). The borrowings bear fixed or floating interest at interest rates ranging from 2.80% to 9.40% per annum and are repayable within 1 to 5 years. The Group also repaid borrowings of approximately RMB 3,180,823,000 (six months ended 30 June 2011: RMB1,943,944,000) during the period.

At 30 June 2012, included in the borrowings is bills discounted with recourse amounting to RMB604,000,000 (31 December 2011: RMB841,377,000).

Borrowings are secured by certain of the Group's own assets as set out in note 17.

13. CONVERTIBLE BONDS

On 14 May 2008, the Company issued RMB denominated USD settled zero coupon convertible bonds (the "2008 Convertible Bonds") with an aggregate principal amount of RMB1,996.3 million. The 2008 Convertible Bonds are convertible at the option of bond holders into fully paid shares with a par value of USD0.01 each of the Company at a conversion price of HKD17.78 per share, which was subsequently adjusted to HKD17.2886 as a result of the payment of final dividend for 2007 and 2008 and further adjusted to HKD16.9817 as a result of payment of final dividend for 2009 as required according to the conditions of the 2008 Convertible Bonds with a fixed exchange rate of HKD1.00 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 2008 Convertible Bonds have not been converted, they will be redeemed in 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 of the 2008 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 2008 Convertible Bonds have been redeemed, purchased, converted or cancelled. Due to the existence of a cash settlement option in the event of conversion, whereby the Company can settle in cash in lieu of delivery of the relevant shares by paying cash to the bondholders, the 2008 Convertible Bonds are regarded as financial liabilities with embedded derivatives for the conversion and redemption options and the entire 2008 Convertible Bonds were designated as financial liabilities at fair value through profit or loss ("FVTPL").

The movement of the 2008 Convertible Bonds for the six months ended 30 June 2011 is set out below:

	RMB'000
As at 1 January 2011 (audited)	1,219,933
Loss on fair value changes on convertible bonds	34,246
Redemption of convertible bonds at maturity	(1,254,179)
As at 30 June 2011 (unaudited)	—

In prior years, the Group converted or repurchased 2008 Convertible Bonds with an aggregate principal amount of RMB849,300,000 and as at 1 January 2011, the principal amount payable at maturity was RMB1,147,000,000. On 16 May 2011, the Company redeemed the entire outstanding principal amount of RMB1,147,000,000 of the 2008 Convertible Bonds, for a consideration of approximately USD192,936,000 (equivalent to approximately RMB1,254,179,000), 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 in the six months ended 30 June 2011.

14. DERIVATIVE FINANCIAL INSTRUMENTS

		30 June 2012	31 December 2011
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
Equity swap	(1)	**—**	—
Cash flow hedge - interest rate swaps	(2)	**1,363**	—
		1,363	—

(1) **Equity swap**

Concurrent with the issuance of the 2008 Convertible Bonds as disclosed in note 13, the Company entered into a net cash settled equity swap transaction (the "Original Equity Swap") with Morgan Stanley & Co. International plc (the "Equity Swap Counterparty"). The Original Equity Swap would only be settled in cash at Maturity (as defined below). According to the Original Equity Swap, the Company is required to deposit an amount of approximately HKD1,113 million (equivalent to approximately RMB982 million) as restricted cash with the Equity Swap Counterparty which is unsecured and carried no interest. Such deposit is refundable to the Group at Maturity (defined below), and is calculated as the notional underlying shares of 81,370,707 multiplied by the initial price of HKD13.6783 (equivalent to approximately RMB12.27) (the "Initial Price").

According to the Original Equity Swap agreement, the Original Equity Swap would be matured on 14 May 2011 (the "Maturity"), at which time (i) the Company would receive a payment from the Equity Swap Counterparty if the final price of the Company's share was higher than the Initial Price or, (ii) the Company would make payment to the Equity Swap Counterparty if the final price was lower than the Initial Price (the "Net Settlement Arrangement"). The final price would be determined with reference to the volume weighted average price of the Company's share on the date of settlement.

According to amendment confirmations entered into between the Company and the Equity Swap Counterparty on 28 October 2008 and 4 May 2009, respectively, optional early termination rights of 68,758,000 shares out of the total 81,370,707 shares, exercised at HKD12.8495, were granted and exercisable at the option of the Company. The Company exercised the early termination rights in 2009 and the number of notional underlying shares and the deposit required was reduced to 12,612,707 shares and approximately HKD172 million respectively (equivalent to approximately RMB151 million) (the "Reduced Deposit").

On 6 November 2009, the Group entered into another amendment with the Equity Swap Counterparty (the "November 2009 Equity Swap") whereas a share delivery option (the "Share Delivery Option") was added to allow the Company to receive the number of equity shares specified in the November 2009 Equity Swap in lien of getting the refund of Reduced Deposit at Maturity. If the Company exercises such option, the Net Settlement Arrangement would be terminated and the obligation for the Equity Swap Counterparty to repay the Reduced Deposit would be terminated. The maturity date remains the same as the Original Equity Swap.

Upon the maturity of the November 2009 Equity Swap, on 16 May 2011, being the first business day after the maturity date, the Company elected to exercise the Share Delivery Option and the Equity Swap Counterparty delivered to the Company the 12,612,707 shares of the Company and the Equity Swap Counterparty's obligation to repay the Reduced Deposit (i.e. HKD172 million or approximately RMB144 million) to the Company was extinguished.

A loss of RMB53,988,000 in respect of the maturity of the November 2009 Equity Swap was recognised under other gains and losses in the profit or loss in the six months ended 30 June 2011, which represented the loss on extinguishment of the November 2009 Equity Swap and the difference between the market price of 12,612,707 shares at the maturity date and the Reduced Deposit.

(2) **Cash flow hedge- interest rate swaps**

Since 2012, the Group uses interest rate swaps as hedging instruments in order to manage its exposure to interest rate movements on its bank borrowings by swapping a proportion of these borrowings from floating rates to fixed rates. The interest rate swaps and the corresponding bank borrowings have the similar terms and the directors of the Company considered that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps at 30 June 2012 are set out below:

Notional amount	**Maturity**	**Swaps**
HKD315,000,000	18 April 2014	From HIBOR+2.05% to 2.80%
HKD735,000,000	18 April 2014	From HIBOR+2.05% to 2.87%
USD4,950,000	18 April 2014	From LIBOR+2.05% to 2.80%
USD11,550,000	18 April 2014	From LIBOR+2.05% to 2.93%

The ineffective portion of the change in fair value of the derivative financial instruments, amounting to a gain of RMB117,000, is recognised under other gains and losses in profit or loss for the six months ended 30 June 2012. The effective portion of the change in fair value of the derivative financial instruments, amounting to a gain of RMB1,246,000, is recognised in other comprehensive income for the six months ended 30 June 2012 and is expected to be released to the consolidated statement of comprehensive income upon the payment of interest expense in accordance with the terms as stipulated in the bank borrowing agreements.

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

	Six months ended 30 June			
	2012		2011	
	RMB'000		*RMB'000*	
	(Unaudited)		(Unaudited)	
	Interest rate swap	**Equity swap**	Interest rate swap	Equity swap
Derivative financial instruments at 1 January	**—**	—	—	18,392
Gain for the period recognised in other comperhensive income	**1,246**	—	—	—
Gain (loss) for the period recognised in profit or loss	**117**	—	—	(53,988)
Settlement of the November 2009 Equity Swap on maturity	**—**	—	—	35,596
At 30 June	**1,363**	—	—	—

15. NON-CASH TRANSACTIONS

As detailed in note 14, during the six months ended 30 June 2011 and upon the maturity of the November 2009 Equity Swap, on 16 May 2011, being the first business day after the maturity date, the Company elected to exercise the Share Delivery Option and the Equity Swap Counterparty delivered to the Company the 12,612,707 shares of the Company and the Equity Swap Counterparty's obligation to repay the Reduced Deposit (i.e. HKD172 million or approximately RMB144 million) to the Company was extinguished.

16. CAPITAL COMMITMENTS

	30 June 2012 *RMB'000* (Unaudited)	31 December 2011 *RMB'000* (Audited)
Commitments contracted for but not provided in the condensed consolidated financial statements in respect of:		
- land leases	**83,400**	309,400
- property, plant and equipment	**544,819**	561,004
	628,219	870,404

17. 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 2012 *RMB'000* (Unaudited)	31 December 2011 *RMB'000* (Audited)
Bank deposits	**2,758,501**	1,252,922
Accounts receivable	**987,348**	—
Bills receivable	**604,000**	841,377
Property, plant and equipment	**46,017**	81,194
Notes receivable	**30,643**	394,384
Prepaid lease payments	**10,221**	10,327
	4,436,730	2,580,204

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 2012	2011
			RMB'000	*RMB'000*
			(Unaudited)	(Unaudited)
Nanjing Longwin Windpower Equipment Manufacturing Co., Ltd.	Associate	Purchase of goods	20,125	60,279
Nanjing High Accurate Construction Equipment Co., Ltd.	Jointly controlled entity	Sales of goods	65,724	22,512
Shandong Energy Machinery Group Zhong-Chuan Heavy Duty Mine Equipment Manufacturing Co., Ltd.	Jointly controlled entity	Sales of goods	7,322	—
Jiangsu Hongsheng Heavy Industries Group Co., Ltd.	Jointly controlled entity	Sales of scraps	—	48,608
		Purchase of goods	15,437	19,796

(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, except for the advance made to Nanjing E-crystal Energy Co., Ltd. amounting to RMB67,843,000 (31 December 2011: RMB16,588,000). The trade amounts are aged within 120 days and the non-trade amounts are aged within 181 to 365 days. All the amounts are unsecured, interest-free and repayable within 180 days.

(III) **Compensation of key management personnel**

	Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Fees	**180**	180
Salaries and other emoluments	**7,350**	7,350
	7,530	7,530

(IV) **Other transaction**

During the six months ended 30 June 2011, the Group invested in 49.58% of 南通富來威農業裝備有限公司 Nantong FLW Agricultural Equipment Co. Ltd., which is an associate of the Group and is owned as to 20.04% by 南京聯欣創業投資有限公司Nanjing Lianxin Venture Capital Co., Ltd. ("Lianxin"). Lianxin is a company established in the PRC and is controlled by certain individual shareholders of the Company.

19. COMPARATIVE INFORMATION

In the current period, amounts included in certain line items in the condensed consolidated statement of comprehensive income for the six-month period ended 30 June 2011 have been reclassified in order to confirm with the current period's presentation. Details of the reclassifications are as follows:

	Six months ended 30 June 2011		
	Amounts originally stated	**Reclassifications**	**Amounts restated**
	RMB'000	*RMB'000*	*RMB'000*
Cost of sales	(2,322,468)	(19,053)(i)	(2,341,521)
Other income	55,253	(4,453)(ii)	50,800
Other gains and losses	(88,234)	4,453(ii)	(83,781)
Administrative expenses	(223,104)	1,242(iii)	(221,862)
Distribution and selling costs	(113,523)	19,053(i)	(94,470)
Other expenses	—	(1,242)(iii)	(1,242)

Notes:

(i) Warranty expense of RMB19,053,000 previously included under distribution and selling costs now were reclassified to cost of sales.

(ii) Net foreign exchange gain of RMB4,453,000 previously included under other income now were reclassified to other gains and losses.

(iii) Impairment loss on trade receivables of RMB1,242,000 previously included under administrative expenses now were reclassified to other expenses.

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 RMB3,292,674,000 (30 June 2011: RMB3,182,714,000), representing an increase of 3.5% over the corresponding period of 2011. The gross profit margin recorded for the period was approximately 26.0%. Profit attributable to owners of the Company was approximately RMB96,162,000, representing a significant decrease of 66.4% as compared with the corresponding period of 2011. If the effect of the fair value change of convertible bonds and equity swap in the first half of 2011 had been excluded, the adjusted profit attributable to owners of the Company for the first half of 2011 would have been approximately RMB374,750,000 and the profit in the first half of 2012 would represent a decrease of approximately 74.3% as compared with the corresponding period of 2011. Basic and diluted earnings per share attributable to the owners of the Company amounted to RMB0.071 and RMB0.071 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. During the period under review, sales revenue of wind gear transmission equipment business increased slightly by approximately 2.4% as compared with the corresponding period last year to approximately RMB2,238,335,000 (30 June 2011: RMB2,185,363,000). The increase was attributable to the growth of oversea sales and the increase in market shares in China.

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 recognised 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 68 units of 3MW wind gear transmission equipment to its customers. In addition, the Group entered into contracts with some major domestic wind turbine manufacturers for the research and development of 5MW wind power gearbox.

Currently, the Group maintains a strong customer base. 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, etc. With the Group's enhanced global operation, major overseas wind power equipment manufacturers such as ALSTOM Wind and SUZLON have also become the Group's overseas customers.

2. **Marine gear transmission equipment**

Actively expanding the domestic market

Marine gear transmission equipment is one of the Company's products in recent years. The Company is a leading enterprise in Asia specialised in research and development, manufacture and services of marine equipment. Its major products are marine propeller and transmission equipment sets including controllable pitch propellers (maximum diameter of 6.8m), fixed pitch propeller (maximum diameter of 11m), azimuth thruster, tunnel thruster, standard marine gear box and non-standard marine gear box, hydraulic coupling, spiral bevel gears and stern tube of various models. The technologies and performance of its products are up to the international advanced level. Various products have made their debuts in the domestic market. Based on its product concept of "all-in-one", the Company provides a full range of product series, including gear box, propeller, coupling, electric control system and hydraulic system. During the period under review, the Company participated in the China International Marine Industry Exposition held in Nanjing International Exposition Center (南京國際博覽中心), which further strengthened the Company's experience in marine cooperation and exchange with international enterprises. As such, the Company was able to establish a solid foundation for the expansion of its products into the international high-end marine market. In the face of the current global financial crisis, the Company is actively expanding its coverage in the domestic market by diversifying the product portfolio of its marine transmission equipment.

During the period under review, as the global economy has not yet fully recovered, turnover of marine gear transmission equipment was approximately RMB87,047,000 (30 June 2011: RMB126,403,000), representing a decrease of 31.1% as compared with the corresponding period last year.

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

Achievements in research and development 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. Its products have been installed in the metros of cities such as Beijing, Shanghai, Nanjing and Shenzhen during the period under review. Characterised by their high performance, compact structure, low noise pollution and easy maintenance, the rail transportation products of the Group are well-received and highly recognised by its peers. As such, there was a significant increase in domestic and international 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 RMB52,968,000 for the Group (30 June 2011: RMB16,966,000), representing an increase of approximately 212.2% over the corresponding period last year.

4. **Traditional transmission products**

Maintain its position as a major supplier of traditional transmission product in the market

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 bar-rolling, wire-rolling and plate-rolling mills and other products increased by 63.2% and 11.8% to RMB288,261,000 (30 June 2011: RMB176,610,000) and RMB194,035,000 (30 June 2011: RMB173,481,000), respectively. Sales revenue of high speed heavy load gear transmission equipment, general purpose gear transmission equipment and gear transmission equipment for construction materials amounted to RMB3,121,000 (30 June 2011: RMB10,255,000), RMB52,572,000 (30 June 2011: RMB61,126,000) and RMB243,048,000 (30 June 2011: RMB262,084,000), representing decreases of 69.6%, 14.0% and 7.3%, respectively.

Due to the worsening global economy and the PRC government's monetary tightening policies for curbing its overheating economy, the Group reduced prices of certain traditional products accordingly. By leveraging its research and development technologies, the Group focused on the development of energy-saving and environmentally-friendly products. New products were also launched to facilitate the development strategies. As a result, the Group remained as one of the major suppliers of traditional transmission products in the market.

During the period under review, the successful trial run of installed metallurgy product series and construction material product series of the Group in Sweden and Turkey respectively speeded up the Group's overseas market expansion.

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

CNC machine tool 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 opportunities of the developing market of CNC machine tools, the Group has manufactured its own CNC system and CNC machine tool products through acquisition and research and development. The Group possessed the proprietary intellectual property rights of its self-developed CNC system and machine tools and its products include vertical machining centre and five-axis CNC milling machine such as high speed CNC engraving and milling machine. Its high-end machine tools technology was further strengthened by capitalising on the technology platform of the Group.

During the period under review, the Group provided CNC machine tool products to customers through various subsidiaries and recorded sales revenue of approximately RMB42,845,000 (30 June 2011: RMB29,204,000), representing an increase of 46.7% over the corresponding period last year.

6. **Diesel engine products industry**

In order to the optimise 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 strategic restructuring, the company was restructured with China High Speed Transmission Equipment Group Co., Ltd. as a subsidiary of the Group in 2010.

The products of Nantong Diesel Engine cover a wide range of models, including marine diesel engines, diesel engines for power generation and gas engines.

Nantong Diesel Engine 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 RMB90,442,000 (30 June 2011: 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. During the period under review, the overseas sales amounted to approximately RMB918,602,000 (30 June 2011: RMB484,797,000), accounting for 27.9% to total sales (30 June 2011: 15.2%) and representing an increase of 12.7% to total sales over the previous year. At present, the overseas customer base of the Company extends to the U.S., India, Japan and Europe. As the economies in Europe and the U.S. were yet to be fully recovered during the period under review, the Group introduced different types of products in order to extend its coverage in the overseas market.

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 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. For the six months ended 30 June 2012, a total of 167 patents were granted by the State, of which 48 patents were newly granted in the first half of 2012. In addition, 45 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 strictly complied with international standards and the requirements of various classification societies in designing and manufacturing marine products. Its products have passed the inspection of and obtained certifications from classification societies such as China Classification Society (CCS), Bureau Veritas (BV) in France, Germanischer Lloyd (GL) in Germany, American Bureau of Shipping (ABS) in the United States, Lloyd's Register of Shipping (LR) in the UK, Registro Italiano Navale (RINA) in Italy, Det Norske Veritas (DNV) in Norway and Russian Maritime Register of Shipping (RMRS) in Russia. The wind power products manufactured by Nanjing High Speed Gear Manufacturing Co., Ltd., a subsidiary of the Company, have obtained certifications from China Classification Society (CCS), China General Certification Center (CGC), Technischer Uberwachungs-Verein (TUV), Germanischer Lloyd (GL) and DEWI-OCC Offshore and Certification Centre in Germany.

PROSPECTS

In the first half of 2012, the global economy was affected by the eurozone debt crisis. Investors were worried about the global economic outlook and resulted in uncertainties in the global economy including the stock market during the period. In addition, in light of the mixed economic data of some fast-growing emerging markets, investors came to worry that the global economic growth may slow down as the impacts of the dampened eurozone economy are beginning to spread all over the world. Moreover, the Chinese government also lowered its economic growth forecasts, which raised concerns from different sectors over the economic growth momentum in the future.

In 2011, the wind power industry experienced many challenges. After a year of adjustments and control, China's wind power industry, though not yet fully recovered, was on a healthy development track in the first half of 2012. According to the "Special Development Plan for Wind Power Technology during the Period of the 'Twelfth Five-Year Plan'" issued by the Ministry of Science and Technology of China in April 2012, China plans to increase wind power installed capacity by over 70 million kilowatts during the period of the "Twelfth Five-Year Plan". Taking into account the aggregate wind power installed capacity of 44.73 million kilowatts and 62.36 million kilowatts as at the end of 2010 and 2011 respectively, China's total wind power installed capacity is expected to reach 100 million kilowatts by 2015. Furthermore, the Chinese government policies have become favourable to domestic wind power equipment instead of power generation. Such support will provide the basic guarantee for the wind power equipment manufacturing industry. In the long run, with the strengthening research and development capacities of domestic wind power equipment manufacturers and the reinforcement of the Chinese government's support for wind power equipment manufacturing, the industry will enjoy precious development opportunities.

A relatively long period of adjustment is normal for a rapid growing industry. In the face of such bottleneck period, the growth of China's total installed wind power capacity may slow down in 2012. Coupled with the on grid connectivity issue of wind power generation, price competition among wind turbine equipment set manufacturers and the uncertainties of the central government's policies on re-allocation of wind resources, it will take some time for the wind power industry to fully recover.

During such industry adjustment, the Group will adhere to its practice of giving top priority to quality and continue the manufacture of large and diversified wind power transmission equipment. The Group aims to consolidate its position in the industry through enhancing its advanced research and development capabilities, producing quality products, expanding its businesses and optimising its product mix. Based on the mainstream development trend of large-scale wind turbine, the Group will accelerate the development of 5MW wind turbine gearbox transmission equipment aside from providing 3MW gearboxes to customers. In addition, the trust and support of its overseas customers will continue to boost the Company's wind power transmission equipment exports. During the period under review, export sales revenue to total revenue increased to approximately 27.9%.

Besides, the Group is also actively developing its business of railway and marine transmission equipment. For the railway business, high-speed locomotives, subways and urban light rails are a global synonym of environment friendly means of transportation. They have promising industrial development prospects. Popularisation of highspeed railways in China is a strong driving force for the markets of high-speed locomotives, subways and urban light rails. It will also facilitate the Group in achieving its goal of rapid increase in railway earnings in the future. The Group has supplied subway transmission equipment in bulk for domestic and foreign metro corporations. For the marine business, marine transmission equipment has been one of the major products of the Company in recent years. As one of the largest ship propulsion system manufacturers in China, the Group has strived to optimise and upgrade its product mix. It is capable of providing customers with a full range of products and services. It is believed that when the global economy rebounds, the Company can promptly seize market opportunities.

In addition to transmission equipment, the Company also made significant progress in the development of new businesses. After obtaining safety symbol certificate of mining products for its newly developed coal mine machinery products, the Company has delivered the products to potential customers for testing. Customers' feedback gave us confidence in our new products. Further negotiation about cooperation is now in steady progress.

High precision and heavy machine tools are also the Group's key development products in the future. The development of these high-tech products of high speed, high precision, high reliability, multi-axis, high complexity and advanced intelligence will facilitate product technological upgrade and enhance the competitiveness of its self-developed products in domestic and overseas markets.

The Group will continue to conduct research on mechanical and electrical integration to expand market sales of its products. In order to enhance its added value, the Company will focus on the development of power transmission equipment such as electric control system and transducers for providing one-stop services to customers.

The Group established a joint venture for the production of sapphire substrate which is the upstream production process of LED. This process requires key technology and provides the highest added value in the industry chain. Currently, the joint venture operates well.

Looking forward to the second half of 2012, given the insignificant global economic recovery and various uncertainties, such as the unresolved debt crisis in Europe, the Company's business will remain susceptible to the economic environment. However, in the short term, the Group will be prudent in making investment decisions. By ensuring a sound financial position, the Group will continue to enhance its comprehensive competitiveness through actively developing new businesses and expanding into overseas markets.

FINANCIAL PERFORMANCE

Despite the effect of the market volatility and various external factors, for the Group's results, sales revenue for the period under review increased slightly by 3.5% to approximately RMB3,292,674,000.

	Revenue Six months ended 30 June	
	2012	2011
	RMB'000	*RMB'000*
High-speed Heavy-load Gear Transmission Equipment	**3,121**	10,255
Gear Transmission Equipment for Construction Materials	**243,048**	262,084
General Purpose Gear Transmission Equipment	**52,572**	61,126
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	**288,261**	176,610
Other products	**194,035**	173,481
Traditional Products - Subtotal	**781,037**	683,556
Wind Gear Transmission Equipment	**2,238,335**	2,185,363
Marine Gear Transmission Equipment	**87,047**	126,403
Transmission Equipment for High-speed Locomotives and Urban Light Rails	**52,968**	16,966
CNC Products	**42,845**	29,204
Diesel Engine Products	**90,442**	141,222
Total	**3,292,674**	3,182,714

Revenue

The Group's sales revenue for the six months ended 30 June 2012 was approximately RMB3,292,674,000, representing an increase of 3.5% as compared with the corresponding period last year. The increase was mainly due to the increase in overseas sales revenue of wind power gear box products and the steady in average selling prices of wind power gear box equipment during the period under review. Sales revenue increased from approximately RMB2,185,363,000 for the six months ended 30 June 2011 to approximately RMB2,238,335,000 for the period under review, representing an increase of 2.4%. During the period under review, the Group's sales revenue from traditional products (of which sales revenue of RMB9,867,000 from other products was contributed by boiler series) was approximately RMB781,037,000, representing an increase of 14.3% as compared with the corresponding period last year. During the period under review, sales revenue of transmission equipment for high-speed locomotives and urban light rails and CNC products amounted to approximately RMB52,968,000 and RMB42,845,000, representing an increase of 212.2% and 46.7% as compared with the corresponding period last year, respectively. During the period under review, the Group's sales revenue from diesel engine products and marine gear transmission equipment were approximately RMB90,442,000 (30 June 2011: RMB141,222,000) and RMB87,047,000 (30 June 2011: RMB126,403,000), respectively.

Gross profit margin and gross profit

The Group's consolidated gross profit margin for the six months ended 30 June 2012 was approximately 26.0% (30 June 2011: 26.4%), representing a decrease of 0.4% as compared with the corresponding period last year. The decrease was mainly attributable to the drop in average selling prices of wind power gear box products of the Group and the adjustment of the selling prices of some traditional products based on the market environment. Consolidated gross profit for the period under review reached approximately RMB857,367,000 (30 June 2011: RMB841,193,000), representing an increase of 1.9% as compared with the corresponding period last year.

Other income, other gains and losses

The total amount of other income of the Group for the six months ended 30 June 2012 was approximately RMB76,840,000 (30 June 2011: RMB50,800,000), representing an increase of 51.3% as compared with the corresponding period last year. Other income is mainly comprised of bank interest income, government grants and sales of scraps and materials.

During the period under review, other gains and losses recorded a net loss of approximately RMB7,600,000 (30 June 2011: a net loss of RMB83,781,000, in which, fair value loss on convertible bonds and loss on derivative financial instruments were RMB88,234,000).

Distribution and selling costs

The distribution and selling costs of the Group for the six months ended 30 June 2012 were approximately RMB132,497,000 (30 June 2011: RMB94,470,000), representing an increase of 40.3% as compared with the corresponding period last year. The increase was mainly attributable to the increase in product packaging, promotion expenses and staff costs. The percentage of distribution and selling costs to sales revenue for the period under review was 4.0% (30 June 2011: 3.0%), representing an increase of 1.0% to sales revenue as compared with the corresponding period last year.

Administrative expenses

Administrative expenses of the Group increased from approximately RMB221,862,000 for the six months ended 30 June 2011 to approximately RMB267,721,000 for the six months ended 30 June 2012, mainly due to the increase in the number of staff and staff costs, and the increase in amortisation of intangible assets. The percentage of administrative expenses to sales revenue increased by 1.1% to 8.1% as compared with the corresponding period last year.

Other expenses

Other expenses of the Group for the six months ended 30 June 2012 were RMB40,438,000 (30 June 2011: RMB$1,242,000), which was mainly due to the increase in provision for bad debts.

Finance costs

The finance costs of the Group for the six months ended 30 June 2012 was approximately RMB256,654,000 (30 June 2011: RMB117,507,000), representing an increase of 118.4% as compared with the corresponding period last year, which was mainly due to the significant increase in total amount of bank loans for satisfying the development needs of new businesses and maintaining sufficient liquidity.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2012, the equity attributable to owners of the Company amounted to approximately RMB7,498,242,000 (31 December 2011: RMB7,472,581,000). The Group had total assets of approximately RMB20,133,906,000 (31 December 2011: RMB18,400,984,000), representing an increase of approximately RMB1,732,922,000, or 9.4%, as compared with that at the beginning of the year. Total current assets were approximately RMB11,556,784,000 (31 December 2011: RMB10,253,113,000), representing an increase of 12.7% as compared with that at the beginning of the year and accounting for 57.4% of the total assets (31 December 2011: 55.7%). Total non-current assets were approximately RMB8,577,122,000 (31 December 2011: RMB8,147,871,00), representing an increase of approximately 5.3% as compared with that at the beginning of the year and accounting for 42.6% of the total assets (31 December 2011: 44.3%).

As at 30 June 2012, total liabilities of the Group were approximately RMB12,432,847,000 (31 December 2011: RMB10,778,949,000), representing an increase of RMB1,652,898,000 as compared with that at the beginning of the year. Total current liabilities were approximately RMB10,373,232,000 (31 December 2011: RMB7,997,949,000), representing an increase of 29.7% as compared with that at the beginning of the year. Total non-current liabilities were approximately RMB2,059,615,000 (31 December 2011: RMB2,781,000,000), representing a decrease of 25.9% as compared with that at the beginning of the year.

As at 30 June 2012, the net current asset of the Group was approximately RMB1,183,552,000 (31 December 2011: RMB2,255,164,000), representing a decrease of RMB1,071,612,000, or 47.5%, as compared with that at the beginning of the year.

As at 30 June 2012, total cash and bank balances of the Group were approximately RMB5,049,625,000 (31 December 2011: RMB3,427,514,000), including pledged bank deposits of RMB2,758,501,000 (31 December 2011: RMB1,252,922,000).

As at 30 June 2012, the Group had total bank loans of approximately RMB9,137,349,000 (31 December 2011: RMB7,618,457,000), of which short-term bank loans were RMB7,301,251,000 (31 December 2011: RMB4,991,382,000), accounting for approximately 79.9% (31 December 2011: 65.5%) of the total bank loans. The short-term bank loans are repayable within one year. The fixed and floating interest rates of the Group's bank loans for the first half of 2012 range from 2.80% to 9.40% per annum.

Taking into account of the internal financial resources of and the banking facilities available to the Group, and the net current asset of RMB1,183,552,000, 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 58.6% as at 31 December 2011 to 61.8% as at 30 June 2012.

Capital structure

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.

The Group's loans and cash and cash equivalents were mainly denominated in Renminbi, U.S. dollars and Hong Kong dollars. The Group's bank borrowings denominated in U.S. dollars and Hong Kong dollars as at 30 June 2012 amounted to approximately US$79,400,000 and HK$1,050,000,000 respectively.

During the period under review, the Group used interest rate swap as hedging instrument by converting certain bank borrowings from floating rate to fixed rate in order to control the risk of interest rate fluctuation of such bank borrowings. The interest rate risk of the Group's bank borrowings of HK$1,050,000,000 and US$16,500,000 was hedged by using interest rate swaps which converting floating interest rate to fixed interest rate (see Note 14 for details).

During the period under review, the Group's bank borrowings with fixed interest rates to total bank borrowings was approximately 10.5%.

PLEDGE OF ASSETS

Save as disclosed in note 17 to the financial statements, the Group has made no further pledge of assets as at 30 June 2012.

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 2012, 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, the bank borrowings that may expose to exchange rate fluctuations would be the Group's bank borrowing denominated in U.S. dollars and Hong Kong dollars as at 30 June 2012 which amounted to approximately US$79,400,000 and HK$1,050,000,000 respectively. The Group may thus be exposed to exchange rate risks.

The net losses from foreign exchange recorded by the Group for the period under review were approximately RMB7,717,000 (30 June 2011: net gains of RMB4,453,000), 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 exchange rate risks in 2012.

INTEREST RATE RISK

The loans of the Group are mainly sourced from bank loans. Therefore, the benchmark lending rate announced by the People's Bank of China ("PBOC"), the London Interbank Offered Rate and the Hong Kong Interbank Offered Rate will have a direct impact on the Group's cost of debt and future changes in interest rate will also have certain impacts on the Group's cost of debt. The Group will strive to reduce the finance cost by actively monitoring the changes in credit policies, taking pre-emptive actions, strengthening capital management and expanding financing channels. During the period under review, the Group used interest rate swap as hedging instrument by converting certain bank borrowings from floating rate to fixed rate in order to control the risk of interest rate fluctuation of such bank borrowings.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2012, the Group had approximately 8,650 employees (30 June 2011: 7,122). Staff costs of the Group for the first half of 2012 were approximately RMB500,116,000 (30 June 2011: RMB350,432,000). 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 remuneration committee of the Company is responsible for making recommendations to the Board on the Company's remuneration policy and arrangements of all directors and senior management and determining the specific remuneration packages of all executive directors and senior management.

The Group's criteria in relation to the determination of directors' remuneration take into consideration various factors, such as salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

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, information management, product quality and enterprise management.

The Group has adopted incentive programs (including share option scheme) to encourage employee performance and a range of training programs for the development of its staff.

EVENTS AFTER THE REPORTING PERIOD

No significant event took place subsequent to 30 June 2012.

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 2012, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (effective till 31 March 2012) and the Corporate Governance Code (the new edition of the Code on Corporate Governance Practices, effective from 1 April 2012) 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 2012.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2012.

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

Hong Kong, 24 August 2012

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*