中國高速傳動設備集團有限公司*
China High Speed Transmission Equipment Group Co., Ltd.

(incorporated in the Cayman Islands with limited liability)
(Stock Code: 658)

INTERIM REPORT
2013

* For identification purpose only

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Yueming *(Chairman and Chief Executive Officer)*
Mr. Chen Yongdao
Mr. Lu Xun
Mr. Li Shengqiang
Mr. Liu Jianguo
Mr. Liao Enrong
Mr. Jin Maoji

Independent non-executive Directors

Mr. Jiang Xihe
Mr. Zhu Junsheng
Mr. Chen Shimin
Ms. Jiang Jianhua

AUDIT COMMITTEE

Mr. Jiang Xihe *(Chairman)*
Mr. Zhu Junsheng
Mr. Chen Shimin

REMUNERATION COMMITTEE

Mr. Chen Shimin *(Chairman)*
Mr. Jiang Xihe
Mr. Liu Jianguo

NOMINATION COMMITTEE

Mr. Hu Yueming *(Chairman)*
Mr. Zhu Junsheng
Mr. Jiang Xihe

REGISTERED OFFICE

4th Floor, Harbour Place
103 South Church Street
George Town
Grand Cayman KY1-1002
Cayman Islands

AUDITOR

Deloitte Touche Tohmatsu

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Royal Bank of Canada Trust Company
(Cayman) Limited
4th Floor, Royal Bank House
24 Shedden Road
George Town
Grand Cayman KY1-1110
Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

COMPANY SECRETARY

Mr. Lui Wing Hong, Edward, CPA (Aust.), FCPA

QUALIFIED ACCOUNTANT

Mr. Lui Wing Hong, Edward, CPA (Aust.), FCPA

AUTHORISED REPRESENTATIVES

Mr. Liao Enrong
Mr. Lui Wing Hong, Edward

PRINCIPAL BANKERS

China Construction Bank Corporation, Jiangsu Branch
China Minsheng Banking Corp., Ltd., Nanjing Branch
China Merchants Bank Co., Ltd., Nanjing Branch
BNP Paribas (China) Limited
BNP Paribas, Hong Kong Branch
Australia and New Zealand Bank (China) Company Limited
Citibank (China) Co., Ltd.

WEBSITE

www.chste.com

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
(the "Stock Exchange")
(Stock Code: 00658)

PERFORMANCE HIGHLIGHTS

Revenue for the first half of 2013 was approximately RMB2,640,351,000 (30 June 2012: RMB3,292,674,000), representing a decrease of approximately 19.8% from the corresponding period of 2012.

Loss attributable to the owners of the Company for the first half of 2013 was approximately RMB289,274,000 (30 June 2012: profit attributable to the owners of the Company of approximately RMB96,162,000).

Basic and diluted loss per share for the first half of 2013 were RMB0.212 (30 June 2012: basic and diluted earnings per share of RMB0.071).

The Board did not recommend payment of an interim dividend for the six months ended 30 June 2013.

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 sales revenue of approximately RMB2,640,351,000 (30 June 2012: RMB3,292,674,000), representing a decrease of 19.8% from the corresponding period of 2012. The gross profit margin recorded for the period was approximately 20.2%. Loss attributable to the owners of the Company was approximately RMB289,274,000 (30 June 2012: profit attributable to the owners of the Company of approximately RMB96,162,000). Basic and diluted loss per share attributable to the owners of the Company were RMB0.212 (30 June 2012: basic and diluted earnings per share of RMB0.071).

Principal business review

1. **Wind gear transmission equipment**

Development of large and diversified equipment

The wind gear transmission equipment is a major product that has been developed by the Group. During the period under review, sales revenue from wind gear transmission equipment business decreased by approximately 25.6% as compared with the corresponding period last year to approximately RMB1,664,526,000 (30 June 2012: RMB2,238,335,000). The decrease was attributable to the decrease in customer orders and shipments, which was in turn caused by the fact that global economy continued to recover slowly and the consolidation of China's wind power industry has yet to finish.

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, the Group has started the mass production of 3MW wind gear transmission equipment, which will secure more business for the Group. During the period under review, the Group had already delivered 60 units of 3MW wind power gearbox transmission equipment to its customers. Furthermore, the Group has successfully developed 5MW wind power gearbox transmission equipment together with some major domestic wind turbine manufacturers, and the development of 6MW wind power gearbox transmission equipment is also at the final stage.

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, Nordex, Vestas, REpower, Hitachi, 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.

MANAGEMENT DISCUSSION AND ANALYSIS

2. **Marine gear transmission equipment**

Actively expanding the domestic market

Marine gear transmission equipment is one of the Group's products in recent years. The Company is a leading enterprise in Asia specialising 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 had entered into a strategic partnership framework agreement with Siemens Ltd., China, pursuant to which both parties will form a strategic partnership in relation to the research and development and manufacturing of and provision of services relating to marine equipment, and strive to establish the leading position of both parties in the design and manufacturing of marine equipment and related electric control system and establish a solid foundation for the expansion of the Company's products into the international high-end marine market, by way of the strategic alliance to be formed with their competitive strengths in marine area and their cooperation. 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, turnover of marine gear transmission equipment was approximately RMB134,154,000 (30 June 2012: RMB87,047,000), representing an increase of 54.1% as compared with the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

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 locomotives, metros and urban light rails 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, metros 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. In addition to an order of over 380 units of metro gear boxes by Qingdao Metro Line 3, it also entered into sales contracts in respect of Hong Kong Metro South District Line (香港地鐵南島綫), and Singapore Metro CCL Line and NEL Line. The Group has obtained the International Railway Industry Standard (IRIS) certificate for its rail transportation products, which has laid a solid foundation for the Group's rail transportation products to expand into high-end international railway markets. 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.

During the period under review, such business generated sales revenue of approximately RMB34,236,000 for the Group (30 June 2012: RMB52,968,000), representing a decrease of approximately 35.4% from the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

4. **Traditional transmission products**

Maintain its position as a major supplier of traditional transmission products 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 high speed heavy load gear transmission equipment and other products increased by 5.9% and 45.2% to RMB3,304,000 (30 June 2012: RMB3,121,000) and RMB281,651,000 (30 June 2012: RMB194,035,000), respectively. Sales revenue of gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills, general purpose gear transmission equipment and gear transmission equipment for construction materials amounted to RMB157,050,000 (30 June 2012: RMB288,261,000), RMB36,200,000 (30 June 2012: RMB52,572,000) and RMB129,331,000 (30 June 2012: RMB243,048,000), representing a decrease of 45.5%, 31.1% and 46.8%, 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 transmission products accordingly. By leveraging its own 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.

In 2012, 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. During the period under review, reducers of metallurgy product series have been exported to Africa and South America.

MANAGEMENT DISCUSSION AND ANALYSIS

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

CNC machine tool products industry

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 to support the development of equipment manufacturing industry. Besides, the price for heavy machine tools is very high as the international market is dominated by few manufacturers. The Group intends to take the opportunity to develop heavy, precise and efficient 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 attended the 13th China International Machine Tool Show (CIMT2013) held at the new exhibition room of China International Exhibition Center in Beijing, at which the DVTA25-MC High-accuracy CNC Double-pillar Vertical Turning Center displayed by the Company won recognition from customers for its features of "three highs and one new", being "high" speed (maximum speed of 285r/min for workbenches with a diameter of 2,250mm), "high" accuracy (workbench radial runout of 0.005mm, turret positioning accuracy of 0.015mm and turret repositioning accuracy of 0.005mm), "high" efficiency (automated measurement, automated tool change and automated chip removal), and "new" and practical full protection for machines . By virtue of its design philosophy and high quality derived from world-class manufacturing process, it was a highlight of the exhibition. The Group provided CNC machine tool products to customers through various subsidiaries and recorded sales revenue of approximately RMB117,517,000 (30 June 2012: RMB42,845,000), representing an increase of 174.3% from the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB82,382,000 (30 June 2012: RMB90,442,000) for the Group, representing a decrease of 8.9% from the corresponding period last year.

LOCAL AND EXPORT SALES

During the period under review, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. During the period under review, the overseas sales amounted to approximately RMB543,731,000 (30 June 2012: RMB918,602,000), a decrease of 40.8% as compared with the corresponding period last year, accounting for 20.6% of total sales (30 June 2012: 27.9%) and representing a decrease of 7.3% to total sales over the corresponding period last year. At present, the overseas customers of the Group are mainly from the U.S., and there are also customers from other countries including 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 also introduced different types of products in order to extend its coverage in the overseas market.

MANAGEMENT DISCUSSION AND ANALYSIS

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 Group 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 of 30 June 2013, a total of 230 patents were granted by the State, of which 25 patents were newly granted in the first half of 2013. In addition, 40 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 Marine, 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), Germanischer Lloyd (GL), American Bureau of Shipping (ABS), Lloyd's Register of Shipping (LR), Registro Italiano Navale (RINA), Det Norske Veritas (DNV), Russian Maritime Register of Shipping (RMRS) and Nippon Kaiji Kyokai (NK). The wind power products manufactured by Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed"), 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, and its rail transportation products have obtained certifications from International Railway Industry Standard (IRIS). The mining machinery products manufactured by China Transmission Heavy Equipment Co., Ltd. ("China Transmission Equipment"), a subsidiary of the Company, have obtained certifications from China Mining Products Safety Approval and Certification Center.

PROSPECTS

In the first half of 2013, 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 under review. In addition, in light of the mixed economic data of some fast-growing emerging markets, investors remained concerned that the global economic growth may continue to 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.

MANAGEMENT DISCUSSION AND ANALYSIS

During the first half of 2013, the wind power industry still faced many challenges. During the period under review, amid slowed global economic growth and generally cooled industries in the PRC such as coal, steel and photovoltaic industry, wind power industry was not immune and still underwent the period of adjustment. China relaxed the approval procedures for wind power projects in the first half of 2013, though still no investors had sped up their investment in the construction of wind power projects. The issues relating to connecting wind power to power grid have not been effectively solved and remain a bottleneck in the development of the wind power industry. Hopefully this situation will gradually improve in the second half of the year.

During such industry adjustment, the Group will adhere to its practice of giving top priority to product 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 business and optimising its product mix. Based on the mainstream development trend of large-scale wind turbine, the Group has successfully developed 5MW wind turbine gearbox transmission equipment aside from providing 3MW wind turbine gearbox transmission equipment to customers, whilst 6MW wind turbine gearbox transmission equipment being at the final stage of development. In addition, we believe the trust and support of its overseas customers will continue to boost the Company's steady growth in wind power transmission equipment exports for the whole year.

INTERIM DIVIDEND

The Board did not recommend payment of an interim dividend for the six months ended 30 June 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

Due to the effect of the market volatility and various external factors, sales revenue of the Group for the period under review decreased by 19.8% to approximately RMB2,640,351,000.

	Revenue	
	Six months ended 30 June	
	2013	2012
	RMB'000	RMB'000
High-speed Heavy-load Gear Transmission Equipment	3,304	3,121
Gear Transmission Equipment for Construction Materials	129,331	243,048
General Purpose Gear Transmission Equipment	36,200	52,572
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	157,050	288,261
Other products	281,651	194,035
Traditional Products - Subtotal	607,536	781,037
Wind Gear Transmission Equipment	1,664,526	2,238,335
Marine Gear Transmission Equipment	134,154	87,047
Transmission Equipment for High-speed Locomotives, Metros and Urban Light Rails	34,236	52,968
CNC Products	117,517	42,845
Diesel Engine Products	82,382	90,442
Total	2,640,351	3,292,674

Revenue

The Group's sales revenue for the six months ended 30 June 2013 was approximately RMB2,640,351,000, representing a decrease of 19.8% as compared with the corresponding period last year. The decrease was mainly due to the decrease in customer orders for and shipments of wind power gear box products as well as the decrease in average selling prices of certain traditional transmission products. The average selling prices of wind power gear box equipment kept steady during the period under review. Sales revenue from wind gear transmission equipment decreased from approximately RMB2,238,335,000 for the corresponding period last year to approximately RMB1,664,526,000 for the period under review, representing a decrease of 25.6%. During the period under review, sales revenue from traditional transmission products was approximately RMB607,536,000, representing a decrease of 22.2% as compared with the corresponding period last year. The Group's sales revenue from transmission equipment for high-speed locomotives, metros and urban light rails and diesel engine products amounted to approximately RMB34,236,000 and RMB82,382,000, representing a decrease of 35.4% and 8.9% as compared with the corresponding period last year, respectively. During the period under review, the Group's sales revenue from CNC products and marine gear transmission equipment were approximately RMB117,517,000 (30 June 2012: RMB42,845,000) and RMB134,154,000 (30 June 2012: RMB87,047,000), respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit margin and gross profit

The Group's consolidated gross profit margin for the six months ended 30 June 2013 was approximately 20.2% (30 June 2012: 26.0%), representing a decrease of 5.8% as compared with the corresponding period last year. The decrease was mainly attributable to the drop in average selling prices of certain traditional transmission products of the Group. Consolidated gross profit for the period under review reached approximately RMB532,782,000 (30 June 2012: RMB857,367,000), representing a decrease of 37.9% 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 2013 was approximately RMB105,225,000 (30 June 2012: RMB76,840,000), representing an increase of 36.9% as compared with the corresponding period last year. Other income is mainly comprised of bank interest income, government grants, sales of scraps and materials and investment income.

During the period under review, other gains and losses recorded a net gain of approximately RMB10,211,000 (30 June 2012: a net loss of RMB7,600,000).

Distribution and selling costs

The distribution and selling costs of the Group for the six months ended 30 June 2013 were approximately RMB132,719,000 (30 June 2012: RMB132,497,000), representing an increase of 0.2% as compared with the corresponding period last year. The expenses mainly represented product packaging expenses, transportation expenses and staff costs. The percentage of distribution and selling costs to sales revenue for the period under review was 5.0% (30 June 2012: 4.0%), 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 RMB267,721,000 for the six months ended 30 June 2012 to approximately RMB301,721,000 for the six months ended 30 June 2013, mainly due to the increase in staff remuneration expenses. The percentage of administrative expenses to sales revenue increased by 3.3% to 11.4% as compared with the corresponding period last year.

Other expenses

Other expenses of the Group for the six months ended 30 June 2013 were RMB156,219,000 (30 June 2012: RMB40,438,000), which was primarily related to the increase in the provision for bad debts, the provision for impairment of investments in joint ventures and goodwill impairment.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

The finance costs of the Group for the six months ended 30 June 2013 was approximately RMB286,729,000 (30 June 2012: RMB256,654,000), representing an increase of 11.7% as compared with the corresponding period last year, which was mainly due to a decrease in interest capitalized amount as a result of decrease in capitalized items during the period under review.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2013, the equity attributable to owners of the Company amounted to approximately RMB7,322,379,000 (31 December 2012: RMB7,539,438,000). The Group had total assets of approximately RMB20,175,702,000 (31 December 2012: RMB19,882,234,000), representing an increase of approximately RMB293,468,000, or 1.5%, as compared with that at the beginning of the year. Total current assets were approximately RMB10,871,470,000 (31 December 2012: RMB10,813,173,000), representing an increase of 0.5% as compared with that at the beginning of the year and accounting for 53.9% of the total assets (31 December 2012: 54.4%). Total non-current assets were approximately RMB9,304,232,000 (31 December 2012: RMB9,069,061,000), representing an increase of approximately 2.6% as compared with that at the beginning of the year and accounting for 46.1% of the total assets (31 December 2012: 45.6%).

As at 30 June 2013, total liabilities of the Group were approximately RMB12,604,381,000 (31 December 2012: RMB12,137,671,000), representing an increase of RMB466,710,000 as compared with that at the beginning of the year. Total current liabilities were approximately RMB10,769,735,000 (31 December 2012: RMB10,644,796,000), representing an increase of 1.2% as compared with that at the beginning of the year. Total non-current liabilities were approximately RMB1,834,646,000 (31 December 2012: RMB1,492,875,000), representing an increase of 22.9% as compared with that at the beginning of the year.

As at 30 June 2013, the net current asset of the Group was approximately RMB101,735,000 (31 December 2012: RMB168,377,000), representing a decrease of RMB66,642,000, or 39.6%, as compared with that at the beginning of the year.

As at 30 June 2013, total cash and bank balances of the Group were approximately RMB3,574,647,000 (31 December 2012: RMB4,302,214,000), including pledged bank deposits of RMB2,282,038,000 (31 December 2012: RMB1,897,712,000).

As at 30 June 2013, the Group had total bank loans of approximately RMB8,785,472,000 (31 December 2012: RMB8,737,357,000), of which short-term bank loans were RMB7,170,358,000 (31 December 2012: RMB7,449,119,000), accounting for approximately 81.6% (31 December 2012: 85.3%) 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 2013 ranged from 1.59% to 6.90% 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 RMB101,735,000, the directors of the Company believe that the Group will have sufficient funds to meet its working capital requirements and foreseeable capital expenditure.

MANAGEMENT DISCUSSION AND ANALYSIS

Gearing ratio

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) increased from 61.0% as at 31 December 2012 to 62.5% as at 30 June 2013, mainly due to the increase in bank loans.

Capital structure

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

The Group's loans and cash and cash equivalents were mainly denominated in Renminbi, Hong Kong dollars and U.S. dollars. The Group's bank borrowings denominated in Hong Kong dollars and U.S. dollars as at 30 June 2013 amounted to approximately HK$955,236,000 and US$171,850,000 respectively.

On 18 February 2013, Nanjing High Speed further issued short-term commercial paper of RMB700,000,000. The short-term commercial paper carries an interest rate of 5.3% per annum and shall be repayable on 20 February 2014. It is intended that RMB100,000,000 of the funds raised will be used for reimbursement of its working capital and RMB600,000,000 for replacement of bank loans, which is mainly aimed to repay part of the loans of higher cost so as to optimize the financial structure, further reduce the finance costs, enhance our profitability and strengthen our corporate competitiveness.

On 21 May 2013, Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd.* (南京高精傳動設備製造集團有限公司) ("Nanjing High Accurate Drive"), a wholly-owned subsidiary of the Company, completed the issue of the first tranche of the domestic medium term notes in the PRC with an aggregate principal amount of RMB500,000,000. The first tranche of the medium term notes bears a fixed interest rate of 6.2% per annum and has a term of 5 years, and shall be repayable on 21 May 2017. Nanjing High Accurate Drive plans to use the funds raised for repayment of bank loans and as its working capital.

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. On 30 June 2013, the interest rate risk of the Group's bank borrowings of HK$525,000,000 and US$8,250,000 was hedged by using interest rate swaps which converted floating interest rate to fixed interest rate (see Note 16 to the consolidated financial statements for details).

During the period under review, the Group's bank borrowings with fixed interest rates (after taking into account the effect of the abovementioned interest rate swap used by the Group) to total bank borrowings was approximately 57.4%.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

Save as disclosed in note 19 to the consolidated financial statements, the Group has made no further pledge of assets as at 30 June 2013.

CONTINGENT LIABILITIES

As at 30 June 2013, the directors were not aware of any material contingent liabilities.

COMMITMENTS

As at 30 June 2013, the Group had expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment and the land use rights of approximately RMB945,383,000 (31 December 2012: RMB999,098,000). Details are set out in note 18 to the consolidated financial statements.

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

The Group's operations are mainly conducted in the PRC. With the exception of export sales and the imported equipment, spare parts and materials which are transacted in U.S. dollars and Euros, most of the Group's revenue and expense are denominated in Renminbi. Therefore, the Board of the Company is of the view that the Group's operating cash flow and liquidity during the period under review are not subject to significant foreign exchange rate risks. The Group has not used any foreign currency derivatives to hedge against the exposure in foreign exchange.

The Group's bank borrowing denominated in Hong Kong dollars and U.S. dollars as at 30 June 2013 amounted to approximately HK$955,236,000 and US$171,850,000 respectively. The Group may thus be exposed to exchange rate risks.

The net gains from foreign exchange recorded by the Group for the period under review were approximately RMB10,211,000 (30 June 2012: net losses of RMB7,717,000), 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 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

INTEREST RATE RISK

The loans of the Group are mainly sourced from bank loans, short-term commercial paper and medium term notes. Therefore, the benchmark lending rate announced by the People's Bank of China, 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 which ranges from 2.80% to 2.93% per annum in order to control the risk of interest rate fluctuation of such bank borrowings.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2013, the Group had approximately 9,283 employees (30 June 2012: 8,650). Staff costs of the Group for the first half of 2013 were approximately RMB579,614,000 (30 June 2012: RMB500,116,000). The costs included basic salaries, discretionary bonuses and staff benefits such as medical and insurance plans, pension schemes, unemployment insurance plans, etc.

The remuneration committee of the Company is responsible to make recommendations to the Board on the Company's remuneration policy and structure of all directors and senior management, the remuneration packages of individual executive Director and senior management and the remuneration of non-executive Directors.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

PENSION SCHEME

The employees of the Group are members of state-managed pension scheme operated by the local government in China. The Group is required to contribute a specific percentage of their payroll costs to the pension scheme for the funding of the benefits. The sole responsibility of the Group in respect of this pension scheme is to make specific contribution to this scheme.

SIGNIFICANT INVESTMENT HELD

Save as disclosed herein, there was no significant investment held by the Group during the period under review.

MATERIAL ACQUISITION AND DISPOSAL

Save as disclosed herein, there was no material acquisition and disposal of subsidiaries and associated companies during the period under review.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

As at the date of this report, the Group did not enter into any agreement in respect of any proposed acquisitions and did not have any future plans relating to material investment or capital asset.

EVENTS AFTER THE END OF THE REPORTING PERIOD

No significant event took place subsequent to 30 June 2013.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE PRACTICES

The Board recognises the importance of corporate governance practices to the success of a listed company. The Company is committed to achieving a high standard of corporate governance in the interest of the shareholders of the Company.

For the six months ended 30 June 2013, the Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (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 2013.

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 2013.

CHANGES TO THE INFORMATION RELATING TO THE DIRECTORS DURING THEIR TENURE

The following directors' positions held with the Group have been changed during the six months ended 30 June 2013:

Mr. Liu Jianguo, executive Director of the Company, resigned as the general manager of Nanjing High Speed on 16 May 2013 and was succeeded by Mr. Gou Jianhui. Mr. Gou Jianhui, 51, joined the Group in May 2013. He currently is the general manager of Nanjing High Speed, the subsidiary of the Company, and the deputy general manager of NGC. Dr. Gou graduated from the Harbin Institute of Technology with a bachelor's degree in engineering and a master's degree in engineering in 1982 and 1986, respectively. He obtained a doctor's degree in engineering from the University of Braunschweig, Germany(德國布倫瑞克工業大學) in 1997. Prior to this, Dr. Gou was the managing director of Schaeffler Greater China（舍弗勒大中華區）and the president of the Industrial Division.

AUDIT COMMITTEE

The Company established the audit committee on 8 June 2007 with written terms of reference which has been adopted for the purpose of reviewing and providing supervision on the financial reporting process and internal controls of the Company as well as nominating and supervising the external auditor and offering advice and recommendations to the Board of the Company.

CORPORATE GOVERNANCE AND OTHER INFORMATION

The audit committee comprises three members, namely Mr. Jiang Xihe, Mr. Zhu Junsheng and Mr. Chen Shimin, all of which are independent non-executive Directors. Mr. Jiang Xihe is the chairman of the audit committee.

The Group's unaudited condensed consolidated financial statements for the six months ended 30 June 2013 have been reviewed by the audit committee. The audit committee considered that the financial statements are in compliance with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.

REMUNERATION COMMITTEE

The Company established the remuneration committee on 8 June 2007. The remuneration committee comprises three members, namely Mr. Chen Shimin, Mr. Jiang Xihe and Mr. Liu Jianguo, two of which are independent non-executive Directors. Mr. Chen Shimin, an independent non-executive Director, is the chairman of the remuneration committee.

The primary duties of the remuneration committee are to make recommendations to the Board on the Company's remuneration policy and structure of all Directors and senior management, the remuneration packages of individual executive Director and senior management and the remuneration of non-executive Directors.

NOMINATION COMMITTEE

The Company has established the nomination committee with effect from 1 April 2012. The nomination committee comprises three members, namely Mr. Hu Yueming, Mr. Zhu Junsheng and Mr. Jiang Xihe, majority of whom are independent non-executive Directors. Mr. Hu Yueming, the chairman of the Company's Board of Directors, acts as the chairman of the nomination committee.

The primary duties of the nomination committee are to study the proposed candidates, the selection criteria and procedure of the Company's directors and senior management and give recommendations, and review the structure, number and composition of the Board at least once annually to implement the Company's corporate strategies.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE COMPANY'S ISSUED SHARES

As at 30 June 2013, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which would be required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code contained in the Listing Rules.

During the reporting period, save as disclosed in this report, none of the Directors and the chief executive or their associates had any interest in the securities of the Company or its associated corporations (within the meaning of the SFO). None of the Directors and the chief executive, or their spouses or children under 18 had any right to subscribe securities of the Company or had exercised such rights.

During any time in the reporting period, none of the Company, its holding company or its subsidiaries entered into any arrangements to allow the Directors or the chief executive of the Company to benefit by acquiring shares or bonds of the Company or other body corporate.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE COMPANY'S ISSUED SHARES

As at 30 June 2013, the following persons, other than the directors or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO:

Name	Nature of interests	Number of securities held	Approximate percentages to the equity (%)
Fortune Apex Limited (Note 1)	Beneficial owner	330,935,024 (long position)	24.28 (long position)
The Capital Group Companies, Inc. (Note 2)	Held by controlled corporation	123,038,730 (long position)	9.03 (long position)
Zhang Yunlong	Beneficial owner	82,818,000 (long position)	6.08 (long position)

Note:

(1) As at 30 June 2013, Fortune Apex Limited owns 24.28% interest in the issued share capital of the Company. Messrs. Hu Yueming, Liu Jianguo, Lu Xun, Chen Yongdao, Li Cunzhang*, Li Shengqiang, Liao Enrong, Jin Maoji, Yao Jingsheng, Chen Zhenxing, Zhang Xueyong, Xu Yong, Wang Zhengrong and Chen Liguo (collectively, the "Management Shareholders") together own 100% interest in the issued share capital of Fortune Apex Limited. The following table sets out the shareholdings of each of the Management Shareholders in Fortune Apex Limited:

	Name	Shareholdings
1	Mr. Hu Yueming (executive Director)	30.3813%
2	Mr. Liu Jianguo (executive Director)	12.3989%
3	Mr. Lu Xun (executive Director)	10.4520%
4	Mr. Chen Yongdao (executive Director)	10.5343%
5	Mr. Li Cunzhang*	8.8945%
6	Mr. Li Shengqiang (executive Director)	8.9725%
7	Mr. Liao Enrong (executive Director)	5.3422%
8	Mr. Jin Maoji (executive Director)	5.9195%
9	Mr. Yao Jingsheng	2.5678%
10	Mr. Chen Zhenxing	0.9091%
11	Mr. Zhang Xueyong	1.1286%
12	Mr. Xu Yong	0.7376%
13	Mr. Wang Zhengrong	0.6792%
14	Mr. Chen Liguo	1.0825%
	Total	100.0000%

* Mr. Li Cunzhang passed away on 10 August 2007.

CORPORATE GOVERNANCE AND OTHER INFORMATION

However, none of them singly controls more than one-third of the voting power at general meetings of Fortune Apex Limited and neither Fortune Apex Limited nor its directors are accustomed or obliged to act in accordance with directions or instructions of any single member of the Management Shareholders.

(2) The Capital Group Companies Inc. held 9.03% interest of the Company through several controlled corporations, including Capital Group International, Inc., Capital Guardian Trust Company, Capital International, Inc., Capital International Limited and Capital International Sarl.

Save as disclosed above and so far as the Directors are aware of, as at 30 June 2013, there was no other person, other than the directors or chief executive of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be recorded in the register referred to therein.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 June 2007 pursuant to the written resolutions of all shareholders of the Company. The share option scheme is a share incentive scheme and is established to recognize and acknowledge the contributions of the eligible participants who have had or may have made to the Group. The share option scheme will provide the eligible participants an opportunity to have a personal stake in the Company with the view to (i) motivating the eligible participants to optimize their performance and efficiency for the benefit of the Group; and (ii) attracting and retaining or otherwise maintaining on-going business relationships with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

Options granted must be taken up within 12 months from the date of grant, upon payment of HK$1 per option. Options may be exercised at any time prior to the expiry from 10 years from the date of acceptance. The exercise price is determined by the Directors of the Company, and must be at least the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share. Share options do not confer rights to the holders to receive dividends or vote at shareholder's meetings.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

Grantee(s)	Date of grant	Exercise period (Note 1)	Vesting period	Exercise price per share HK$ (Note 2&3)	Number of share options: Outstanding as at 1 January 2013	Granted during the period	Exercised during the period	Cancelled during the period	Lapsed during the period	Outstanding as at 30 June 2013
Qualified employees	6 November 2008	6 November 2008 to 5 November 2013	Nil	5.60	11,714,800	—	—	—	—	11,714,800
Total					11,714,800	—	—	—	—	11,714,800

Notes:

1. The exercise period of share options granted to employees is five years commencing from the date of acceptance.
2. The closing price of the Company's shares on the date of grant was HK$5.60.
3. The average closing price of the Company's shares for the five business days immediately preceding the date of grant was HK$5.536.
4. The share options were vested immediately at the date of grant.
5. The fair value of the share options determined at the date of grant using the Binomial model was approximately RMB30,030,000.
6. None of the Directors, chief executive or substantial shareholders of the listed company or their respective associates held any share option. All the grantees are employees working under continuous employment contracts.

By order of the Board
Mr. Hu Yueming
Chairman

Hong Kong, 23 August 2013

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.
德勤

TO THE BOARD OF DIRECTORS OF
CHINA HIGH SPEED TRANSMISSION EQUIPMENT GROUP CO., LTD.
(incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 26 to 52, which comprises the condensed consolidated statement of financial position as of 30 June 2013 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
23 August 2013

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2013

		Six months ended	
	NOTES	**30.06.2013**	30.06.2012
		RMB'000	RMB'000
		(Unaudited)	(Unaudited)
Revenue	3	**2,640,351**	3,292,674
Cost of sales		**(2,107,569)**	(2,435,307)
Gross profit		**532,782**	857,367
Other income		**105,225**	76,840
Other gains and losses	4	**10,211**	(7,600)
Distribution and selling costs		**(132,719)**	(132,497)
Administrative expenses		**(301,721)**	(267,721)
Research and development costs		**(40,361)**	(50,034)
Other expenses		**(156,219)**	(40,438)
Finance costs		**(286,729)**	(256,654)
Share of results of associates		**(916)**	(6,747)
Share of results of joint ventures		**(22,588)**	(6,525)
(Loss) profit before taxation		**(293,035)**	165,991
Taxation	5	**(23,318)**	(82,517)
(Loss) profit for the period	6	**(316,353)**	83,474
Other comprehensive income (expense) for the period:			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation of financial statements of foreign operations		**(144)**	(313)
Fair value gain (loss) on:			
available-for-sale financial assets		**106,124**	(65,783)
hedging instruments designated in cash flow hedges		**2,821**	1,246
Reclassified to profit or loss on disposal of available-for-sale financial assets		**(39,142)**	—
Other comprehensive income (expense) for the period		**69,659**	(64,850)
Total comprehensive (expense) income for the period		**(246,694)**	18,624

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(Continued)*

For the six months ended 30 June 2013

	NOTES	Six months ended 30.06.2013 RMB'000 (Unaudited)	Six months ended 30.06.2012 RMB'000 (Unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		(289,274)	96,162
Non-controlling interests		(27,079)	(12,688)
		(316,353)	83,474
Total comprehensive (expense) income attributable to:			
Owners of the Company		(219,615)	31,312
Non-controlling interests		(27,079)	(12,688)
		(246,694)	18,624
(LOSS) EARNINGS PER SHARE	8		
Basic (RMB)		(0.212)	0.071
Diluted (RMB)		(0.212)	0.071

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

	NOTES	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	6,698,756	6,238,143
Prepaid lease payments	9	1,048,434	938,448
Goodwill	10	2,991	17,715
Intangible assets	11	261,750	277,806
Interests in associates		182,408	183,324
Interests in joint ventures	12	536,984	612,572
Available-for-sale investments		211,939	306,658
Deposit for land lease		280,800	336,042
Prepayment for acquisition of property, plant and equipment	9	5,895	89,828
Deferred tax assets		74,275	68,525
		9,304,232	9,069,061
CURRENT ASSETS			
Inventories		2,183,522	1,780,504
Prepaid lease payments	9	17,472	20,330
Trade and other receivables	13	5,032,611	4,667,937
Amounts due from associates		348	5,507
Amounts due from joint ventures		42,527	35,806
Available-for-sale investments		20,000	—
Tax asset		343	875
Pledged bank deposits		2,282,038	1,897,712
Bank balances and cash		1,292,609	2,404,502
		10,871,470	10,813,173

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2013At 30 June 2013

	NOTES	30 June 2013 RMB'000 (Unaudited)	31 December 2012 RMB'000 (Audited)
CURRENT LIABILITIES			
Trade and other payables	14	3,393,423	2,945,279
Amounts due to associates		60,191	76,476
Tax liabilities		69,609	81,683
Borrowings – due within one year	15	7,170,358	7,449,119
Warranty provision		76,154	92,239
		10,769,735	10,644,796
NET CURRENT ASSETS		101,735	168,377
TOTAL ASSETS LESS CURRENT LIABILITIES		9,405,967	9,237,438
NON-CURRENT LIABILITIES			
Borrowings – due after one year	15	1,615,114	1,288,238
Deferred tax liabilities		18,370	18,242
Deferred income		197,487	179,899
Derivative financial instruments	16	3,675	6,496
		1,834,646	1,492,875
		7,571,321	7,744,563
CAPITAL AND RESERVES			
Share capital	17	102,543	102,543
Reserves		7,219,836	7,436,895
Equity attributable to owners of the Company		7,322,379	7,539,438
Non-controlling interests		248,942	205,125
		7,571,321	7,744,563

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2013

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Deemed capital contribution reserve RMB'000	Capital reserve RMB'000	Investment revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Share option reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2012 (audited)	102,543	4,170,931	77,651	163,853	—	352,742	52,335	(649)	29,316	—	2,523,859	7,472,581	149,454	7,622,035
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	—	96,162	96,162	(12,688)	83,474
Other comprehensive income (expense) for the period	—	—	—	—	(65,783)	—	—	(313)	—	1,246	—	(64,850)	—	(64,850)
Total comprehensive income (expense) for the period	—	—	—	—	(65,783)	—	—	(313)	—	1,246	96,162	31,312	(12,688)	18,624
Appropriation	—	—	—	—	—	1,221	—	—	—	—	(1,221)	—	—	—
Capital contributions by non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	82,600	82,600
Acquisition of additional interest in subsidiaries	—	—	—	(5,651)	—	—	—	—	—	—	—	(5,651)	(16,549)	(22,200)
At 30 June 2012 (unaudited)	102,543	4,170,931	77,651	158,202	(65,783)	353,963	52,335	(962)	29,316	1,246	2,618,800	7,498,242	202,817	7,701,059

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six months ended 30 June 2013

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Deemed capital contribution reserve RMB'000	Capital reserve RMB'000	Investment revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Share option reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2013 (audited)	102,543	4,170,931	77,651	158,628	(59,587)	366,125	52,335	(910)	29,316	(6,496)	2,648,902	7,539,438	205,125	7,744,563
Loss for the period	—	—	—	—	—	—	—	—	—	—	(289,274)	(289,274)	(27,079)	(316,353)
Other comprehensive income (expense) for the period	—	—	—	—	66,982	—	—	(144)	—	2,821	—	69,659	—	69,659
Total comprehensive income (expense) for the period	—	—	—	—	66,982	—	—	(144)	—	2,821	(289,274)	(219,615)	(27,079)	(246,694)
Capital contributions by non-controlling shareholders of subsidiaries	—	—	—	1,810	—	—	—	—	—	—	—	1,810	75,415	77,225
Acquisition of additional interest in subsidiaries	—	—	—	746	—	—	—	—	—	—	—	746	(4,519)	(3,773)
At 30 June 2013 (unaudited)	102,543	4,170,931	77,651	161,184	7,395	366,125	52,335	(1,054)	29,316	(3,675)	2,359,628	7,322,379	248,942	7,571,321

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2013

	Six months ended	
	30.06.2013	30.06.2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Net cash (used in) from operating activities	**(46,898)**	1,088,366
Net cash used in investing activities		
Placement of pledged bank deposits	**(1,802,906)**	(2,460,255)
Purchase of property, plant and equipment	**(673,902)**	(431,429)
Deposit paid for land lease	**(57,981)**	(20,006)
Additions of intangible assets	**(23,249)**	(72,272)
Purchase of available-for-sale investments	**(22,640)**	—
Prepayment for acquisition of property, plant and equipment	**(5,895)**	(80,862)
Prepaid lease payments paid	**(2,249)**	(213,946)
Withdrawal of pledged bank deposits	**1,418,580**	954,676
Proceeds on disposal of available-for-sale investments	**203,483**	—
Government grants related to non-current assets	**23,520**	66,095
Interest received	**19,683**	15,283
Proceeds on disposal of property, plant and equipment	**5,861**	32,758
Amount advanced to an associate	**—**	(51,255)
Acquisitions of interests in associates	**—**	(9,000)
	(917,695)	(2,270,213)
Net cash (used in) from financing activities		
New bank borrowings raised	**6,523,490**	4,699,715
Capital contribution by non-controlling shareholders	**77,225**	82,600
Repayment of bank borrowings	**(6,441,506)**	(3,180,823)
Interest paid	**(302,736)**	(280,913)
Acquisition of additional interest in subsidiaries	**(3,773)**	(22,200)
	(147,300)	1,298,379
Net (decrease) increase in cash and cash equivalents	**(1,111,893)**	116,532
Cash and cash equivalents at 1 January	**2,404,502**	2,174,592
Cash and cash equivalents at 30 June, representing bank balances and cash	**1,292,609**	2,291,124

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and with International Accounting Standard 34 ("IAS 34") *Interim Financial Reporting.*

The condensed consolidated financial statements are presented in Renminbi ("RMB"), the currency of the primary economic environment in which the principal subsidiaries of the Company operate (same as the functional currency of the Company).

In preparing the condensed consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group. The Group relies on borrowings, particularly bank loans, as a significant source of liquidity. As at 30 June 2013, the Group's borrowings comprising bank loans, short term commercial papers and medium term commercial papers amounted to approximately RMB8,785 million. The directors of the Company are of the opinion that the bank loans could be renewed as historical experience is such that the Group has no difficulty to obtain the renewal. Subsequent to the end of the reporting period, the Group has renewed RMB150 million of existing bank facilities.

At 30 June 2013, included in bank loans was syndicated loans (the "Syndicated Loans") of approximately RMB469 million (31 December 2012: RMB716 million), which have been classified as current liabilities in the respective condensed consolidated statements of financial position as the Company breached certain of the financial covenants of the Syndicated Loans' agreement at 31 December 2012 and 30 June 2013. On discovery of the breach, the Company informed the Syndicated Loans' lenders and commenced negotiations for a waiver (the "Waiver"). The waiver of the breach at 31 December 2012 was obtained subsequently in June 2013. The negotiation for the Waiver of the breach at 30 June 2013 is in progress. The directors of the Company are confident that negotiations with the Syndicated Loans' lenders will ultimately reach a successful conclusion. In any event, should the Syndicated Loans' lenders call for immediate repayment of the Syndicated Loans, the directors of the Company believe that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of the Group.

Further, during the period, with reference to the expected future cash flows, the directors of the Company assessed and reviewed its business operations, and made impairments on a joint venture engaged in the manufacture and sales of forged steel and fittings, and goodwill arising from certain cash generating units engaging in the manufacture and sales of propellers and the manufacture and sales of diesel engines. The Group will continue to focus on the development and expansion of its core business, being the manufacture and sale of gear products, and the Group has obtained certain sales orders of gear products for its production in 2014. The directors of the Company are confident that with the successful realignment of the Group's businesses, the Group will be able to improve its financial performance in the near future.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

1. BASIS OF PREPARATION *(Continued)*

Taking into account of the bank facilities and financial resources available to the Group and the Group's realignment of business, the directors of the Company are of the view that the Group has sufficient working capital for its present requirements for the next twelve months from the end of the reporting period and accordingly, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and method of computation used in the condensed consolidated financial statements for the six months ended 30 June 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

In the current interim period, the Group has applied, for the first time, certain new or amendments to International Financial Reporting Standards ("IFRSs") issued by International Accounting Standards Board ("IASB"):

- Amendments to IFRSs: Annual Improvements to IFRSs 2009-2011 Cycle
- Amendments to IFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities
- Amendments to IFRS 10, IFRS 11 and IFRS 12: Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
- IFRS 10: Consolidated Financial Statements
- IFRS 11: Joint Arrangements
- IFRS 12: Disclosure of Interests in Other Entities
- IFRS 13: Fair Value Measurement
- Amendments to IAS 1: Presentation of Items of Other Comprehensive Income
- IAS 19 (Revised 2011): Employee Benefits
- IAS 27 (Revised 2011): Separate Financial Statements
- IAS 28 (Revised 2011): Investments in Associates and Joint Ventures
- IFRIC 20: Stripping Costs in the Production Phase of a Surface Mine

Except as described below, the application of the above new or amendments to IFRSs in the current period has had no material effect on the amounts presented in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Amendments to IAS 34 Interim Financial Reporting (as part of the Annual Improvements to IFRSs 2009-2011 Cycle

The Group has applied the amendments to IAS 34 Interim Financial Reporting as part of the Annual Improvements to IFRSs 2009-2011 Cycle for the first time in the current interim period. The amendments to IAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (the "CODM") and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Impact of the application of IFRS 11

IFRS 11 replaces IAS 31 *Interests in Joint Ventures*, and the guidance contained in a related interpretation, SIC-Int 13 *Jointly Controlled Entities – Non-Monetary Contributions by Venturers*, has been incorporated in IAS 28 (as revised in 2011). IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under IFRS 11, there are only two types of joint arrangements – joint operations and joint ventures. The classification of joint arrangements under IFRS 11 is determined based on the rights and obligations of parties to the joint arrangements by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement, and, when relevant, other facts and circumstances. A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint operators) have rights to the assets, and obligations for the liabilities, relating to the arrangement. A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement (i.e. joint ventures) have rights to the net assets of the arrangement. Previously, IAS 31 had three types of joint arrangements – jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under IAS 31 was primarily determined based on the legal form of the arrangement (e.g. a joint arrangement that was established through a separate entity was classified as a jointly controlled entity).

The initial and subsequent accounting of joint ventures and joint operations are different. Investments in joint ventures are accounted for using the equity method (proportionate consolidation is no longer allowed). Investments in joint operations are accounted for such that each joint operator recognises its assets (including its share of any assets jointly held), its liabilities (including its share of any liabilities incurred jointly), its revenue (including its share of revenue from the sale of the output by the joint operation) and its expenses (including its share of any expenses incurred jointly). Each joint operator accounts for the assets and liabilities, as well as revenues and expenses, relating to its interest in the joint operation in accordance with the applicable standards.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

***Impact of the application of IFRS 11** (Continued)*

The directors of the Company reviewed and assessed the classification of the Group's investments in joint arrangements in accordance with the requirement of IFRS 11. The directors concluded that the Group's investment in joint arrangements, which were classified as jointly controlled entities under IAS 31 should be classified as joint ventures under IFRS 11 and continue to adopt equity method.

IFRS 13 *Fair Value Measurement*

The Group has applied IFRS 13 for the first time in the current interim period. IFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various IFRSs. Consequential amendments have been made to IAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of IFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other IFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. IFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

Disclosures of fair value information are set out in note 20.

Amendments to IAS 1 *Presentation of Items of Other Comprehensive Income*

The amendments to IAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to IAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require additional disclosures to be made in the other comprehensive section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Except as described above, the application of the above new or amendments to IFRSs in the current period has had no effect on the amounts presented in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

3. REVENUE AND SEGMENTAL INFORMATION

Revenue represents the amounts received and receivable for goods sold, net of sales taxes and return, for the period. The Group's major operation is the manufacture and sale of gear products.

The Group is organised in one business division only. 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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

3. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

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	
	30.06.2013	30.06.2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Segment revenue		
– PRC	**2,096,620**	2,374,072
– USA	**482,134**	876,238
– Europe	**32,837**	31,738
– Others	**28,760**	10,626
	2,640,351	3,292,674
Segment profit		
– PRC	**288,549**	561,676
– USA	**136,859**	207,307
– Europe	**7,452**	7,509
– Others	**4,608**	2,514
	437,468	779,006
Other income, gains and losses	**78,031**	15,104
Finance costs	**(286,729)**	(256,654)
Share of results of associates	**(916)**	(6,747)
Share of results of joint ventures	**(22,588)**	(6,525)
Unallocated expenses	**(498,301)**	(358,193)
(Loss) profit before taxation	**(293,035)**	165,991

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

4. OTHER GAINS AND LOSSES

	Six months ended	
	30.06.2013	30.06.2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Gain on fair value change of derivative financial instruments		
– interest rate swap	**—**	117
Net exchange gains (losses)	**10,211**	(7,717)
	10,211	(7,600)

5. TAXATION

	Six months ended	
	30.06.2013	30.06.2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
– PRC Enterprise Income Tax	**30,009**	69,743
– USA Corporate Income Tax	**5**	258
	30,014	70,001
(Over) under provision in prior years		
– PRC Enterprise Income Tax	**(1,074)**	7,071
– USA Corporate Income Tax	**—**	(69)
	(1,074)	7,002
Deferred tax (credit) charge	**(5,622)**	5,514
	23,318	82,517

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.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

5. TAXATION *(Continued)*

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% (2012: 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")	31 December 2012	31 December 2014
Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd. ("Gaochuan Sky")	31 December 2012	31 December 2014
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd. ("Shougao")	31 December 2012	31 December 2014
Zhenjiang Tongzhou Propeller Co., Ltd. ("Tongzhou")(1)	31 December 2010	31 December 2012

Note:

(1) The approval of Tongzhou expired. As at the report date, Tongzhou 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%. The subsidiary applied the rate of 25% for the calculation of Enterprise Income Tax for the six months ended 30 June 2013 (2012: 15%).

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

5. TAXATION *(Continued)*

At 30 June 2013, the Group has unused tax losses of RMB518,827,000(31 December 2012: RMB312,493,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB17,233,000 (31 December 2012: RMB85,427,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB501,594,000 (31 December 2012: RMB227,066,000) 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 2013, 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.

6. (LOSS) PROFIT FOR THE PERIOD

(Loss) profit for the period has been arrived at after charging (crediting):

	Six months ended	
	30.06.2013	30.06.2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Allowance for inventories (included in cost of sales)	**70,389**	6,121
Amortisation of intangible assets	**36,812**	32,102
Bank interest income	**(19,683)**	(15,283)
Depreciation of property, plant and equipment	**269,736**	261,248
Release of prepaid lease payments	**8,344**	7,421
Exchange (gains) losses	**(10,211)**	7,717
Gain on disposal of property, plant and equipment	**(2,569)**	(626)
Impairment loss on trade and other receivables, net (included in other expenses) (note)	**86,003**	40,438
Impairment loss on intangible assets (included in other expenses)	**2,492**	—
Impairment loss on goodwill (included in other expenses)	**14,724**	—
Impairment loss on interests in a joint venture (included in other expenses)	**53,000**	—

Note: During the six-month ended 30 June 2013, the Group assessed the recoverability of trade receivables and provided RMB86,003,000 (six-month period ended 30 June 2012: RMB40,438,000) of impairment loss on trade receivables where events or changes in circumstances indicated that the balances may not be collectible.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

7. DIVIDENDS

The directors do not recommend payment of an interim dividend for the six-month period ended 30 June 2013 (six-month period ended 30 June 2012: nil).

8. (LOSS)/EARNINGS PER SHARE

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

	Six months ended	
	30.06.2013	30.06.2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
(Loss)/earnings		
(Loss)/earnings for the purposes of basic and diluted (loss)/earnings per share ((Loss)/profit for the period attributable to owners of the Company)	**(289,274)**	96,162

	30.06.2013	30.06.2012
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Number of ordinary shares in issue for the purpose of basic and diluted (loss)/earnings per share	**1,362,743**	1,362,743

The computation of diluted earnings per share for the periods ended 30 June 2013 and 2012 do not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price during the periods. Accordingly, the diluted (loss)/earnings per share is same as the basic (loss)/earnings per share for the periods ended 30 June 2013 and 2012.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

9. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

During six months ended 30 June 2013, the Group acquired property, plant and equipment of RMB733,614,000 (six months ended 30 June 2012: RMB478,801,000) for the purpose of expanding the Group's business.

In addition, during six months ended 30 June 2013, the Group prepaid RMB5,895,000 (six months ended 30 June 2012: RMB80,862,000) for acquisition of property, plant and equipment.

At 30 June 2013, the Group is in the process of obtaining property certificates for the buildings with carrying amount of RMB1,212,553,000 (31 December 2012: RMB1,147,341,000).

At 30 June 2013, the Group is in the process of obtaining land use rights certificates in respect of medium-term land use rights located in the PRC with carrying amount of RMB550,258,000 (31 December 2012: RMB551,203,000).

10. GOODWILL

For the purposes of impairment testing, the carrying values of goodwill have been allocated to three groups of cash generating units ("CGUs") including manufacture and sales of propellers ("Unit A"), engineering processing and manufacturing ("Unit B") and manufacture and sales of diesel engines ("Unit C").

The recoverable amounts of the CGUs been determined based on a value in use calculation. That calculation uses cash flow projections bases on financial budgets approved by management covering a five-year period, and discount rate of 11%, 11% and 10%, respectively. Other key assumptions for the value in use calculations relate to the estimation of cash inflows/outflows which include budgeted sales and gross margin, such estimation is based on these units' past performance and management's expectations for the market development.

Expected future cash flow dropped mainly due to reduction in budgeted future sales. Accordingly, during the period ended 30 June 2013, the Group recognised an impairment loss of RMB14,724,000 (six months ended 30 June 2012: nil) in relation to goodwill arising on acquisition of Unit A and Unit C. At 30 June 2013, the Group determined that there is no impairment in relation to goodwill arising on acquisition of Unit B.

11. INTANGIBLE ASSETS

During six months ended 30 June 2013, the Group capitalized development cost of RMB20,790,000 (six months ended 30 June 2012: RMB72,272,000) for the purpose of developing new products.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

12. INTEREST IN JOINT VENTURES

	30.06.2013 RMB'000 (Unaudited)	31.12.2012 RMB'000 (Audited)
Cost of unlisted investments in jointly ventures	587,120	587,120
Accumulated share of post-acquisition results, net of dividend received	2,864	25,452
Less: impairment loss recognised (note)	(53,000)	—
	536,984	612,572

Note: At the end of each reporting period, the directors of the Company assess whether there is any indication that the interest in joint ventures may be impaired. A review for impairment has been carried out considering the deteriorating economic performance of a joint venture of the Group. As the carrying amount was lower than its recoverable amount, an impairment loss of RMB53,000,000 was recognised during the period ended 30 June 2013 (six months ended 30 June 2012: nil).

13. TRADE AND OTHER RECEIVABLES

	30.06.2013 RMB'000 (Unaudited)	31.12.2012 RMB'000 (Audited)
Accounts receivable (note)	3,664,848	3,127,199
Bills receivable	669,781	1,153,277
Less: allowance for doubtful debts	(349,978)	(264,802)
Total trade receivables	3,984,651	4,015,674
Advances to suppliers	791,127	440,243
Value-added tax recoverable	130,195	137,208
Other receivables	129,168	77,342
Less: allowance for doubtful debts of other receivable	(2,530)	(2,530)
Total trade and other receivables	5,032,611	4,667,937

Note: At 30 June 2013, the Group hold letters of credit issued by the customers' banks amounted to RMB79,980,000 (31 December 2012: RMB220,000,000) over these balances.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

13. TRADE AND OTHER RECEIVABLES *(Continued)*

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:

	30.06.2013 RMB'000 (Unaudited)	31.12.2012 RMB'000 (Audited)
0 – 90 days	2,101,770	1,987,109
91 – 120 days	233,855	376,173
121 – 180 days	361,219	669,599
181 – 365 days	877,865	690,835
1 – 2 years	375,738	259,552
Over 2 years	34,204	32,406
	3,984,651	4,015,674

14. TRADE AND OTHER PAYABLES

	30.06.2013 RMB'000 (Unaudited)	31.12.2012 RMB'000 (Audited)
Accounts payable	1,722,650	1,533,857
Notes payable (note)	729,556	449,585
Total trade payables	2,452,206	1,983,442
Advances from customers	462,825	360,987
Purchase of property, plant and equipment	214,842	260,965
Payroll and welfare payables	108,525	149,902
Accrued expenses	36,668	76,534
Value-added tax payable	38,832	51,939
Deferred income	9,156	9,856
Other payables	70,369	51,654
Total trade and other payables	3,393,423	2,945,279

Note: Notes payable are secured by certain of the Group's assets as set out in note 19.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

14. TRADE AND OTHER PAYABLES *(Continued)*

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

	30.06.2013	31.12.2012
	RMB'000	RMB'000
	(Unaudited)	(Audited)
0 – 30 days	**710,734**	589,788
31– 60 days	**410,086**	251,959
61 – 180 days	**991,398**	925,382
181 – 365 days	**238,081**	142,876
Over 365 days	**101,907**	73,437
	2,452,206	1,983,442

15. BORROWINGS

During the period, the Group obtained new borrowings in the amount of approximately RMB6,523,490,000 (six months ended 30 June 2012: RMB4,699,715,000). The borrowings bear fixed or floating interest at interest rates ranging from 1.59% to 6.9% per annum and are repayable within 1 to 5 years. The Group also repaid borrowings of approximately RMB6,441,506,000 (six months ended 30 June 2012: RMB3,180,823,000) during the period.

Borrowings are secured by certain of the Group's own assets as set out in note 19.

As at 30 June 2013, in relation to the Syndicated Loan of RMB469,189,000 (31 December 2012: RMB716,288,000), the Company breached certain of the financial covenants of the Syndicated Loans' agreement. Such Syndicated Loans have been classified as current liabilities in the condensed consolidated statements of financial position at 30 June 2013 and 31 December 2012.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

16. DERIVATIVE FINANCIAL INSTRUMENTS

	30.06.2013 RMB'000 (Unaudited)	31.12.2012 RMB'000 (Audited)
Cash flow hedge – interest rate swaps	**(3,675)**	(6,496)

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, denominated in Hong Kong Dollars (HKD) or in United States Dollars (US$) 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 2013 are set out below:

Notional amount	Maturity	Swaps
HKD157,500,000	18 April 2014	From HIBOR+2.05% to 2.80%
HKD367,500,000	11 April 2014	From HIBOR+2.05% to 2.87%
US$2,475,000	18 April 2014	From LIBOR+2.05% to 2.80%
US$5,775,000	11 April 2014	From LIBOR+2.05% to 2.93%

As at 30 June 2013, fair value loss of RMB3,675,000 (2012: RMB6,496,000) have been recognised in the other comprehensive income and accumulated in equity and are expected to be released to the condensed consolidated statement of profit or loss and other comprehensive income upon the payment of interest expense in accordance with the terms as stipulated in the bank borrowing agreements.

The above derivatives are measured at fair value which is estimated using valuation technique with reference to interest yield and discounted cash flow analysis.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

16. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

	Six months ended	
	30.06.2013	30.06.2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Derivative financial instruments at 1 January	**(6,496)**	—
Gain for the period recognised in other comprehensive income	**2,821**	1,246
Gain for the period recognised in profit or loss	**—**	117
At 30 June	**(3,675)**	1,363

17. SHARE CAPITAL

	Number of shares (in thousand)	Amount US$'000	Equivalent to RMB'000
Ordinary shares of US$0.01 each			
Authorised:			
At 1 January 2012, 31 December 2012 and 30 June 2013 (unaudited)	3,000,000	30,000	234,033
Issued and fully paid:			
At 1 January 2012, 31 December 2012 and 30 June 2013 (unaudited)	1,362,743	13,627	102,543

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

18. CAPITAL COMMITMENTS

	30.06.2013 RMB'000 (Unaudited)	31.12.2012 RMB'000 (Audited)
Commitments contracted for but not provided in the condensed consolidated financial statements in respect of:		
– land leases	45,296	138,075
– property, plant and equipment	888,087	849,023
– the additional investments in an associate	12,000	12,000
	945,383	999,098

19. 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:

	30.06.2013 RMB'000 (Unaudited)	31.12.2012 RMB'000 (Audited)
Bank deposits	2,282,038	1,897,712
Accounts receivable	426,425	860,205
Bills receivable	—	18,129
Property, plant and equipment	43,303	46,017
Prepaid lease payments	10,010	10,116
	2,761,776	2,832,179

20. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair value of these financial assets and financial liabilities are determined, as well as the level of the fair value hierarchy into which the fair value measurements are categorised (level 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

20. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS *(Continued)*

- Level 2 fair value measurement s are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Financial assets/ financial liabilities	Fair value as at		Fair value hierarchy	Basis of fair value measurement/ valuation technique and key input	Significant unobservable input	Relationship of unobservable inputs to fair value
	30.06.2013	31.12.2012				
1) Interest rate swaps classified as derivative financial instruments in the condensed consolidated statement of financial position	**Liabilities (designated for hedging) – RMB3,675,000**	Liabilities (designated for hedging) – RMB6,496,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
2) Listed equity securities classified as available-for-sale investments in the condensed consolidated statements of financial position	**Listed equity securities in Hong Kong: – Manufacturing industry – RMB97,934,000**	Listed equity securities in Hong Kong: – Manufacturing industry – RMB195,292,000	Level 1	Quoted bid prices in an active market.	N/A	N/A

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximately their fair values.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

21. 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 30.06.2013 RMB'000 (Unaudited)	Six months ended 30.06.2012 RMB'000 (Unaudited)
Nanjing Longwin Windpower Equipment Manufacturing Co., Ltd.	Associate	Purchase of goods	**6,200**	20,125
Nanjing High Accurate Construction Equipment Co., Ltd.	Joint venture	Sales of goods	**19,108**	65,724
		Purchase of goods	**641**	—
Shandong Energy Machinery Group Zhong-Chuan Heavy Duty Mine Equipment Manufacturing Co., Ltd.	Joint venture	Sales of goods	**5,816**	7,322
Jiangsu Hongsheng Heavy Industries Group Co., Ltd.	Joint venture	Purchase of goods	**8,998**	15,437

(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 joint ventures relate to trade balances, except for the amount included in the balance of amount due to Nanjing E-crystal Energy Co., Ltd of RMB53,163,000 (31 December 2012: RMB53,163,000) related to purchase of property, plant and equipment. 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 365 days.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2013

21. RELATED PARTY DISCLOSURES *(Continued)*

(III) Compensation of key management personnel

	Six months ended	
	30.06.2013	30.06.2012
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees	**220**	180
Salaries and other emoluments	**7,350**	7,350
	7,570	7,530