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)

ANNUAL 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

AUDITORS

Deloitte Touche Tohmatsu

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1302
13th Floor
Top Glory Tower
No.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

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

CORPORATE INFORMATION

AUTHORISED REPRESENTATIVES

Mr. Liao Enrong
Mr. Lui Wing Hong, Edward

PRINCIPAL BANKERS

China Construction Bank Limited, Jiangsu Provincial 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 ("Stock Exchange")
(Stock Code: 00658)

PERFORMANCE HIGHLIGHTS

Revenue for 2013 was approximately RMB6,539,058,000, representing an increase of 2.7% as compared with 2012.

Profit attributable to owners of the Company for 2013 was approximately RMB64,573,000, representing a decrease of 53.4% as compared with 2012.

Basic and diluted earnings per share for 2013 were both RMB0.047, representing a decrease of 53.9% as compared with 2012.

The Board did not recommend payment of a final dividend for 2013.

CHAIRMAN'S STATEMENT

I am pleased to present the 2013 annual report of China High Speed Transmission Equipment Group Co., Ltd. (the "Company"). For the year ended 31 December 2013 (the "Period under Review"), the Company and its subsidiaries (collectively referred to as the "Group") recorded sales revenue of approximately RMB6,539,058,000, representing an increase of approximately 2.7% from 2012. Profit attributable to owners of the Company was approximately RMB64,573,000, representing a decrease of approximately 53.4% from 2012. The gross profit margin for the year was 24.9%, representing increase of 0.5 percentage points from last year.

2013 was the year in which the Group faced most difficult challenges since its listing in the Hong Kong Stock Exchange. In particular, the product shipments in the wind power industry dropped significantly due to unfavourable domestic and overseas economic conditions in the first quarter of 2013, preventing the achievement of the Group's overall operation objective.

During the Period under Review, the PRC government maintained its tight currency policiy to adjust and control economic growth, resulting in the decrease in capital expenditure across various industries and restricting the market demand for our products. There still had been excessive production capacity in the equipment manufacturing industry in the PRC, which had imposed huge pressure on the volume of purchase orders for the Group's traditional transmission equipment products.

Facing formidable challenges during the Period under Review, the Group remained unified and worked towards a common goal. Unintimidated by the difficulties and by bringing our strong, innovative and dauntless spirit into full play, we successfully withstood the decrease in market demand for wind power gear boxes in the first quarter of the year. In the face of huge pressure on the market demand for traditional transmission equipment products, our revenue managed to remain at the same level as last year. The volume of purchase orders for our marine products in both domestic and overseas markets increased considerably, paving the way for our development in 2014. Our performance stood out from the crowd in the machinery industry in Nanjing and also ranked among the best in the PRC manufacturing industry.

The PRC wind power industry started to recover in the second half of 2013, with indicators such as new installed capacity, tender price and utilisation hours improving from 2012. According to a preliminary statistics of Chinese Wind Energy Association, in respect of wind power, newly installed accumulated capacity amounted to 16.10 million kW, on-grid accumulated installed capacity reached 78 million kW, and total installed capacity exceeded 90 million kW in 2013. Wind power maintained its position as the third largest power source, preceding nuclear power. Average wind power utilisation hours exceeded 2,000 hours, over 100 hours more than 2012. Wasted wind power amounted to 15 billion kWh, 5 billion kWh lower than 2012. As favorable factors accumulate, it is estimated that wind power installed capacity will continue to grow in 2014. The recovery of the wind power industry is worth expecting. Nonetheless, in the long run, the consolidation, transformation and upgrade of the industry will inevitably accumulate power as and when new opportunities arise. Industry consolidation will eliminate excessive productivity and improve the quality of wind power generating units and facilitate the development of wind power industry in a longer term. With the introduction of new technologies and the support of government policies on new energy, the prospect of the industry is to step into the track of sound development.

CHAIRMAN'S STATEMENT

As a leading manufacturer of wind gear transmission equipment in the PRC, the Group has over 40 years of experience in the wind power equipment manufacturing sector. In respect of wind power gear box transmission equipment, the Group targets to expand its product scale, diversify its product mix and produce products applicable to low wind speed for future development plans. In addition to bulk export to the United States, it will strive to expand into Europe, and emerging markets such as India and Brazil so as to constantly expand its market share and customer base. The Group supplied 149 units of 3MW wind power gear boxes to its customers in 2013. 5MW and 6MW wind power gear box transmission equipment have been successfully developed. The Group also established good cooperation with renowned domestic and international wind turbine manufacturers, including GE Energy, Nordex, Vestas, Repower, Hitachi, Alstom, Suzlon, Goldwind (金風科技), Sinovel (華鋭風電), Guangdong Mingyang (廣東明陽), Shanghai Electric (上海電氣), Guodian United (國電聯合) and Dongfang Electric (東方電氣). The Group has received wide recognition and trust for its quality products and services. We will continue to focus on stabilizing our product quality and increase international competitiveness, so as to further increase our market share.

Traditional products represent the second largest business segment of the Group. Amid fierce market competition, the Group will endeavour to consolidate its leading position in China by improving quality control system, further optimising marketing efforts and strengthening technological innovation.

With 2013 passing by and looking forward to 2014, the wind power industry will not only benefit from the national policies of vigorous development of new energy and renewable energy, but also will see a bright future with steady growth of macro economies. The Group will continue to maintain a cautious and pragmatic operating strategy, adhere to the theory of focusing on product quality and reputation and actively capture the development opportunities resulting from the economic system reform and transformation of the pattern of economic development to realize steady and innovative development, while proactively consolidating the traditional business and strongly developing its four new segments, i.e., coal mine machinery, electric control, heavy duty high precision machine tools and LED (Light Emitting Diode).

I would like to express my heartfelt thanks to the management, the Board, all staff, shareholders and investors who have contributed to and put faith in the Group as well as our business partners who have been supportive of the Group.

Hu Yueming
Chairman
28 March 2014

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. For the year ended 31 December 2013, the Group recorded sales revenue of approximately RMB6,539,058,000 (2012: RMB6,368,817,000), representing an increase of approximately 2.7% from 2012. The gross profit margin was approximately 24.9% (2012: 24.4%). Profit attributable to owners of the Company was approximately RMB64,573,000 (2012: RMB138,426,000), representing a decrease of 53.4% from 2012. Basic and diluted earnings per share attributable to the owners of the Company were both amounted to RMB0.047 (2012: RMB0.102).

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 of wind power gear transmission equipment business increased by approximately 4.8% to approximately RMB4,140,327,000 (2012: RMB3,951,965,000) as compared with last year. The increase was attributable to the fact that the wind power industry started to recover in the second quarter of 2013. There were signs of the overcoming of the grid connection issues, leading to the gradual rebound of shipments.

   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's research and development has achieved good results. Of these, the 1.5MW and 2MW wind power gear transmission equipment has been provided to domestic and overseas customers in bulk. The product technology has reached an international advanced technical level and is well recognised by customers of the Group. In addition, the Group has started the mass production of 3MW large wind gear transmission equipment, which will secure more business for the Group. During the Period under Review, the Group delivered 149 units of 3MW wind power gear box transmission equipment to customers. Furthermore, the Group signed contracts with certain major wind turbine manufacturers in the PRC to conduct research on 5MW and 6MW wind power gear box transmission equipment, which have been successfully developed.

   Currently, the Group maintains a strong customer portfolio. Customers of its wind power business include the major wind turbine manufacturers in the PRC, as well as renowned international wind turbine manufacturers such as GE Energy, Nordex, Vestas, REpower, Hitachi, etc. With the Group's increasingly globalised operation, major overseas wind power equipment manufacturers such as Alstom Wind and Suzlon have also become the overseas customers of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

2. **Marine gear transmission equipment**

Actively expand the domestic market

While the global ship market continued to suffer from a downturn in 2013, the Group's marine transmission equipment business realised encouraging development. Its market share grew significantly, with the number of marine product orders received in 2013 representing 120% of that in 2012. The Group continued to focus on research and development of new products and market expansion, and nine series of marine products have been applied in all equipment of overall ship propulsion system. The propulsion equipment manufactured by Nanjing High Accurate Marine Equipment Co., Ltd. ("NGC-MARINE"), a wholly-owned subsidiary of the Group, is also applied in fishery patrols in the domestic sea area and is well known in the overall marine supplementary business as the only technology-driven manufacturer of marine supplementary products in the PRC capable of providing global shipment and global warranty services. In 2013, in addition to the 46m-long anchors supplementing propulsion systems supplied to a Singaporean customer for use as tug boats which have contributed to the successful trial sailing and ship delivery, NGC-MARINE also received an order from a customer in Southeast Asia for propulsion systems for five triple-purpose operation ships and an order for propulsion systems for a total of 31 government law-enforcement ships, and entered into a strategic partnership framework agreement with Siemens Limited China. The Group has received invention patents granted by the State Intellectual Property Office for its products "Telescopic lateral thruster" (伸縮式側向推進器) and "A type of paralleling dual-PTO (power take-off) marine gearbox" (一種並車雙PTO船用齒輪箱). In the coming year, the Group will continue to promote the diversity of its marine transmission equipment products in order to leverage the momentum of market recovery to lay a solid foundation for its future development.

During the Period under Review, sales revenue of marine gear transmission equipment increased to approximately RMB340,523,000 (2012: RMB250,940,000), representing an increase of 35.7% over last year.

MANAGEMENT DISCUSSION AND ANALYSIS

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

Achievements in the research and development and promising market potential

The Group also recorded solid performance in respect of transmission equipment for high-speed locomotives, metro lines and urban light rail segments. In addition to an order of over 380 units of metro gear boxes by Qingdao Metro Line 3, it also entered into sales agreements in respect of Hong Kong Metro South District Line (香港地鐵南島線), 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. Furthermore, locomotive tractive gears manufactured by Nanjing High Speed Gear Manufacturing Co., Ltd., a wholly-owned subsidiary of the Group, successfully passed the certification of China Railway Test & Certification Centre (CRCC) in 2013, signaling that the Group has formally become a qualified supplier of China Railway Corporation. Currently its products have been successfully applied in Beijing, Shanghai, Shenzhen, Nanjing, Qingdao, Dalian, Suzhou, Hong Kong and Singapore. The Group will continue to expand three major business segments being high-speed railway, metro line and urban light rail and accelerate the research and development of light rail and high-speed railway gear equipment so as to enable the rail transportation transmission equipment to become a new source of growth of the Group.

During the Period under Review, such business generated sales revenue of approximately RMB106,308,000 for the Group (2012: RMB80,056,000), representing an increase of 32.8% over last year.

4. **Traditional transmission products**

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

The Group's traditional gear transmission equipment products are mainly provided for customers from various industries including metallurgy, construction materials, traffic, transportation, petrochemicals, aerospace and mining. During the Period under Review, sales of high-speed heavy-load gear transmission equipment and other products increased by 36.8% and 4.0% to RMB10,961,000 (2012: RMB8,013,000) and RMB639,642,000 (2012: RMB614,775,000), respectively. Sales 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 RMB455,939,000 (2012: RMB541,112,000), RMB63,539,000 (2012: RMB91,067,000) and RMB362,512,000 (2012: RMB474,064,000), representing decreases of 15.7%, 30.2% and 23.5%, respectively.

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

MANAGEMENT DISCUSSION AND ANALYSIS

During the Period under Review, the Group's planetary reducers of drive cement mill were successfully exported to the Philippines for use in a cement grinding mill production line to replace products under a renowned foreign brand.

In June 2013, the Group's metallurgy product series were exhibited at the 17th Shanghai Metallurgy Expo held in Shanghai, at which we introduced the Group's technological and product advantages to customers and communicated with a large number of domestic and overseas partners through which we have established long-term cooperation with them.

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 establish a presence in the heavy and high-end market and provide advanced machine tools for the 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. During the Period under Review, two machine tool companies within the Group were included in the list of "the 2013 second batch of private technology enterprises in Jiangsu Province". During the Period under Review, the Group provided CNC machine tool products to customers through various subsidiaries and recorded sales revenue of approximately RMB238,255,000 (2012: RMB181,306,000), representing an increase of 31.4% over last year.

MANAGEMENT DISCUSSION AND ANALYSIS

6. **Diesel engine product industry**

In order to 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, formerly known as Nantong Diesel Engine Factory, was first established in 1958. The company was reformed as a state-owned stock company approved by Organization Reformation Committee of Jiangsu Province in 1993 and then as a non-state-owned stock company in 2003 based on withdrawal of state-owned capital stock. It was strategically restructured with the Company in 2010 as a subsidiary of the Group.

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

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

During the Period under Review, the Group's sales revenue from diesel engines amounted to approximately RMB181,052,000 (2012: RMB175,519,000), representing an increase of 3.2% over last year.

LOCAL AND EXPORT SALES

During the Period under Review, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. During the Period under Review, the overseas sales amounted to approximately RMB1,302,596,000 (2012: RMB1,462,919,000), representing a decrease of 11.0% over last year. Overseas sales accounted for 19.9% to total sales (2012: 23.0%), representing a decrease of 3.1% to total sales over the previous year. At present, the overseas customer base of the Group is mainly in the U.S. and other countries such as India, Japan and Europe. Although the economies in Europe and the U.S. were yet to be fully recovered during the Period under Review, the Group introduced different types of products in order to extend its coverage to the overseas 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 at 31 December 2013, the Group was granted 291 patents in total. Besides, the Group has applied for 46 patents which are pending for approval. The Group was the first producer to adopt ISO1328 and ISO06336 international standards. It was nominated as an enterprise for the 863 State Plan and a Computer Integrated Manufacturing System (CIMS) Application Model Enterprise by the Ministry of Science and Technology of the PRC. Until now, the Company passed ISO9001:2008 quality management system certification, ISO14001:2004 environmental management system certification and GB/T28001-2001 Occupational Health and Safety Management System Certification. Nanjing High Accurate Marine Equipment Co., Ltd., a subsidiary of the Company, has strictly complied with international standards and the requirements of various classification societies in designing and manufacturing marine products. Its products have passed the inspection of and obtained certifications from classification societies such as China Classification Society (CCS), Bureau Veritas (BV) in France, Germanischer Lloyd (GL) in Germany, American Bureau of Shipping (ABS) in the United States, Lloyd's Register of Shipping (LR) in the UK, Registro Italiano Navale (RINA) in Italy, Det Norske Veritas (DNV) in Norway, Russian Maritime Register of Shipping (RMRS) in Russia and Nippon Kaiji Kyokai (NK) in Japan. 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), DEWI-OCC Offshore and Certification Centre in Germany and the rail transportation products have passed the IRIS (an international standard of the rail road industry) certification. The coal mining machinery products of Zhong-Chuan Heavy Duty Equipment Co., Ltd., ("Zhong-Chuan Heavy Duty"), a subsidiary of the Company, have passed the certification by the safety mark centers of mining products in the safety mark member countries.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

The Group's sales revenue increased by 2.7% to approximately RMB6,539,058,000 during the Period under Review.

Revenue

	Year ended 31 December	
	2013 RMB'000	2012 RMB'000
High-speed Heavy-load Gear Transmission Equipment	**10,961**	8,013
Gear Transmission Equipment for Construction Materials	**362,512**	474,064
General Purpose Gear Transmission Equipment	**63,539**	91,067
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	**455,939**	541,112
Other products	**639,642**	614,775
Traditional Products - Subtotal	**1,532,593**	1,729,031
Wind Gear Transmission Equipment	**4,140,327**	3,951,965
Marine Gear Transmission Equipment	**340,523**	250,940
Transmission Equipment for High-speed Locomotives, metros and Urban Light Rails	**106,308**	80,056
CNC Products	**238,255**	181,306
Diesel Engine Products	**181,052**	175,519
Total	**6,539,058**	6,368,817

MANAGEMENT DISCUSSION AND ANALYSIS

REVENUE

The Group's sales revenue for 2013 was approximately RMB6,539,058,000, representing an increase of 2.7% as compared with last year. The increase was mainly due to the pickup in orders from customers for wind power gear box products starting from the second quarter of 2013. During the Period under Review, the average selling prices of wind power gear box equipment remained steady, and sales revenue of wind power gear box equipment increased from approximately RMB3,951,965,000 last year to approximately RMB4,140,327,000 during the Period under Review, representing an increase of 4.8%. During the Period under Review, the Group's sales revenue from traditional transmission products was approximately RMB1,532,593,000, representing a decrease of 11.4% as compared with last year. During the Period under Review, sales revenue of transmission equipment for high-speed locomotives, metros and urban light rails, and diesel engine products amounted to approximately RMB106,308,000 and RMB181,052,000, representing an increase of 32.8% and 3.2% as compared with last year respectively. During the Period under Review, the Group's sales revenue from CNC products and marine gear transmission equipment was approximately RMB238,255,000 (2012: RMB181,306,000) and RMB340,523,000 (2012: RMB250,940,000) respectively.

Gross profit margin and gross profit

The Group's consolidated gross profit margin for 2013 was approximately 24.9% (2012: 24.4%), representing a slight increase of 0.5 percentage point from last year, and its consolidated gross profit amounted to approximately RMB1,630,832,000 (2012: RMB1,553,354,000), representing an increase of 5.0% from last year. The increases in both consolidated gross profit margin and consolidated gross profit were mainly due to (1) the increase in allowance for inventories; and (2) the fact that the price of wind gear transmission equipment, being the Group's principal products, remained stable while the Group implemented strict cost control during the period under review.

Other income, other gains and losses

The total amount of other income of the Group for 2013 was approximately RMB333,530,000 (2012: RMB215,192,000), representing an increase of 55.0% as compared with last year. Other income is mainly comprised of bank interest income, government grants, sales of scraps and materials etc.

During the Period under Review, other gains and losses recorded a net gain of approximately RMB13,143,000, is mainly comprised of gain from disposal of available-for-sale financial assets, foreign currency exchange gain and loss on disposal of fixed assets (2012: a net loss of RMB2,354,000).

Distribution and selling costs

The distribution and selling costs of the Group for 2013 were approximately RMB281,246,000 (2012: RMB278,779,000), representing an increase of 0.9% as compared with last year. The costs were mainly product packaging, transportation expenses and staff costs. The percentage of distribution and selling costs to sales revenue for the Period under Review, was 4.3% (2012: 4.4%), representing a decrease of 0.1% as compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Administrative expenses

Administrative expenses of the Group increased from approximately RMB502,090,000 for 2012 to approximately RMB613,280,000 for 2013, mainly due to the increase in expenses of staff remuneration. The percentage of administrative expenses to sales revenue increased by 1.5% to 9.4% as compared with last year.

Other expenses

Other expenses of the Group for 2013 were RMB229,330,000 (2012: RMB88,518,000), the increase was mainly due to increases in provision for bad debts, provision for impairment losses on investment in joint ventures and impairment loss on goodwill. After taking into various factors such as industry and domestic and international economies, the management believes that increasing provision for bad debts and provision for impairment losses on investment in joint ventures were complied with sound financial principle.

Finance costs

In 2013, the finance costs of the Group were approximately RMB564,178,000 (2012: RMB523,878,000), representing an increase of 7.7% as compared with last year, which was mainly due to the increase of medium-term notes and private placement bond issuance and also the increase of bank borrowing rate.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2013, the equity attributable to owners of the Company amounted to approximately RMB8,513,877,000 (31 December 2012: RMB7,539,438,000). The Group had total assets of approximately RMB22,970,686,000 (31 December 2012: RMB19,882,234,000), representing an increase of RMB3,088,452,000, or 15.5%, as compared with the beginning of the year. Total current assets were approximately RMB13,633,411,000 (31 December 2012: RMB10,813,173,000), representing an increase of 26.1% as compared with the beginning of the year and accounting for 59.4% of total assets (31 December 2012: 54.4%). Total non-current assets were approximately RMB9,337,275,000 (31 December 2012: RMB9,069,061,000), representing an increase of 3.0% as compared with the beginning of the year and accounting for 40.6% of the total assets (31 December 2012: 45.6%).

As at 31 December 2013, total liabilities of the Group were approximately RMB14,208,985,000 (31 December 2012: RMB12,137,671,000), representing an increase of RMB2,071,314,000 as compared with the beginning of the year. Total current liabilities were approximately RMB11,508,601,000 (31 December 2012: RMB10,644,796,000), representing an increase of 8.1% as compared with the beginning of the year, whereas total non-current liabilities were approximately RMB2,700,384,000 (31 December 2012: RMB1,492,875,000), representing an increase of 80.9% as compared with the beginning of the year.

As at 31 December 2013, the net current asset of the Group was approximately RMB2,124,810,000 (31 December 2012: RMB168,377,000), representing an increase of RMB1,956,433,000, or 1,161.9%, as compared with the beginning of the year.

MANAGEMENT DISCUSSION AND ANALYSIS

As at 31 December 2013, total cash and bank balances of the Group were approximately RMB4,949,986,000 (31 December 2012: RMB4,302,214,000), including pledged bank deposits of RMB2,514,615,000 (31 December 2012: RMB1,897,712,000), and structured bank deposits of RMB200,000,000 (31 December 2012: nil).

As at 31 December 2013, the Group had total borrowings of approximately RMB9,446,894,000 (31 December 2012: RMB8,737,357,000), of which short-term borrowings were RMB7,108,698,000 (31 December 2012: RMB7,449,119,000), accounting for approximately 75.2% (31 December 2012: 85.3%) of the total borrowings. The short-term borrowings are repayable within one year. The fixed or floating interest rates of the Group's borrowings for 2013 ranged from 1.41% to 6.90% per annum.

Taking into account of the internal financial resources of and the banking facilities available to the Group, the proceeds of approximately HK$1,082,000,000 raised from the placing of 272,548,000 new shares on 19 December 2013 and the net current asset of RMB2,124,810,000, the Directors of the Company believe that the Group will have sufficient capital to meet its working capital requirements and foreseeable capital expenditure.

Gearing ratio

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) slightly increased from 61.0% as at 31 December 2012 to 61.9% as at 31 December 2013, due to the increase of medium-term notes and private placement bond issuance during the Period under Review.

Capital structure

On 6 December 2013, the Company agreed to place 272,548,000 shares to not less than six independent placees. The placing was completed on 19 December 2013 with details below:

1. Reason: having taken into consideration of several financing channels, the Directors are of the opinion that the placing is able to raise funds for the Company while broadening its shareholder base and capital base.

2. Class of shares: ordinary shares

3. Number of shares to be placed and total nominal amount: US$2,725,480, divided into 272,548,000 shares with nominal value of US$0.01 each

4. Offer price: HK$3.98

5. Net price: HK$3.97

6. Placees: not less than six independent placees. Among which, Glorious Time Holdings Limited ("Glorious Time"), a company incorporated in the British Virgin Islands, whose ultimate beneficial owner is Mr. Ji Chang Qun, subscribed for 255,962,000 new Shares, representing approximately 15.56% of the then issued share capital of the Company of 1,635,291,556 Shares as enlarged by the issue of the 272,548,000 new Shares under the placing. As such, Glorious Time became a substantial Shareholder (as defined in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules")) immediately after completion of the Placing.

MANAGEMENT DISCUSSION AND ANALYSIS

7. Closing price at the date of the agreement: HK$4.05

8. Use of proceeds: the Company intends to utilise the net proceeds from the Placing as general working capital purpose.

Please refer to announcements of the Company dated 6, 9 and 19 December 2013, respectively.

The Group's operations were financed mainly by shareholder's equity, bank 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 31 December 2013 amounted to approximately HK$672,500,000 and US$132,420,000 respectively.

On 18 February 2013, Nanjing High Speed Gear Manufacturing Co., Ltd. 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 was repaid on 18 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. ("NGC"), a wholly-owned subsidiary of the Company, completed the issuance of the first batch medium-term notes with a total principal amount of RMB500,000,000 in the PRC. The first batch medium-term notes carry a fixed interest rate of 6.2% per annum with a term of five years, repayable on 21 May 2018. NGC intends to utilise the fund as raised for the 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. As at 31 December 2013, interest rate risk of the Group's bank borrowings of HK$262,500,000 and US$4,125,000 was hedged by using interest rate swaps which converted floating interest rate to fixed interest rate (see note 34 to the consolidated financial statements for details).

During the Period under Review, net of the impact from the utilisation by the Group of interest rate swap, the Group's borrowings with fixed interest rates to total borrowings was approximately 62.7%.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

The PRC wind power industry started to recover in the second half of 2013, with indicators such as new installed capacity, tender price and utilisation hours improving from 2012. According to a preliminary statistics of Chinese Wind Energy Association, in respect of wind power, new installed capacity amounted to 16.10 million kWh, on-grid installed capacity reached 78 million kWh, and total installed capacity exceeded 90 million kWh in 2013. Wind power maintained its position as the third largest power source, preceding nuclear power. Average wind power utilisation hours exceeded 2,000 hours, over 100 hours more than 2012. Power generated using other energy to replace wind amounted to 15 billion kWh, 5 billion kWh lower than 2012. As favorable factors accumulate, such as grid connection issues ease, it is estimated that wind power installed capacity will continue to grow in 2014. The recovery of the wind power industry is worth expecting. Nonetheless, in the long run, the consolidation, transformation and upgrade of the industry will inevitably accumulate power as and when new opportunities arise. Industry consolidation will eliminate excessive productivity and improve the quality of wind power generating units and facilitate the development of wind power industry in a longer term. With the introduction of new technologies and the support of government policies on new energy, the prospect of the industry is to step into the track of sound development.

With 2013 passing by and looking forward to 2014, the wind power industry will not only benefit from the national policies of vigorous development of new energy and renewable energy, but also will see a bright future with steady growth of macro economies. The Group will continue to maintain a cautious and pragmatic operating strategy, adhere to the theory of focusing on product quality and reputation and actively capture the development opportunities resulting from the economic system reform and transformation of the pattern of economic development to realize steady and innovative development, while striving to ensure the sound development of its existing business and strongly developing its four new segments, i.e., coal mine machinery, electric control, heavy duty high precision machine tools and LED (Light Emitting Diode).

PLEDGE OF ASSETS

Save as disclosed in note 38 to the consolidated financial statements, the Group has made no further pledge of assets as at 31 December 2013.

CONTINGENT LIABILITIES

Save as disclosed in note 41 to the consolidated financial statements, as at 31 December 2013, the Directors were not aware of any other material contingent liabilities.

COMMITMENTS

As at 31 December 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 land use right, and outstanding commitments payable under non-cancellable operating lease in respect of rented land and premises of approximately RMB650,764,000 and RMB5,656,000 respectively (31 December 2012: RMB999,098,000 and RMB9,773,000). Details are set out in notes 37 and 39 to the consolidated financial statements respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

FOREIGN EXCHANGE RISK

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 borrowings denominated in Hong Kong dollars and U.S. dollars as at 31 December 2013 amounted to approximately HK$672,500,000 and US$132,420,000 respectively and the net proceeds raised from the placing of 272,548,000 new shares on 19 December 2013 was approximately HK$1,082,000,000. Therefore, the Group may be exposed to certain foreign exchange rate risks.

The net gain of foreign exchange recorded by the Group during the Period under Review was approximately RMB20,116,000 (2012: a net loss of RMB2,354,000), which was due to the appreciation of 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 risks in 2013.

INTEREST RATE RISK

The loans of the Group are mainly sourced from bank borrowings, short-term commercial paper and mediun-term notes. Therefore, the benchmark lending rate announced by the People's Bank of China, the LIBOR and HIBOR 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

As at 31 December 2013, the Group employed approximately 9,293 employees (31 December 2012: 9,267). Staff cost of the Group for 2013 approximated to RMB1,116,800,000 (2012: RMB992,918,000). The cost included basic salaries, discretionary bonus and staff benefits such as medical and insurance plans, pension scheme, unemployment insurance plan, etc.

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

MANAGEMENT DISCUSSION AND ANALYSIS

The Group's criteria in relation to the determination of directors' remuneration take into consideration factors including but not limited to salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

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 creativity achievements in technologies and technical skills, management of information, product quality and enterprise management.

The Group has adopted incentive programmes (including the Share Option Scheme) to encourage employee performance and a range of training programmes for the development of its staff.

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 scheme. The sole responsibility of the Group in respect of this pension scheme is making 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

During the Period under Review, there was no material acquisition or disposal of subsidiaries and associated companies.

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.

IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Save as disclosed in note 45 to the consolidated financial statements, there are no important events occurred subsequent to 31 December 2013.

DIRECTORS AND SENIOR MANAGEMENT

Details of the biographies of Directors and senior management are listed as follows:

EXECUTIVE DIRECTORS

Mr. Hu Yueming, aged 64, is the Chairman, Chief Executive Officer and executive Director of the Company. Mr. Hu is a university graduate and was graduated from Fudan University majoring in laser technology in 1977. Mr. Hu is a senior engineer. He has more than 30 years of experience in the management of machinery and industrial enterprises and has served as the head of various state-owned enterprises such as Nanjing Engineering Equipment Factory (南京工藝裝備廠) and general manager of various foreign invested enterprises including Nanjing Atlas Copco Construction Machinery Ltd. He has extensive experience in enterprise management. In 1998, he became the general manager of Nanjing High Speed Gear Factory. He has been the chairman and the general manager of Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("NGC"), the subsidiary of the Group, since March 2007. Mr. Hu also holds directorship in certain subsidiaries and associates of the Group (see the note below). Mr. Hu is an expert on mechanical transmission equipment technology and business management. He is also the vice president of the China New Energy Generation Network (中國新能源發電網), a council member of China General Machine Components Industry Association (中國機械通用零部件工業協會), the vice chairman of Gear Manufacturers Association (齒輪專業協會) of China General Machine Components Industry Association (中國機械通用零部件工業協會) and chairman of Nanjing Renewable Energy Association (南京可再生能源協會). He has been awarded the "National May 1 Labour Medal" (全國五一勞動獎章) and title of "The 4th Outstanding Entrepreneur of the Machinery Industry" (第四屆全國機械工業明星企業家). He is also one of the members of the group of major shareholders of the Company (the "Management Shareholders").

Note: Including subsidiaries of Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate"), Nanjing High Speed, Nanjing Gaote Gearbox Manufacturing Co., Ltd. (formerly known as Nanjing Ningjiang Gearbox Manufacturing Co., Ltd.) ("Nanjing Gaote"), Nanjing Dongalloy Machinery & Electronics Co., Ltd. ("Dongalloy"), Nanjing Ningkai Mechanical Co., Ltd. ("Ningkai"), Nanjing Marine, Nanjing Ninghongjian Mechanical Co., Ltd. ("Ninghongjian"), Nanjing High Drive Automation Equipment Co., Ltd. ("High Drive"), Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd. (formerly known as Nanjing Sky Electronic Enterprise Co., Ltd.)("Gaochuan Sky"), Nantong Diesel, Zhong-Chuan Heavy Duty, Zhong-Chuan Heavy Duty Machine Tool, Nanjing Jingjing Photoelectric Science & Technology Co. Ltd. ("Nanjing Jingjing"), AE&E Nanjing Boiler Co., Ltd. (formerly Known as Nanjing Boiler Works) ("AE&E Nanjing"), NGC Transmission Equipment (America), Inc. ("NGC (US)"), Eagle Nice Holdings Limited ("Eagle Nice") and China Transmission Holdings Limited ("China Transmission Holdings").

DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Yongdao, aged 51, is an executive Director of the Company. Mr. Chen is a university graduate. He obtained a bachelor's degree from Jiangsu Institute of Technology majoring in metal material and heat treatment in 1983 and a master's degree from Nanjing University of Science and Technology majoring in engineering in 2007. He is a senior engineer. He served as the deputy head of the inspection and gauging section, head of the production allocation section of the factory and deputy general manager of Nanjing High Speed Gear Factory. He has become a director and the deputy general manager of NGC since March 2007. Mr. Chen also holds directorship in certain subsidiaries of the Group, namely Nanjing High Accurate, Nanjing High Speed, Nanjing Marine, Dongalloy, Ningkai, High Drive, Nantong Diesel, Zhenjiang Tongzhou Propeller Co., Ltd. ("Zhenjiang Tongzhou"), China Transmission Holdings and NGC Marine Propulsion Southeast Asia Ptd. Ltd. ("NGC Marine"). He is also the general manager of Nanjing Marine. Mr. Chen is an expert on heat treatment of metal material and has engaged in the research, design and development of mechanical transmission equipment production techniques, gauging and inspection of mechanical transmission equipment and enterprise management for nearly 30 years. He has received a number of awards for the achievement of his research on mechanical transmission equipment production techniques. He is also one of the Management Shareholders.

Mr. Lu Xun, aged 59, is an executive Director of the Company. Mr. Lu graduated from Nanjing Aeronautical Institute majoring in managerial engineering in 1991. He also attended and finished postgraduate courses. He is a senior engineer. He worked as the deputy head of the quality assurance section, deputy head of the technology section, head of the operational planning section, deputy Chief Economist, head of the operational planning division and deputy general manager of Nanjing High Speed Gear Factory. He has become a director and deputy general manager of NGC since March 2007. Mr. Lu also holds directorship in certain subsidiaries of the Group, namely Nanjing High Accurate, Nanjing High Speed, High Drive, Nantong Diesel, Eagle Nice and China Transmission Holdings. Mr. Lu is an expert on marketing management for mechanical transmission equipment and has engaged in the technology and marketing management of mechanical transmission equipment for more than 25 years and has extensive experience in marketing management and client resources. He is also one of the Management Shareholders.

Mr. Li Shengqiang, aged 60, is an executive Director of the Company. Mr. Li is a university graduate. He graduated from Jiangsu Administration Institute majoring in administrative management in 1992. He has served as a deputy party secretary of the tools section, Chairman of the Workers' Union and deputy general manager of Nanjing High Speed Gear Factory. He has become a director and deputy general manager of NGC since March 2007. Mr. Li also holds directorship in certain subsidiaries of the Group, namely Nanjing High Accurate, Nanjing High Speed, Nanjing Gaote, Ningkai, High Drive, Zhong-Chuan Heavy Duty, Zhong-Chuan Heavy Duty Machine Tool, AE&E Nanjing, Eagle Nice and China Transmission Holdings. He is also the general manager of Nanjing Gaote and Zhong-Chuan Heavy Duty. Mr. Li has been engaged in the enterprise management for nearly 30 years and has extensive experience in mechanical transmission equipment production management. He is also one of the Management Shareholders.

DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu Jianguo, aged 44, is an executive Director of the Company. Mr. Liu is a university graduate. He graduated from Shanghai Jiaotong University with a bachelor's degree majoring in mechanical technology and equipment in 1990. He is a senior engineer. He has served as deputy head and head of the research centre, assistant to general manager, acting chief engineer and chief engineer of Nanjing High Speed Gear Factory. He has also become a director and deputy general manager of NGC and chief engineer of the Group since March 2007. Mr. Liu holds directorship in certain subsidiaries of the Group, namely Nanjing High Accurate, Nanjing High Speed, Nanjing Gaote, Ningkai, Ninghongjian, High Drive, NGC (US)and China Transmission Holdings. Mr. Liu has engaged in the research and development and design of gear transmission products and enterprise management for more than 20 years. He took charge of the design and research and development of various major new products of the Company such as wind power generation, steel and cement, and has received a number of awards including the certificate of expert with outstanding contribution in the gear industry in the PRC, Science and Technology Awards for the PRC Mechanical Industry (FD1660-type Wind Power Generation Gear Box) and Jiangsu Provincial Science and Technology Advancement Award. He is also one of the Management Shareholders.

Mr. Liao Enrong, aged 53, is an executive Director of the Company. Mr. Liao is a postgraduate. He graduated from Anhui Institute of Technology with a bachelor's degree majoring in metal material and heat treatment in 1984. He also attended and finished courses of investment economics in the Graduate School of the Chinese Academy of Social Sciences. He is a senior engineer. He has served as deputy head and head of the workshop, head of the technological reform section, deputy chief engineer, head of the enterprise management section, assistant to general manager of Nanjing High Speed Gear Factory. Mr. Liao has been a director and deputy general manager of NGC since March 2007. Mr. Liao also holds directorship in certain subsidiaries of the Group, namely Nanjing High Accurate, Nanjing High Speed, Dongalloy, Ningkai, Nanjing Marine, Ninghongjian, High Drive, Gaochuan Sky, Zhong-Chuan Heavy Duty, NGC (US) and China Transmission Holdings. He is also the general manager of High Drive. Mr. Liao has experience in the heat treatment of metal material and has engaged in technology, investment and enterprise management for more than 25 years. He is also one of the Management Shareholders.

Mr. Jin Maoji, aged 60, is an executive Director of the Company. Mr. Jin is a university graduate. He graduated from Shanghai Mechanical Institute in 1986. He also attended and finished postgraduate courses. He is a senior economist. Mr. Jin joined Nanjing High Speed Gear Factory in 1970 and served as deputy head and head of workshop, head of human resources department and office head. He has served as director and vice general manager of NGC since May 2010. Mr. Jin also holds directorship of certain subsidiaries of the Group, namely, Nanjing High Accurate, High Drive, Zhong-Chuan Heavy Duty Machine Tool and China Transmission Holdings. He has engaged in management for over 30 years with extensive management experience. He is also one of the Management Shareholders of the Company.

DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jiang Xihe, aged 55, is an independent non-executive Director of the Company. He is a Doctor in accountancy. He graduated from the Central University of Finance and Economics (中央財經大學) majoring in accountancy in June 1990. He obtained professional accounting qualification recognized in the PRC in July 1999. He is also a member of the Chinese Institute of Finance and Cost for Young & Mid-career professionals as well as a member of the Hong Kong International Accounting Association. He is currently a professor at the Faculty of Accounting and Financial Management of Nanjing Normal University (南京師範大學), head of Accounting and Financial Development Research Centre of Nanjing Normal University (南京師範大學) and the deputy dean of Jinling Girl's College, Nanjing Normal University (南京師範大學). Mr. Jiang joined the Company on 8 June 2007 as independent non-executive Director. He is also an independent non-executive director of Glarun Technology Co., Ltd., a company listed on the Shanghai Stock Exchange, and Hongda Xingye Co., Ltd., a company listed on the Shenzhen Stock Exchange.

Mr. Zhu Junsheng, aged 74, is an independent non-executive Director of the Company. He graduated from Nankai University in 1964. He engaged in technological development of the aviation industry from 1964 to 1984 and renewable energy management in government authorities from 1984 to 2000. Mr. Zhu is currently a vice president of the Chinese Renewable Energy Society, consultant of the Renewable Energy Professional Committee of the China Association of Resource Comprehensive Utilisation, honorary president of the wind machinery branch of the Chinese Farm Machinery Industrial Association and an executive member of the China Energy Research Society. He has extensive experience in the renewable energy industry, one of the markets that the Company strives to develop for its products. Mr. Zhu joined the Company on 8 June 2007 as independent non-executive Director.

Mr. Chen Shimin, aged 55, is an independent non-executive Director of the Company and holder of Ph. D. degree in Accounting. Mr. Chen graduated from Shanghai University of Finance and Economics and obtained a bachelor's degree and a master's degree in economics in 1982 and 1985 respectively. He also obtained a doctoral degree majoring in accounting from the University of Georgia, the United States, in 1992. He is a management accountant registered in the United States, member of the Institute of Management Accountants of the United States and the American Accounting Association of the United States. He is currently a professor of accounting, deputy dean of academic affairs of, and head of School of Master of Bussiness Management at China Europe International Business School. He is also a guest professor and Ph.D. supervisor of the School of Accounting, Shanghai University of Finance and Economics. He has extensive education and research experience in domestic and overseas financial accounting and management accounting. He taught in a number of universities in the PRC and overseas, including Shanghai University of Finance and Economics, Lingnan University in Hong Kong, Hong Kong Polytechnic University, Clarion University of Pennsylvania and University of Lousiana at Lafayette. Mr. Chen has published numerous articles related to researches on accounting in the PRC and the United States in renowned academic journals of the PRC and overseas. He was awarded with a number of academic awards and hosted research seminars in the PRC and overseas. He is also a contributing author in Asian Accounting Handbook and Accounting and Auditing in the People's Republic of China. Since 2005, Mr. Chen has been an executive editor of China Accounting and Finance Review. Mr. Chen joined the Company on 8 June 2007 as an independent non-executive Director. Currently, Mr. Chen is an independent non-executive director of Shanghai Oriental Pearl (Group) Co., Ltd., a company listed on the Shanghai Stock Exchange, Hangzhou i-Cafe Information Technology Co., Ltd., a company listed on the Shenzhen Stock Exchange, Sun.King Power Electronics Group Limited, a company listed on the Stock Exchange, Huafa Industrial Co.,Ltd. Zhuhai., a company listed on the Shanghai Stock Exchange, and Zhejiang Wolwo Bio-Pharmaceutical Co., Ltd., a company listed on the Shenzhen Stock Exchange and an external supervisor of Shanghai Pudong Development Bank, a company listed on the Shanghai Stock Exchange.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Jiang Jianhua (蔣建華), aged 49, is an independent non-executive Director of the Company and holder of Ph. D. degree in Management. Ms. Jiang graduated from Shanghai University of Finance and Economics with a bachelor degree, majored in international finance, in July 1986. From July 1996 to June 1999, she studied at Tianjin University of Finance and Economics and received a master degree of management. She studied and obtained a doctor degree of management from Nanjing Agricultural University from September 2006 to December 2008. She has been the dean of Nanjing Golden Audit School of Nanjing Audit University since July 2008. She has been an independent director of Nanjing Yunhai Special Metals Co., Ltd, a company listed on the Shenzhen Stock Exchange, since August 2012. From September 2008 to September 2010, she also was an independent director of Nanjing XWTEC Co., Ltd. (now known as Henan Dayou Energy Co., Ltd.), a company listed on the Shanghai Stock Exchange. From July 1986 to September 2013, she held various positions at Nanjing Audit University, including the head of finance teaching section, the assistant to department director, the deputy director of the finance department, the deputy dean of the finance school, the secretary of the Communist Party of China at the audit school, the dean of Nanjing Golden Audit School, a teaching assistant, lecturer, an associate professor and a professor. Ms. Jiang specialized in the areas of finance and accountancy and had written many articles and books and participated in a number research projects in these areas. She won several awards in relation to her academic and teaching excellence, including Candidate for Potential Young and Middle-aged Academic Leaders in the "Green and Blue Project" of Jiangsu Province, Candidate for Aspirants of "333 Project" of Jiangsu Province, Third Level. She joined the Company as an independent non-executive Director on 31 December 2012.

SENIOR MANAGEMENT

Mr. Lui Wing Hong, Edward, aged 51, is a chief financial officer and company secretary of the Company. He graduated from York University with a Bachelor of Arts degree majoring in business and economics. He further obtained a postgraduate diploma in financial management from the University of New England. Mr. Lui is a qualified accountant, associate member of the Australian Society of Certified Practising Accountants and a member fellow of Hong Kong Institute of Certified Public Accountants. Mr. Lui joined the Company in June 2006 and is responsible for the financial and accounting management and secretarial affairs of the Company. Mr. Lui is also a director of China Transmission Holdings, a subsidiary of the Group.

DIRECTORS AND SENIOR MANAGEMENT

Ms. Zhou Jingjia, aged 50, is the financial controller of NGC. She graduated from Suzhou University majoring in accounting and is a member of the Chinese Institute of Certified Public Accountants and a qualified accountant. Ms. Zhou joined Nanjing Engineering Mechanical Plant in 1982 and became the deputy head of finance department in 1990. In 1994, Ms. Zhou joined the Nanjing Atlas Copco Construction Machinery Ltd. as the finance department manager. In January 2006, Ms. Zhou was transferred from Nanjing Altas Copco Construction Machinery Ltd. to Altas Copco (Nanjing) Construction and Mining Equipment Ltd. From 2004 to 2006, in addition to being the accounting department manager, Ms. Zhou was appointed as the regional manager of certain production companies of the Atlas Copco Group in China and was responsible for overseeing the accounting departments. Ms Zhou joined the Group in July 2006. She became the director of NGC in March 2007. Ms. Zhou also holds directorship in certain subsidiaries of the Group, including Nanjing High Accurate, Nanjing High Speed, High Drive, Gaochuan Sky, Nantong Diesel, Zhong-Chuan Heavy Duty, Zhong-Chuan Heavy Duty Machine Tool, AE&E Nanjing, NGC (US) and China Transmission Holdings.

Mr. Gou Jianhui, aged 51, is a vice general manager of NGC and holder of Ph. D. degree in Engineering. He graduated from Harbin Institute of Technology and obtained a Bachelor's degree in Engineering and a Master's degree in Engineering in 1982 and 1986 respectively. He obtained a Ph. D. degree in Engineering from Technical University of Braunschweig in 1997. He held a various positions at Harbin Institute of Technology, including a teacher of School of Mechatronics Engineering, the person-in-charge of Germany FAG China Project, person-in-change of FAG China Limited company (FAG中國有限公司) as well as chief representative of its Beijing Representative Office, the managing director of FAG China Limited Company and the general manager of INA China Company (INA中國公司) the managing director and president of Industrial Division of Schaeffler Greater China. He has received the honorary title of one of "Most Influential Leaders" in automation, logistics, driver fields of China and awarded one of "Asian Brand Management Luminaries". Doctor Gou joined the Group in May 2013 and is the vice general manager of NGC and general manager of Nanjing High Speed.

DIRECTORS' REPORT

The Directors of the Company are pleased to present the Directors' report and the audited financial statements of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The Company and the Group are principally engaged in production and sale of gear transmission equipment products.

Details of the principal activities of the subsidiaries, associates and jointly controlled entities of the Company are set out in notes 44, 19 and 20 to the consolidated financial statements respectively.

OPERATING RESULTS AND APPROPRIATIONS

The operating results of the Group for the year ended 31 December 2013 are set out in the consolidated statement of profit or loss and other comprehensive income on pages 46 and 47 in the consolidated financial statements.

The Directors do not recommend payment of a dividend for the year ended 31 December 2013 and propose that the profit for the year be retained.

DISTRIBUTABLE RESERVE

The distributable reserve of the Company as at 31 December 2013 was approximately RMB5,001,456,000 (2012: RMB4,230,739,000).

PROPERTY, PLANT AND EQUIPMENT

Movements in the property, plant and equipment of the Group for the year ended 31 December 2013 are set out in note 15 to the consolidated financial statement.

DIRECTORS' REPORT

SHARE CAPITAL

Details of the registered and issued share capital of the Company are set out in note 35 to the consolidated financial statements.

DONATION EXPENDITURE

During the Period under Review, the donation expenditure of the Group was approximately RMB530,000 (2012: RMB5,536,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SHARES OF THE COMPANY

Save as disclosed below, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's securities for the year ended 31 December 2013.

On 6 December 2013, the Company agreed to place 272,548,000 shares to no less than six independent placees. The placing was completed on 19 December 2013. For details, please refer to the paragraph headed "Capital Structure" above.

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. Summary of the Company's share options is set out in note 36 to the consolidated financial statements. The exercise period of the share options expired on 5 November 2013.

DIRECTORS' REPORT

SHARE OPTION SCHEME *(Continued)*

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

					Number of share options					
Grantee (s)	Date of grant	Exercisable period (Note 1)	Vesting period	Exercise per share HK$ (Note 2 & 3)	Outstanding as at 1 January 2013	Granted during the year	Exercised during the year	Cancelled during the year	Lapsed during the year	Outstanding as at 31 December 2013 (Note 5 & 6)
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 exercisable period of the 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 Binominal model is approximately RMB30,030,000.
6. None of the directors, chief executives or substantial shareholders of listed companies or their respective associates holds any share options. All grantees are employees with long-term service contracts.

DIRECTORS' REPORT

MAJOR SUPPLIERS AND CUSTOMERS

The purchase amounts from the Group's five major suppliers and the largest supplier were approximately RMB1,203,563,000 and RMB361,628,000, representing 32.8% and 9.8% of the total purchase amounts respectively. Besides, the revenue amount from the Group's five major customers and the largest customer were approximately RMB3,008,593,000 and RMB1,165,980,000, representing 46.0% and 17.8% of the total revenue amounts respectively. All transactions between the Group and relevant suppliers and customers were carried out on normal commercial terms.

To the best knowledge or the Directors, none of Directors and any shareholders holding over 5% of the Company's shares and their associates (within the meanings of the Listing Rules) had any interests in the above five major suppliers and customers during the year.

DIRECTORS' SERVICE CONTRACTS

All Directors have entered into service contracts with the Company with a term of three years starting from the Listing Date or the date of appointment or re-election.

Under the Cayman Companies Law, at every annual general meeting of the Company, no less than one-third of the Directors for the time being shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and eligible to the offer themselves for re-election.

None of the Directors or Directors intending to seek re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REPORT

DIRECTORS AND THEIR TERMS

Directors in office and their terms for the year and up to the date of this report were:

Executive Directors:

Mr. Hu Yueming	Three years from the date of his re-election on 21 June 2013
Mr. Chen Yongdao	Three years from the date of his re-election on 12 June 2012
Mr. Lu Xun	Three years from the date of his re-election on 12 June 2012
Mr. Li Shengqiang	Three years from the date of his re-election on 12 June 2012
Mr. Liu Jianguo	Three years from the date of his re-election on 12 June 2012
Mr. Liao Enrong	Three years from the date of his re-election on 13 June 2011
Mr. Jin Maoji	Three years from the date of his re-election on 21 June 2013

Independent Non-executive Directors:

Mr. Jiang Xihe	Three years from the date of his re-election on 13 June 2011
Mr. Zhu Junsheng	Three years from the date of his re-election on 21 June 2013
Mr. Chen Shimin	Three years from the date of his re-election on 21 June 2013
Ms. Jiang Jianhua	Three years from the date of her re-election on 21 June 2013

DIRECTORS' INTERESTS IN CONTRACTS

Save as the directors' service contracts disclosed above and the connected transactions mentioned below, no contracts of significance to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the balance sheet date or at any time during the year.

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

As at 31 December 2013, none of the Directors or the chief executives 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 entered 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 continued in the Listing Rules.

During the reporting period, none of the Directors and chief executives of the Company or any of their associates had any interests in any securities of the Company or any of its associated corporations (as defined in the SFO). None of the Directors and chief executives or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right.

DIRECTORS' REPORT

DIRECTORS AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE COMPANY'S ISSUED SHARES *(Continued)*

At no time during the reporting period was the Company or its holding companies or any of its subsidiaries a party to any arrangements to enable the Directors or chief executives of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

As at 31 December 2013, the following persons (other than the Directors or chief executives 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 would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

Name	Nature of interests	Number of securities held	Approximate percentages to the equity (%)
Fortune Apex Limited (Note 1)	Beneficial owner	348,073,024 (Long Position)	21.29 (Long Position)
Glorious Time Holdings Limited (Note 2)	Held by controlled corporation	255,962,000 (Long Position)	15.65 (Long Position)
The Capital Group Companies, Inc. (Note 3)	Held by controlled corporation	132,382,730 (Long Position)	8.10 (Long Position)

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE COMPANY'S ISSUED SHARES *(Continued)*

Notes:

(1) As at 31 December 2013, Fortune Apex Limited owned 21.29% 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. ChenYongdao (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. Cheng Liguo	1.0825%
	Total	100.0000%

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

However, none of them individually 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 instruction of any single member of the Management Shareholders.

(2) Glorious Time Holdings Limited, a company incorporated in the BVI whose ultimate beneficial owner is Mr. Ji Changqun.

(3) The Capital Group Companies Inc. held 8.10% 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 31 December 2013, there was no other person, other than the Directors or chief executives 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 entered in the register referred to therein.

DIRECTORS' REPORT

INTERESTS OF CONTROLLING SHAREHOLDERS IN CONTRACTS

Save as disclosed herein, no contracts of significance had been entered into by the Company or its subsidiaries with the controlling shareholders and their subsidiaries as at the balance sheet date or at any time during the year.

CONNECTED TRANSACTIONS

Details of the related party transactions of the Group for the year ended 31 December 2013 are set out in note 42 to the consolidated financial statements. The Directors of the Company (including our independent executive Directors) believe that the related party transactions set out in the note 42 to the consolidated financial statements are carried out in the ordinary course of business and on normal commercial terms.

No transaction listed in note 42 to the consolidated financial statements constitutes a discloseable connected transaction under Chapter 14A of the Listing Rules.

MANAGEMENT CONTRACTS

As at 31 December 2013, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

PRE-EMPTION RIGHT

Though there are no restrictions on the grant of pre-emption right under the Cayman Laws, the Company did not grant any pre-emption rights in accordance with the Articles of Association.

PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained the amount of sufficient public float as required under the Listing Rules throughout the year.

DIRECTORS' REPORT

AUDITOR

A resolution will be submitted to the forthcoming annual general meeting of the Company to re-appoint Deloitte Touche Tohmatsu as our auditor for 2014.

BANK BORROWINGS

Details of the bank borrowings of the Group are set out in note 30 to the consolidated financial statements.

TAXATION

Details of the taxation of the Group are set out in note 11 to the consolidated financial statements.

MATERIAL LITIGATIONS AND ARBITRATIONS

During the reporting period, the Group had no material litigations and arbitrations.

By order of the Board
Hu Yueming
Chairman

Hong Kong, 28 March 2014

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board recognizes the importance of corporate governance practice to the success of a listed company. The Company is committed to achieving high standards of corporate governance in the interest of the shareholders of the Company. This report describes the corporate governance practices of the Group, explains the applications and deviation (if any) of the principles of the Corporate Governance Code.

The Company has complied with the code provisions set out in the Corporate Governance Code (the "Corporate Governance Code") contained in Appendix 14 to the Listing Rules during the year ended 31 December 2013 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 and deviation from code provision A.6.7 which states that non-executive Directors should attend general meetings of shareholders of the Company.

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 functions and power under the present arrangement will not be impaired and this arrangement will enable the Company to formulate and implement decisions promptly and efficiently.

The Company's Chairman and Chief Executive Officer, most of the non-executive Directors, Chairman of the Audit Committee, Chairman of the Remuneration Committee, Chairman of the Nomination Committee and external auditors have attended the 2012 Annual General Meeting, except Mr. Zhu Junsheng, a non-executive Director, who was absent from the 2012 Annual General Meeting due to the fact that he had to deal with other important matters.

CORPORATE STRATEGY AND BUSINESS MODEL

The Group has been focusing on the proprietary research and development, design, manufacture and sales of gear transmission products with high technology. Our products are widely applied in various industrial areas, customers of the Company are distributed in a number of equipment manufacturing industries around the world. In future development, the Group will develop comprehensive equipment products on the basis of the original gear transmission equipment products, increase added value to products and seek diversified developments in the Group's products to increase our comprehensive corporate competitiveness.

COMPOSITION AND PRACTICES OF THE BOARD

The Board of the Company collectively takes responsibility to all the shareholders in respect of managing and supervising the business of the Group so as to enhance value for our shareholders.

CORPORATE GOVERNANCE REPORT

COMPOSITION AND PRACTICES OF THE BOARD *(Continued)*

The Board is responsible for the leadership and control of the Company, and monitoring the business, decision-making and performance of the Group. The management was authorized by the Board the power and responsibility to manage the day-to-day affairs of the Group. The Directors specifically delegate the management to deal with major corporate affairs, including the preparation of interim report and annual report and announcement to the Board for approval, the implementation of business strategies and measures adopted by the Board, the implementation of adequate internal controls and risk management procedures, as well as the compliance of relevant statutory and regulatory requirements, rules and regulations.

The Board of the Company comprises eleven Directors, including seven executive Directors and four independent non-executive Directors. The Board held four meetings and passed six written resolutions during the year. The attendance of the Directors and members of all committees at the meetings were as follows:

	Board of Directors	Audit Committee	Remuneration Committee	Nomination Committee	2012 Annual General Meeting
No. of meetings held	4	2	1	1	1
Executive Directors					
Mr. Hu Yueming *(Chairman and Chief Executive Officer)*	4/4			1/1	1/1
Mr. Chen Yongdao	4/4				0/1
Mr. Lu Xun	4/4				0/1
Mr. Li Shengqiang	4/4				0/1
Mr. Liu Jianguo	2/4		1/1		0/1
Mr. Liao Enrong	4/4				1/1
Mr. Jin Maoji	4/4				0/1
Independent non-executive Directors					
Mr. Jiang Xihe	4/4	2/2	1/1	1/1	1/1
Mr. Zhu Junsheng	4/4	2/2		1/1	0/1
Mr. Chen Shimin	4/4	2/2	1/1		1/1
Ms. Jiang Jianhua	4/4				1/1

CORPORATE GOVERNANCE REPORT

COMPOSITION AND PRACTICES OF THE BOARD *(Continued)*

During the Period Under Review, there was no change in the composition of the Board.

Each of the non-executive Directors of the Company has entered into a service contract with the Company with a term of three years. Each of them (including the one with a specific service term) shall retire from office by rotation at least once every three years yet subject to re-election. In any event, such service term can be terminated subject to the articles of association of the Company and/or applicable laws.

Saved as disclosed in this annual report, there is no financial, business, family or other major/related relationships among the members of the Board.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all of the independent non-executive Directors are independent. The Company has also complied with the requirements in respect of independent non-executive directors under the Rule 3.10 and Rule 3.10A of the Listing Rules.

The Company has put in place appropriate insurance cover in respect of Directors' liability.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Mr. Hu Yueming is the Chairman and Chief Executive Officer of the Company. He is responsible for formulating the overall strategies and policies of the Company for the smooth operation and performance of duties of the Board. The Board believes that appointing the same person as the Chairman and the Chief Executive Officer is favourable to the development and management of the business of the Group while the existing balance between functions and power is not affected. Besides, it enables the Company to formulate and implement decisions in a rapid and efficient manner.

NON-EXECUTIVE DIRECTORS

The service term of non-executive Director is:

Mr. Jiang Xihe	Three years from the date of his re-election on 13 June 2011
Mr. Zhu Junsheng	Three years from the date of his re-election on 21 June 2013
Mr. Chen Shimin	Three years from the date of his re-election on 21 June 2013
Ms. Jiang Jianhua	Three years from the date of her re-election on 21 June 2013

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 Directors, 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, the remuneration packages of individual executive Director and senior management and the remuneration packages of non-executive Directors.

CORPORATE GOVERNANCE REPORT

REMUNERATION COMMITTEE *(Continued)*

During the year, the remuneration committee held one meeting, which made proposals on the remuneration of Directors and senior management. The attendance record of each member of every committee was set out in the section entitled "Composition and Practices of the Board" on page 37.

Details of remuneration of the Directors and five highest paid individuals of the Group are set out in note 13 to the consolidated financial statements.

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, the majority of whom are independent non-executive Directors. Mr. Hu Yueming, Chairman of the Board of the Company, is 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.

During the year, the nomination committee held one meeting to review the structure, number, composition and policy for diversity on the Board. The Company has adopted the board diversity policy on 1 September 2013 and strives to select the most appropriate candidates to be appointed as a member of the Board. When identifying suitable candidates for directorship, the nomination committee will carry out the selection process by making reference not only to the skills, experience, education background, professional knowledge, personal integrity and time commitments but also the gender, age, cultural background and ethnicity of the proposed candidates. The attendance of member of each committees set out in the section entitled "Composition and Practices of the Board" on page 37.

AUDIT COMMITEE

The Company established the audit committee on 8 June 2007 with written terms of reference which have 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.

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.

During the year, the audit committee held two meetings to (i) review the 2013 reports from the management and internal audit department, and review the annual report for the year 2012 and the interim report for the year 2013 of the Group and report the review conclusions to the Board; (ii) review the independence of external auditors; and (iii) consider and approve the external auditor's fees and the letter of appointment for the year 2013. The attendance record of each member of every committee was set out in the section entitled "Composition and Practices of the Board" on page 37.

The annual report for the year ended 31 December 2013 of the Group had been reviewed by the audit committee.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for formulation of the Company's corporate governance policies and undertakes the following corporate governance roles:

(i) to develop and review the Group's corporate governance policy and practices and propose in this regard;

(ii) to review and monitor the training and ongoing professional development of the Directors and senior management;

(iii) to review and monitor the compliance of the Group's policy and practice with all laws and regulations, if applicable;

(iv) to develop, review and monitor the code of conduct and compliance guidance (if any) applicable for all employees and Directors of the Group; and

(v) to review the compliance of the Group with the disclosure requirements on corporate governance code and corporate governance report.

During the year, the Board revised the terms of reference for the nomination committee based on the new code of diversity on the board.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the "Model Code") as its internal code of conduct regarding Directors' securities transactions. The Company has made specific enquiries of all Directors and all Directors have confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2013.

COMPANY SECRETARY

Mr. Lui Wing Hong, Edward, Company Secretary, is responsible for facilitating the procedures of the Board and the communication among Directors, and between Directors and shareholders and the management. The biography of the company secretary is set out in the section entitled "Directors and Senior Management". During the year 2013, the company secretary received in aggregate more than 15 hours professional trainings to update his skills and knowledge.

CORPORATE GOVERNANCE REPORT

INDUCTION TRAINING AND DEVELOPMENT

The Company arranges induction trainings for all new Directors based on his/her experience and background, these trainings generally include the brief introduction of the Group's structure and business, corporate governance practices and directors' responsibilities under the Listing Rules, etc. In addition, the Company encourages all Directors to attend relevant training programs at the Company's expenses.

During the year, the Directors received the updated information on the Group's business and operation, the directors' responsibilities under the regulations and common law, the Listing Rules, the law and other regulatory requirements. During the year, the Company arranged one training session and/or provided training materials for Directors and the contents mainly include introduction of directors' responsibilities and the code of corporate governance under the Listing Rules. With effect from April 2012, all Directors shall provide his/her training record to the Company annually.

During the year, the individual training record of each Director was set out as follows:

	Readings on updates and materials on business, operation and/or corporate governance affairs	Lectures/seminars on business/ director's responsibilities attended or participated
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	✓	✓

CORPORATE GOVERNANCE REPORT

REMUNERATION OF AUDITOR

For the year ended 31 December 2013, the fees payable by the Group to Deloitte Touche Tohmatsu for their statutory audit services amounted to RMB3,450,000 (2012: RMB3,230,000). The non-audit service fees included the fees for the following services:

	Year ended 31 December	
	2013	2012
	RMB'000	RMB'000
Tax services	**120**	240
Review of interim results	**929**	982
	1,049	1,222

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORTS

All Directors of the Company acknowledge their responsibility for the preparation of the financial reports of the Group. They also ensure the preparation is in compliance with the relevant laws, regulations and accounting principles and its publication are made in due course.

Reporting responsibility statement with respect to the financial reports of the Group made by the auditor of the Company is set out in the Independent Auditor's Report on pages 44 to 45.

INTERNAL CONTROL

The Board takes full responsibility to maintain a sound and efficient internal control system for the Group to protect the shareholders' investment and the Group's assets, which is in the interest of the shareholders.

The audit committee has reviewed the reports for 2013 made by the management and the internal audit department, and submitted its views on auditing conclusions.

The Board has reviewed the internal control system of the Group based on the reports from the management and internal audit department. The review covered all critical aspects of the control, including financial control, operational control, compliance control and risk management functions. The Board has also reviewed the adequacy of resources, qualification and experience of staff of the Group's accounting and financial reporting function, and their training programmes and budget. The Board believed that existing internal control system was sufficient and efficient during the year under review and up to the publishing date of this annual report and accounts.

CORPORATE GOVERNANCE REPORT

CONSTITUTIONAL DOCUMENTS

There was no change to the Company's Memorandum of Association and Bye-laws during the year.

SHAREHOLDERS' RIGHTS

General meetings shall be convened on the written requisition of any two or more shareholders or a member of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisionist, which is a recognised clearing house member (or its nominee(s)), provided that such requisitionist held as at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company. If the Board does not within 21 days from the date of deposit of the requisition proceed duly to convene the meeting, all requisitionist(s) or any of them representing one-half of the total voting rights of all of them, may convene the general meeting in the same manner as that in which meetings may be convened by the Board of Directors.

There are no provision allowing shareholders to propose new resolutions at general meetings under the Cayman Islands Companies Law or the Articles of Association of the Company. Shareholders who wish to propose a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

As regards the procedure of nominating a person for election as a director, please refer to the procedures available on the websites of the Company.

Shareholders of the Company may at any time send their enquiries and questions to the Board in writing through the Company Secretary or make enquiries with the Board at the general meetings of the Company. Contact details of the Company Secretary are as follows:

China High Speed Transmission Equipment Group Co., Ltd.
Room 1302, 13th Floor, Top Glory Tower, 262 Gloucester Road, Causeway Bay, Hong Kong
Tel: (852) 2891 8361
Fax: (852) 2891 8760
Email: ir@chste.com

INDEPENDENT AUDITOR'S REPORT

Deloitte.
德勤

TO THE MEMBERS OF
CHINA HIGH SPEED TRANSMISSION EQUIPMENT GROUP CO., LTD.
中國高速傳動設備集團有限公司
(incorporated in the Cayman Islands with limited liability)

We have audited the 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 46 to 143, which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standard Board and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion 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. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the consolidated financial statements are free from material misstatement.

INDEPENDENT AUDITOR'S REPORT

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair value in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
28 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Revenue	7	**6,539,058**	6,368,817
Cost of sales		**(4,908,226)**	(4,815,463)
Gross profit		**1,630,832**	1,553,354
Other income	8	**333,530**	215,192
Other gains and losses	9	**13,143**	(2,354)
Distribution and selling costs		**(281,246)**	(278,779)
Administrative expenses		**(613,280)**	(502,090)
Research and development costs		**(139,274)**	(137,804)
Other expenses		**(229,330)**	(88,518)
Finance costs	10	**(564,178)**	(523,878)
Share of results of associates		**(7,783)**	(11,742)
Share of results of joint ventures		**(53,985)**	(15,712)
Profit before taxation		**88,429**	207,669
Taxation	11	**(57,272)**	(79,197)
Profit for the year	12	**31,157**	128,472
Other comprehensive income (expense) for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**(264)**	(261)
Fair value gain(loss) on:			
Available-for-sale financial assets		**89,283**	(59,587)
Hedging instruments designated in cash flow hedges		**—**	(6,496)
Reclassified to profit or loss on disposal of available-for-sale financial assets, net of income tax		**(39,142)**	—
Partial settlement of cash flow hedges		**4,967**	—
Other comprehensive income (expense) for the year		**54,844**	(66,344)
Total comprehensive income for the year		**86,001**	62,128

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
Profit (loss) for the year attributable to:			
Owners of the Company		**64,573**	138,426
Non-controlling interests		**(33,416)**	(9,954)
		31,157	128,472
Total comprehensive income (expense) attributable to:			
Owners of the Company		**119,417**	72,082
Non-controlling interests		**(33,416)**	(9,954)
		86,001	62,128
Earnings per share	14		
Basic (RMB)		**0.047**	0.102
Diluted (RMB)		**0.047**	0.102

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	6,632,992	6,238,143
Prepaid lease payments	16	1,034,357	938,448
Goodwill	17	2,991	17,715
Intangible assets	18	284,188	277,806
Interests in associates	19	172,601	183,324
Interests in joint ventures	20	472,587	612,572
Available-for-sale investments	21	165,098	306,658
Deposit for land lease	22	280,800	336,042
Prepayment for acquisition of property, plant and equipment		123,599	89,828
Deferred tax assets	23	168,062	68,525
		9,337,275	9,069,061
CURRENT ASSETS			
Inventories	24	2,389,806	1,780,504
Prepaid lease payments	16	22,639	20,330
Trade and other receivables	25	6,237,694	4,667,937
Amounts due from associates	26	—	5,507
Amounts due from joint ventures	27	33,239	35,806
Tax asset		47	875
Structured bank deposits	28	200,000	—
Pledged bank deposits	28	2,514,615	1,897,712
Bank balances and cash	28	2,235,371	2,404,502
		13,633,411	10,813,173
CURRENT LIABILITIES			
Trade and other payables	29	3,985,945	2,945,279
Amounts due to associates	26	71,462	76,476
Amount due to joint ventures	27	8,553	—
Tax liabilities		145,068	81,683
Borrowings - due within one year	30	7,108,698	7,449,119
Warranty provision	31	55,542	92,239
Obligation under finance leases	32	133,333	—
		11,508,601	10,644,796
NET CURRENT ASSETS		2,124,810	168,377
TOTAL ASSETS LESS CURRENT LIABILITIES		11,462,085	9,237,438

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	NOTES	2013 RMB'000	2012 RMB'000
NON-CURRENT LIABILITIES			
Borrowings - due after one year	30	**2,338,196**	1,288,238
Deferred tax liabilities	23	**19,574**	18,242
Deferred income	33	**74,418**	179,899
Derivative financial instruments	34	**1,529**	6,496
Obligation under finance leases	32	**266,667**	—
		2,700,384	1,492,875
		8,761,701	7,744,563
CAPITAL AND RESERVES			
Share capital	35	**119,218**	102,543
Reserves		**8,394,659**	7,436,895
Equity attributable to owners of the Company		**8,513,877**	7,539,438
Non-controlling interests		**247,824**	205,125
		8,761,701	7,744,563

The consolidated financial statements on pages 46 to 143 were approved and authorised for issue by the Board of Directors on 28 March 2014 and are signed on its behalf by:

DIRECTOR *DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Deemed capital contribution reserve RMB'000 (note a)	Capital reserve RMB'000 (note b)	Investment revaluation reserve RMB'000	Statutory surplus reserve RMB'000 (note c)	Other reserve RMB'000 (note d)	Exchange reserve RMB'000	Share option reserve RMB'000 (note e)	Hedging reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2012	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 for the year	—	—	—	—	—	—	—	—	—	—	138,426	138,426	(9,954)	128,472
Other comprehensive expense for the year	—	—	—	—	(59,587)	—	—	(261)	—	(6,496)	—	(66,344)	—	(66,344)
Total comprehensive (expense) income for the year	—	—	—	—	(59,587)	—	—	(261)	—	(6,496)	138,426	72,082	(9,954)	62,128
Appropriation	—	—	—	—	—	13,383	—	—	—	—	(13,383)	—	—	—
Capital contributions by non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	82,600	82,600
Acquisition of additional interest in subsidiaries	—	—	—	(5,225)	—	—	—	—	—	—	—	(5,225)	(16,975)	(22,200)
At 31 December 2012	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
Profit for the year	—	—	—	—	—	—	—	—	—	—	64,573	64,573	(33,416)	31,157
Other comprehensive expense for the year	—	—	—	—	50,141	—	—	(264)	—	4,967	—	54,844	—	54,844
Total comprehensive (expense) income for the year	—	—	—	—	50,141	—	—	(264)	—	4,967	64,573	119,417	(33,416)	86,001
Shares issued	16,675	839,210	—	—	—	—	—	—	—	—	—	855,885	—	855,885
Appropriation	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Capital contributions by non-controlling shareholders of subsidiaries	—	—	—	1,810	—	—	—	—	—	—	—	1,810	77,215	79,025
Acquisition of additional interest in subsidiaries	—	—	—	(2,673)	—	—	—	—	—	—	—	(2,673)	(1,100)	(3,773)
Expiration of share option	—	—	—	—	—	—	—	—	(29,316)	—	29,316	—	—	—
At 31 December 2013	**119,218**	**5,010,141**	**77,651**	**157,765**	**(9,446)**	**366,125**	**52,335**	**(1,174)**	**—**	**(1,529)**	**2,742,791**	**8,513,877**	**247,824**	**8,761,701**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

Note a: The deemed capital contribution reserve arose from a deemed capital contribution from shareholders in 2006.

Note b: The changes in 2013 and 2012 represent the difference between the consideration and the net assets of non-controlling interest of subsidiaries upon acquisition of additional interest in subsidiaries, and capital contribution from non-controlling shareholders.

Note c: Pursuant to relevant laws and regulations in the People's Republic of China ("PRC") and the Articles of Association of the PRC subsidiaries of the Company, the PRC subsidiaries are required to make appropriation from profit after taxation to the statutory surplus reserve at a rate of 10%. The statutory surplus reserve may be used to make up losses incurred and, with the approval from relevant government authorities, to increase capital.

Note d: The other reserve represents the net assets of Nanjing High Speed & Accurate Gear (Group) Co.,Ltd ("Nanjing High Accurate"), which was contributed to the Group by the founder shareholders of Nanjing High Accurate when the founder shareholders obtained control of Nanjing High Accurate as well as the subsequent acquisition of additional equity interest in Nanjing High Accurate and contributed to the Group by the founder shareholders of Nanjing High Accurate.

Note e: As the share option were not exercised at the expiring date, the amount previously recognised in share option reserve was transferred to retained profits. Details are set out in note 36.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	NOTE	2013 RMB'000	2012 RMB'000
OPERATING ACTIVITIES			
Profit before taxation		88,429	207,669
Adjustments for:			
Allowance for inventories		222,878	29,386
Amortisation of intangible assets		78,969	69,040
Bank interest income		(84,838)	(61,908)
Cancellation fee received		—	(23,754)
Depreciation of property, plant and equipment		551,775	504,596
Finance costs		564,178	523,878
Loss on disposal of property, plant and equipment		46,115	1,017
Impairment loss on intangible assets		21,065	2,741
Impairment loss on trade and other receivables		140,541	85,777
Impairment loss on goodwill		14,724	—
Impairment loss on interest in a joint venture		53,000	—
Net foreign exchange gain arising from bank borrowing		(10,258)	—
Gain on disposal of available-for-sale investments		(39,142)	—
Release of prepaid lease payments		17,254	14,261
Share of results of associates		7,783	11,742
Share of results of joint ventures		53,985	15,712
Release of deferred income		(132,971)	(4,253)
Operating cash flows before movements in working capital		1,593,487	1,375,904
Increase in inventories		(832,180)	(10,872)
(Increase) decrease in trade and other receivables		(1,710,298)	183,923
Net changes in amounts due from/to associates		493	47,840
Net changes in amounts due from/to joint ventures		11,120	(20,748)
Increase in trade and other payables		1,058,802	107,491
(Decrease) increase in warranty provision		(36,697)	10,978
Cash generated from operations		84,727	1,694,516
Income tax paid		(91,264)	(152,718)
NET CASH (USED IN) FROM OPERATING ACTIVITIES		(6,537)	1,541,798

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	NOTE	2013 RMB'000	2012 RMB'000
INVESTING ACTIVITIES			
Placement in pledged bank deposits		(4,497,357)	(4,238,058)
Purchase of property, plant and equipment		(882,584)	(1,037,487)
Investment in structured bank deposits		(200,000)	—
Deposit paid for land lease		(57,981)	(288,442)
Prepaid lease payments paid		(2,249)	(237,956)
Prepayment for acquisition of property, plant and equipment		(123,599)	(89,828)
Expenditure on intangible assets		(106,416)	(78,284)
Acquisition of interest in an associate		(590)	(9,000)
Disposal of interest in an associate		3,530	—
Purchase of available-for-sale investments		(22,640)	(3,300)
Withdrawal in pledged bank deposits		3,880,454	3,593,268
Refund on deposit for land lease		—	240,000
Government grants related to non-current assets		28,890	97,045
Interest received		84,838	61,908
Dividend received from a joint venture		33,000	24,000
Cancellation fee received		—	23,754
Proceeds on disposal of property, plant and equipment		7,184	18,916
Proceeds on disposal of available-for-sale investments		253,483	—
NET CASH USED IN INVESTING ACTIVITIES		(1,602,037)	(1,923,464)
FINANCING ACTIVITIES			
New borrowings raised		10,960,177	8,185,330
Proceeds from sale and leaseback arrangements		400,000	—
Proceeds from issue of shares		855,885	—
Capital contribution by non-controlling shareholders		79,025	82,600
Repayment of borrowings		(10,240,382)	(7,066,430)
Interest paid		(611,489)	(567,724)
Acquisition of additional interests in subsidiaries		(3,773)	(22,200)
NET CASH FROM FINANCING ACTIVITIES		1,439,443	611,576
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(169,131)	229,910
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR		2,404,502	2,174,592
CASH AND CASH EQUIVALENTS AT END OF THE YEAR, representing bank balances and cash		2,235,371	2,404,502

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands as an exempted company with limited liability on 22 March 2005 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") with effect from 4 July 2007. The addresses of the registered office and principal place of business of the Company are disclosed in the section Corporate Information in the annual report.

The Company acts as investment holding. Particulars of the principal activities of its subsidiaries, associates and joint ventures are set out in notes 44, 19, and 20 respectively.

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group. As at 31 December 2013, the Group's borrowings comprising bank loans, short term unsecured commercial papers, medium term notes and private placement bond amounted to approximately RMB9,447 million (31 December 2012: RMB8,737 million). At 31 December 2013, in relation to a syndicated loan of RMB232 million(31 December 2012: RMB716 million) (the "Syndicated Loan"), the Company breached certain of the financial covenants of the Syndicate Loan agreement. On discovery of the breach, the Company informed the Syndicate Loan lenders and commenced negotiations for a waiver (the "Waiver"). Up to the date of the issue of the consolidated financial statements, the negotiations are still in progress. The directors of the Company are confident that negotiations with the Syndicate Loan lenders will ultimately reach a successful conclusion. In any event, should the Syndicate Loan lenders call for immediate repayment of the 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. In addition, subsequent to the end of the reporting period, the Group has renewed RMB1,418 millions of existing bank facilities, and is in the process of arranging other sources of finance totalling approximately RMB3,800 million. In January 2014, the Group issued commercial paper of RMB800 million.

Taking into account of the financial resources available to the Group, 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 consolidated financial statements have been prepared on a going concern basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)")

(a) New and revised IFRSs adopted during the year

In the current year, the Group has applied the following amendments to IFRSs issued by the International Accounting Standards Board (the "IASB") that are mandatorily effective for an accounting period that begins on or after 1 January 2013.

Amendments to IFRS 7 Disclosures – Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to IFRS 7 *Disclosures-Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to IFRS 7 require entities to disclose information about rights of offset and related arrangements (such as collateral posting requirements) for financial instruments under an enforceable master netting agreement or similar arrangement.

The amendments have been applied retrospectively. As the Group does not have any offsetting arrangements in place, the application of the amendments has had no material impact on the disclosures or on the amounts recognised in the consolidated financial statements.

New and revised Standards on consolidated, joint arrangements, associates and disclosures

In May 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued comprising IFRS 10 *Consolidated Financial Statements,* IFRS 11 Joint Arrangements, IFRS 12 *Disclosure of Interests in Other Entities*, International Accounting Standard ("IAS") 27 (as revised in 2011) *Separate Financial Statements* and IAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures.* Subsequent to the issue of these standards, amendments to IFRS 10, IFRS 11 and IFRS 12 were issued to clarify certain transitional guidance on the first-time application of the standards.

In the current year, the Group has applied for the first time IFRS 10, IFRS 11, IFRS 12 and IAS 28 (as revised in 2011) together with the amendments to IFRS 10, IFRS 11 and IFRS 12 regarding the transitional guidance. IAS 27 (as revised in 2011) is not applicable to the Group as it deals only with separate financial statements.

The major impact of the application of these standards is set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)") *(Continued)*

(a) New and revised IFRSs adopted during the year *(Continued)*

Impact of the application of IFRS 10

IFRS 10 replaces the parts of IAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and SIC-12 *Consolidation-Special Purpose Entities.* IFRS 10 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in IFRS 10 to explain when an investor has control over an investee.

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-13 *Jointly Controlled Entities - Non-Monetary Contributions by Ventures,* 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 venturers) have rights to the net assets of the arrangement. Previously, IAS 31 contemplated 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 accounted for as a jointly controlled entity).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)") *(Continued)*

(a) New and revised IFRSs adopted during the year *(Continued)*

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

The initial and subsequent accounting of joint ventures and joint operations is 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.

Impact of the application of IFRS 12

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements (please see notes 19,20 and 44 for details).

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)") *(Continued)*

(a) New and revised IFRSs adopted during the year *(Continued)*

IFRS 13 Fair Value Measurement

The Group has applied IFRS 13 *Fair Value Measurement* for the first time in the current year. IFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of IFRS 13 is broad; the fair value measurement requirements of IFRS 13 apply 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, except for share-based payment transactions that are within the scope of IFRS 2 *Share-based Payment*, leasing transactions that are within the scope of IAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

IFRS 13 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.

IFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by IFRS 13 for the 2012 comparative period (please see notes 6 and 34 for the 2013 disclosures). Other than the additional disclosures, the application of IFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)") *(Continued)*

(a) New and revised IFRSs adopted during the year *(Continued)*

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, "the statement of comprehensive income" is renamed as "the statement of profit or loss and other comprehensive income" and "the income statement" is renamed as "the 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 items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (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 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. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Except as described above, the application of the other new or revised IFRSs in the current report period has had no material effect on the amounts reported and disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

2. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS(s)") *(Continued)*

(b) New and revised IFRSs issued but not yet effective

The Group has not early applied the following new and revised IFRS, that have been issued but are not yet effective:

Amendments to IFRS 10, IFRS 12 and IAS 27	Investment Entities[1]
Amendments to IAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to IFRS 9 and IFRS 7	Mandatory Effective Date of IFRS 9 and Transition Disclosures[3]
Amendments to IAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to IAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to IAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
Amendments to IFRSs	Annual Improvements to IFRSs 2010-2012 Cycle[4]
Amendments to IFRSs	Annual Improvements to IFRSs 2011-2013 Cycle[2]
IFRS 9	Financial Instruments[3]
IFRS 14	Regulatory Deferral Accounts[5]
IFRIC 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014

2 Effective for annual periods beginning on or after 1 July 2014

3 Available for application - the mandatory effective date will be determined when the outstanding phases of IFRS 9 are finalised

4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

5 Effective for first annual IFRS financial statements beginning on or after 1 January 2016

The directors of the Company anticipate that the application of these new or revised IFRSs will have no material impact on the consolidated financial statements of the Group in the period of initial application.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange and by the Hong Kong Companies Ordinance.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of IFRS 2, leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structure entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Company obtains control over the subsidiary and ceases when the Company loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Company gains control until the date when the Company ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable IFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under IAS 39, when applicable, the cost on initial recognition of an investment in an associate or a joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value, except that:

- deferred tax assets or liabilities, and assets or liabilities related to employee benefit arrangements are recognised and measured in accordance with IAS 12 *Income Taxes* and IAS 19 *Employee Benefits* respectively;

- liabilities or equity instruments related to share-based payment arrangements of the acquiree or sharebased payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 *Share-based Payment* at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or, when applicable, on the basis specified in another IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Business combinations *(Continued)*

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition-date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed as of the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39, or IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised at that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investments in associates and joint ventures

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment, or a portion thereof, is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Investments in associates and joint ventures *(Continued)*

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate or a joint venture. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate or joint venture at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate or joint venture is included in the determination of the gain or loss on disposal of the associate or joint venture. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate or joint venture on the same basis as would be required if that associate or joint venture had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate or joint venture would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

Investments in associates and joint ventures *(Continued)*

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognised in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Leasing *(Continued)*

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in other comprehensive income and accumulated in equity and will be reclassified from equity to profit or loss on disposal of the foreign operation. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into RMB using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the year. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments to state-managed retirement benefit schemes and the Hong Kong's Mandatory Provident Fund Scheme are charged as expenses when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

The fair value of services received determined by reference to the fair value of share options granted at the grant date is recognised as an expense in full at the grant date when the share options granted vest immediately, with a corresponding increase in equity (share option reserve).

When the share options are exercised, the amount previously recognised in share option reserve will be transferred to share premium. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before taxation' as reported in the statement of profit or loss and other comprehensive income because it excludes items of income and expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary difference to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation *(Continued)*

Current and deferred tax of the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Freehold land is stated at cost and is not amortised.

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment other than properties under construction less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets

Intangible assets acquired separately

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains or losses arising from derecognition of an intangible asset are measured at the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in profit or loss in the period when the asset is derecognised.

Internally-generated intangible assets - research and development expenditures

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses , on the same basis as intangible assets that are acquired separately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Intangible assets *(Continued)*

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is regarded as their cost).

Subsequent to initial recognition, intangible assets acquired in a business combination are reported at costs less accumulated amortisation and any accumulated impairment losses on the basis as intangible assets that are acquired separately. Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives.

Impairment losses on tangible and intangible assets other than goodwill (see the accounting policy in respect of goodwill above)

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised as income immediately.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions, are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation.

Financial instruments

Financial assets and financial liabilities are recognised on the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into one of the two categories, including loans and receivables and available-for-sale ("AFS") financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

AFS financial assets

AFS financial assets are non-derivatives that are either designated or not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through profit or loss ("FVTPL").

Equity securities held by the Group that are classified as AFS and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade and other receivables, amounts due from associates/joint ventures, structured bank deposits, pledged bank deposits, bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate , except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

For an AFS equity investment, a significant or prolonged decline in the fair value of that investment below its costs is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 180 days, as well as observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial assets *(Continued)*

Impairment of financial assets *(Continued)*

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade and other receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable or other receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investment revaluation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments

Classification as debt or equity

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities (including trade and other payables, amounts due to associates, amount due to joint ventures and borrowings) are subsequently measured at amortised cost, using the effective interest method.

Derivative financial instruments and hedging

Derivatives are initially recognised at fair value at the date when a derivative contract is entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

Hedge accounting

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

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

Cash flow hedges

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments *(Continued)*

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised directly in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3, the directors of the Company are required to make estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Allowances for bad and doubtful debts

The Group makes allowances for bad and doubtful debts based on an assessment of the recoverability of trade receivables. Allowances are applied to trade receivables where events or changes in circumstances indicated that the balances may not be collectible. The identification of bad and doubtful debts requires the use of estimates. Where the expectation of future cash receipts is different from the original estimate, such difference will impact the carrying amounts of trade receivables and doubtful debts expenses in the year in which such estimate is changed. As at 31 December 2013, the carrying amount of trade receivables (excluding bills receivable) is RMB4,172,333,000 (net of allowance for bad and doubtful debts of RMB405,343,000) (31 December 2012: carrying amount of RMB2,862,397,000, net of allowance for bad and doubtful debts of RMB264,802,000).

Allowance for inventories

Management exercises their estimates in making allowance for inventories. Management reviews the inventory listing at the end of each reporting period, and makes allowance for obsolete and slow-moving inventory items identified that no longer suitable for use in operation. As at 31 December 2013, the carrying amount of inventories is RMB2,389,806,000 (net of allowance for inventories of RMB336,667,000) (31 December 2012: carrying amount of RMB1,780,504,000, net of allowance for inventories of RMB116,807,000).

Useful lives and residual value of property, plant and equipment

The Group reviews the estimated useful lives and residual value of property, plant and equipment at the end of the reporting period. During the reporting period, management is satisfied that there is no change in the estimated useful lives of the property, plant and equipment from prior year. The carrying amounts of property, plant and equipment at the end of the reporting period are disclosed in note 15.

Recognition and useful lives of intangible assets

Development costs are capitalised in accordance with the accounting policy for research and development expenditures in note 3. Determining the amounts to be capitalised requires management to make assumptions regarding the expected future cash generation of the assets, discount rates to be applied and the expected period of benefits. The Group reviews the estimated useful lives of intangible assets at the end of each reporting period. During the reporting period, management is satisfied that there is no change in the estimated useful lives of the intangible assets from prior years. The carrying amounts of intangible assets at the end of the reporting period are disclosed in note 18.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Fair value measurements and valuation processes

Some of the Group's assets and liabilities are measured at fair value for financial reporting purposes. The Chief Financial Officer of the Company determine the appropriate valuation techniques and inputs for fair value measurements.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Notes 6 and 34 provide detailed information about the valuation techniques, inputs and key assumptions used in the determination of the fair value of various assets and liabilities.

Income taxes

As at 31 December 2013, a deferred tax asset RMB277,524,000 (2012: RMB85,427,000) in relation to unused tax losses has been recognised in the Group's consolidated statement of financial position. No deferred tax asset has been recognised on the tax losses of RMB414,615,000 (2012: RMB227,066,000) due to the unpredictability of future profit streams.The realisability of the deferred tax asset mainly depends on whether sufficient future profits or taxable temporary differences will be available in the future. In cases where the actual future profits generated are less than expected, a material reversal of deferred tax assets may arise, which would be recognised in profit or loss for the period in which such a reversal takes place.

Estimated impairment of goodwill/intangible assets/interests in joint ventures

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013, the carrying amount of goodwill is RMB2,991,000 (net of accumulated impairment loss of RMB14,742,000).

When there is objective evidence of impairment loss of intangible asstes/interests in joint ventures, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). Where the actual future cash flows are less than expected, a material impairment loss may arise.

As at 31 December 2013, the carrying amount of intangible assets is RMB284,188,000(net of allowance for impairment of RMB21,065,000) (31 December 2012: carrying amount of RMB277,806,000, net of impairment of RMB2,741,000).

As at 31 December 2013, the carrying amount of interests in joint ventures is RMB472,587,000(net of allowance for impairment of RMB53,000,000) (31 December 2012: carrying amount of RMB612,572,000, net of impairment of RMB nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

5. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debt, which includes the borrowings disclosed in note 30, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, retained profits and other reserves.

The management of the Group reviews the capital structure regularly and taking into account of the cost and risk associated with the capital. The Group will balance its capital structure through the payment of dividends, new shares issue as well as the issue of new debt or the redemption of the existing debts.

6. FINANCIAL INSTRUMENTS

6a. Categories of financial instruments

	2013 RMB'000	2012 RMB'000
Financial assets		
Loans and receivables (including cash and cash equivalents)	**10,243,046**	8,434,013
Available-for-sale investments	**165,098**	306,658
Financial liabilities		
Amortised cost	**13,313,354**	11,259,796
Derivative financial instruments	**1,529**	6,496

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale investments, trade and other receivables, amounts due from (to) associates/ jointly controlled entities, trade and other payables, structured bank deposits, pledged bank deposits, bank balances and cash, borrowings, and derivative financial instruments. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments include market risk (currency risk, interest rate risk and equity price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

There has been no significant change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

(i) Currency risk

The Group is exposed to currency risks which mainly arise from the foreign currency sales and purchases, bank balances and borrowings denominated in foreign currency. Approximately 23% (2012: 23%) of the Group's sales and 3% (2012: 7%) of the Group's purchases are denominated in currencies other than the functional currency of the respective group entities.

The carrying amount of the Group's foreign currency denominated monetary assets and monetary liabilities including available-for-sale investments, trade and other receivables, pledged bank deposits, bank balances and cash, trade and other payables, borrowings and derivative financial instruments at the end of the reporting period are as follows:

Assets

	2013 RMB'000	2012 RMB'000
United States Dollars (USD)	**657,264**	301,232
Hong Kong Dollars (HKD)	**485,035**	207,926
Euro (EUR)	**113,157**	32,316
Canadian Dollars (CAD)	**7,543**	—
Japanese Yen (JPY)	**3,363**	—
Singapore Dollar (SGD)	**877**	1
Swiss Francs (CHF)	**—**	61

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

***(i) Currency risk** (Continued)*

Liabilities

	2013 RMB'000	2012 RMB'000
United States Dollars (USD)	**813,798**	976,377
Hong Kong Dollars (HKD)	**530,229**	848,874
Euro (EUR)	**5,941**	21,949
Singapore Dollar (SGD)	—	274

The Group does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Sensitivity analysis

The Group is mainly exposed to the fluctuation of HKD, USD and EUR against RMB.

The following table details the Group's sensitivity to a 5% (2012: 5%) increase and decrease in RMB against the relevant foreign currencies. 5% (2012: 5%) is the sensitivity rate used when reporting foreign currency risk internally to key management personnel and represents management's assessment of the reasonably possible change in foreign exchange rates. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at the year end for a 5% (2012: 5%) change in foreign currency rates. A positive number below indicates an increase in post-tax profit and investment revaluation reserve where RMB strengthen 5% (2012: 5%) against the relevant foreign currencies. For a 5% (2012: 5%) weakening of RMB against the relevant foreign currencies, there would be an equal and opposite impact on the profit and investment revaluation reserve.

	USD		HKD		EUR	
	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000	2013 RMB'000	2012 RMB'000
Profit or loss	**11,548**	33,889	**6,314**	41,812	**(4,544)**	(391)
Investment revaluation reserve	—	—	**(4,055)**	(9,765)	—	—

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(ii) Interest rate risk

The Group is exposed to fair value interest rate risk in relation to fixed-rate borrowings and pledged bank deposits. The Group is also exposed to cash flow interest rate risk in relation to variable-rate borrowings carring interest at prevailing interest rate and bank balances carring interest at prevailing market deposit rates. Currently, the Group adopts a policy of maintaining an appropriate mix of fixed and floating rate borrowings which is achieved primarily through the contractual terms of borrowings. The position is regularly monitored and evaluated by reference to anticipated changes in market interest rate.

The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of the rate determined by the People's Bank of China, the Hong Kong Interbank Offered Rate (the "HIBOR") and the London Interbank Offered Rate (the "LIBOR") arising from the Group's RMB and foreign currencies denominated borrowings respectively. In the current year, the Group entered into interest rate swaps to hedge against its exposures to change in cash flows of the borrowing (see note 34 for details).

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for variable-rate borrowings (other than the interest rate swap contracts with a notional amount of HKD262,500,000 and USD4,125,000 at 31 December 2013 (2012: notional amount of HKD787,500,000 and USD12,375,000)) at the end of the reporting period and have not taken into account bank balances and cash as their impact is not expected to be significant. A 50 basis points (2012: 50 basis points) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 50 basis points (2012: 50 basis points) higher/lower and all other variables were held constant, the Group's post-tax profit for the year would decrease/increase by RMB8,132,000 (2012: decrease/increase by: RMB14,292,000).

The Group's sensitivity to interest rates has decreased during the current year mainly due to the decrease in variable-rate borrowings and the interest rate swap.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Market risk *(Continued)*

(iii) Equity price risk

The Group is exposed to equity price risk mainly through its investment in listed equity securities. The management manages this exposure by carefully monitoring the price fluctuation of the listed equity securities. The Group's equity price risk is mainly concentrated on its available-for-sale investment quoted in the Hong Kong Stock Exchange.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period. For sensitivity analysis purpose, the sensitivity rate is set at 15% in the current year as a result of the volatile financial market.

If equity price had been 15% higher/lower (2012: 15% higher/lower), the Group's comprehensive income would increase/decrease by RMB12,164,000 (2012: RMB29,294,000) as a result of the changes in fair value of available-for-sale investments.

Credit risk

As at 31 December 2013, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to perform an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position and discounted and endorsed bills with full recourse which were derecognised by the Group (see note 25 for details).

In order to minimise the credit risk, the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade debt at the end of the reporting date to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Other than concentration of the credit risk on liquid funds which are deposited with several banks with high credit rating, the Group also has concentration of credit risks with exposure limited to certain counterparties and customers. As at 31 December 2013, five customers engaged in the wind milling industry accounted for approximately 41% (2012: 50%) of the Group's trade receivables. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group had also explored new markets and new customers in order to minimise the concentration of credit risk. Other than the above, there is no other concentration of credit risk on the Group's trade receivables.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and ensures compliance with loan covenants.

The Group relies on borrowings as a significant source of liquidity. As at 31 December 2013, the Group's bank loans, short term unsecured commercial papers, medium term notes and private placement bond amounted to approximately RMB9,447 million (2012: RMB8,737 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. At 31 December 2013, except for the Syndicated Loan of RMB232 million which the Group breached certain of the financial covenants of the related loan agreements and is reclassified as a current liability in the consolidated financial statements, the Group is in compliance with the respective loan covenants.

The following table details the Group's remaining contractual maturity for its non-derivative financial liabilities based on the agreed repayment terms, other than discounted and endorsed bills with full recourse which were derecognised by the Group (see note 25 for details) and discussed elsewhere in these consolidated financial statements. The table has been based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. Specifically, Syndicated Loan is included below in the earliest time band regardless of the probability of the banks choosing to exercise their rights. The maturity dates for other non-derivative financial liabilities are based on the agreed repayment dates.

The table includes both interest and principal cash flows. To the extent that interest flows are for floating rate instruments, the undiscounted amount is derived based on interest rate outstanding at the end of each reporting period.

In addition, the following table details the Group's liquidity analysis for its derivative financial instruments. The tables have been drawn up based on the undiscounted contractual net cash outflows on derivative instruments that settle on a net basis. The liquidity analysis for the Group's derivative financial instruments are prepared based on the contractual maturities as the management consider that the contractual maturities are essential for an understanding of the timing of the cash flows of derivatives.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

6b. Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

	Weighted average effective interest rate %	On demand, 0 - 30 days RMB'000	31 - 90 days RMB'000	91 - 365 days RMB'000	1 - 5 years RMB'000	Total undiscounted cash flows RMB'000	Carrying amount RMB'000
2013							
Non-derivative financial liabilities							
Trade and other payables	—	2,057,168	686,626	642,651	—	3,386,445	3,386,445
Amounts due to associates	—	71,462	—	—	—	71,462	71,462
Amounts due to joint ventures	—	8,553	—	—	—	8,553	8,553
Obligation under finance leases	6.15	—	39,620	115,529	285,373	440,522	400,000
Borrowings	5.39	1,048,605	2,212,418	4,140,588	2,571,902	9,973,513	9,446,894
		3,185,788	2,938,664	4,898,768	2,857,275	13,880,495	13,313,354
Derivative – net settlement							
Interest rate swap		(497)	(950)	2,979	—	1,532	1,529
2012							
Non-derivative financial liabilities							
Trade and other payables	—	1,940,744	234,907	270,312	—	2,445,963	2,445,963
Amounts due to associates	—	69,478	6,998	—	—	76,476	76,476
Borrowings	5.20	1,076,208	2,574,169	4,030,239	1,512,478	9,193,094	8,737,357
		3,086,430	2,816,074	4,300,551	1,512,478	11,715,533	11,259,796
Derivative – net settlement							
Interest rate swap		(1,591)	(3,017)	9,557	1,574	6,523	6,496

Syndicated Loan is included in the "on demand, 0-30 days" time band in the above maturity analysis. As at 31 December 2013, the undiscounted principal amount of the Syndicated Loan amounted to RMB231,527,000 (2012: RMB716,288,000). Taking into account the Group's financial position, the directors do not believe that it is probable that the banks will exercise their discretionary rights to demand immediate repayment. The directors believe that such bank loan will be repaid by instalments within one year after the end of the reporting period in accordance with the scheduled repayment dates set out in the loan agreements. At that time, the aggregate principal and interest cash outflows will amount to RMB232,993,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

6. FINANCIAL INSTRUMENTS *(Continued)*

6c. Fair value measurements of financial instruments

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

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 values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used).

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
	31.12.2013	31.12.2012				
1) Interest rate swaps classified as derivative financial instruments in the consolidated statement of financial position	**Liabilities (designated for hedging) – RMB1,529,000**	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 consolidated statements of financial position	**Listed equity securities in Hong Kong:– Manufacturing industry – RMB81,092,000**	Listed equity securities in Hong Kong:– Manufacturing industry – RMB195,292,000	Level 1	Quoted bid prices in an active market.	N/A	N/A

There were no transfers between Level 1 and 2 in the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. REVENUE AND SEGMENTAL INFORMATION

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

The Group is organised in one business division only. The Group's chief operating decision maker (the "CODM"), being the Company's Board of Directors, make decisions according to the revenue and operating results of each geographical area by location of customers and the related reports on the ageing 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.

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

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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Segment revenue and results

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

	2013 RMB'000	2012 RMB'000
Segment revenue		
– PRC	**5,236,462**	4,905,898
– USA	**1,175,261**	1,287,750
– Europe	**52,918**	103,125
– Others	**74,417**	72,044
	6,539,058	6,368,817
Segment profit		
– PRC	**1,114,950**	969,715
– USA	**444,477**	394,245
– Europe	**11,203**	13,907
– Others	**6,841**	15,324
	1,577,471	1,393,191
Other income, gains and losses	**118,788**	94,222
Finance costs	**(564,178)**	(523,878)
Share of results of associates	**(7,783)**	(11,742)
Share of results of joint ventures	**(53,985)**	(15,712)
Unallocated expenses	**(981,884)**	(728,412)
Profit before taxation	**88,429**	207,669

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 3. Segment profit represents the gross profit (including depreciation of production plants), government grants, sales of scraps and materials, and distribution and selling costs earned/incurred by each segment. The remaining items in the profit or loss are unallocated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Segment assets

	2013 RMB'000	2012 RMB'000
Segment assets		
– PRC	4,633,555	3,799,366
– USA	501,913	181,833
– Europe	30,883	32,968
– Others	22,045	1,507
Total segment assets	5,188,396	4,015,674
Unallocated assets	17,782,290	15,866,560
Consolidated total assets	22,970,686	19,882,234

Only the trade receivables of each segment are reported to the CODM for the purposes of resources allocation and performance assessment. Hence, total segment assets represent the trade receivables of the Group while the unallocated assets represent the assets of the Group excluding trade receivables. The related impairment loss on trade receivables are not reported to the CODM as part of segment results.

Other segment information

2013

	PRC RMB'000	USA RMB'000	Europe RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit:						
Write-down of inventories	178,639	39,795	2,451	1,993	—	222,878
Depreciation of production plants	408,188	90,930	5,602	4,552	42,503	551,775
Amounts regularly provided to the CODM but not included in the measure of segment profit or segment assets:						
Impairment loss recognised on trade receivables	135,527	1,687	3,327	—	—	140,541
Impairment loss on goodwill	14,724	—	—	—	—	14,724
Impairment loss on intangible assets	21,065	—	—	—	—	21,065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Other segment information *(Continued)*

2012

	PRC RMB'000	USA RMB'000	Europe RMB'000	Others RMB'000	Unallocated RMB'000	Total RMB'000
Amounts included in the measure of segment profit:						
Allowance for inventories	22,636	5,942	476	332	—	29,386
Depreciation of production plants	364,343	95,636	7,659	5,350	31,608	504,596
Amounts regularly provided to the CODM but not included in the measure of segment profit or segment assets:						
Impairment loss recognised (reversed) on trade receivables	104,763	(21,516)	—	—	—	83,247
Impairment loss on other receivables	2,530	—	—	—	—	2,530
Impairment loss on intangible assets	2,741	—	—	—	—	2,741

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Revenue from major product and services

The following is an analysis of the Group's revenue from its major products:

	2013 RMB'000	2012 RMB'000
Wind gear transmission equipment	**4,140,327**	3,951,965
Gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills	**455,939**	541,112
Gear transmission equipment for construction materials	**362,512**	474,064
Marine gear transmission equipment	**340,523**	250,940
Diesel engine products	**181,052**	175,519
Computer numerical controlled products	**238,255**	181,306
General purpose gear transmission equipment	**63,539**	91,067
Transmission equipment for high-speed locomotives and urban light rails	**106,308**	80,056
High-speed heavy-load gear transmission equipment	**10,961**	8,013
Others	**639,642**	614,775
	6,539,058	6,368,817

Others mainly include the revenue from metallurgical engineering and equipment, boiler products, transmission parts and mining equipment.

Geographical information

The Group's non-current assets by location of assets at the end of the reporting period are detailed below.

	Non-current assets	
	2013 RMB'000	2012 RMB'000
PRC	**8,967,073**	8,675,382
USA	**36,869**	17,497
Others	**183**	999
	9,004,115	8,693,878

Note: The non-current assets exclude available-for-sale investments and deferred tax assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

7. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group is as follows:

	2013 RMB'000	2012 RMB'000
Customer A[1]	**1,165,980**	1,274,283
Customer B[2]	**N/A[3]**	803,372

1 Revenue from sale of wind gear transmission equipment in the USA segment.

2 Revenue from sale of wind gear transmission equipment in the PRC segment.

3 The corresponding revenue did not contribute over 10% of the total sales of the Group.

8. OTHER INCOME

	2013 RMB'000	2012 RMB'000
Sales of scraps and materials	**72,655**	89,357
Bank interest income	**84,838**	61,908
Government grants (Note)	**155,230**	29,259
Cancellation fee received	**—**	23,754
Others	**20,807**	10,914
	333,530	215,192

Note: The amounts mainly represent subsidies or incentives received from PRC local governments for the operations carried out by the Group. The amount includes release of deferred income of RMB132,971,000 (2012: RMB4,253,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

9. OTHER GAINS AND LOSSES

	2013 RMB'000	2012 RMB'000
Gain on disposal of available-for-sale investments	39,142	—
Net exchange (losses) gains	20,116	(2,354)
Loss on disposal of property, plant and equipment	(46,115)	—
	13,143	(2,354)

10. FINANCE COSTS

	2013 RMB'000	2012 RMB'000
Interests on bank borrowings wholly repayable within five years	611,489	567,724
Less: amount capitalised	(47,311)	(43,846)
	564,178	523,878

Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 6.14% (2012: 6.02%) per annum to expenditure on qualifying assets.

11. TAXATION

	2013 RMB'000	2012 RMB'000
Current tax		
– PRC Enterprise Income Tax	156,374	111,010
– USA Corporate Income Tax	123	304
– Withholding tax on distribution of earnings from the PRC subsidiaries	—	46,196
	156,497	157,510
Under (over) provision in prior years		
– PRC Enterprise Income Tax	(1,020)	7,172
– USA Corporate Income Tax	—	(69)
	(1,020)	7,103
Deferred tax credit (note 23)	(98,205)	(85,416)
	57,272	79,197

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

11. TAXATION *(Continued)*

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 Statutory 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. NGC Renewable LLC has not commenced operation and has no assessable profit for tax purpose.

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

Name of subsidiary	Year ended during which approval was obtained	Year ending during which approval will expire
Nanjing High Speed Gear Manufacturing Co., Ltd.	31 December 2011	31 December 2013
Nanjing High Accurate Marine Equipment Co., Ltd.	31 December 2011	31 December 2013
Nanjing High Speed & Accurate Gear (Group) Co., Ltd	31 December 2011	31 December 2013
Nanjing Gaote Gear Box Manufacturing Co., Ltd.	31 December 2012	31 December 2014
Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd.	31 December 2012	31 December 2014
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd.	31 December 2012	31 December 2014
Zhenjiang Tongzhou Propeller Co., Ltd.	31 December 2013	31 December 2016

The EIT Law imposes withholding tax upon the distribution of the profits earned by the PRC subsidiaries on or after 1 January 2008 to their overseas shareholders. At 31 December 2013, deferred tax liabilities of RMB17,199,000 (2012: RMB17,199,000) has been recognised in the consolidated financial statements in respect of the temporary differences attributable to such undistributed profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

11. TAXATION *(Continued)*

The tax charge for the year can be reconciled to the profit before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

	2013 RMB'000	2012 RMB'000
Profit before taxation	**88,429**	207,669
Tax at income tax rate of 25% (2012: 25%)	**22,107**	51,917
Tax effect of share of results of associates and jointly controlled entities	**15,442**	6,864
Tax effect of expenses not deductible for tax purpose	**40,671**	31,654
Tax effect of income not taxable for tax purpose	**(101)**	(352)
Tax effect of tax losses not recognised	**47,042**	32,119
Utilisation of tax losses previously not recognised	**(155)**	(510)
Income tax on concessionary rate	**(66,765)**	(52,201)
(Over) Under provision in respect of prior years	**(1,020)**	7,103
Tax effect of undistributed earnings of the PRC subsidiaries	**—**	2,500
Effect of different tax rate of a subsidiary operating in a jurisdiction other than PRC	**51**	103
Tax charge for the year	**57,272**	79,197

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

12. PROFIT FOR THE YEAR

	2013 RMB'000	2012 RMB'000
Profit for the year has been arrived at after charging (crediting):		
Total staff costs, including directors' emoluments (note 13)	1,116,800	992,918
Less: staff cost included in research and development costs	(71,990)	(64,367)
staff cost included in intangible assets	(7,710)	(8,249)
	1,037,100	920,302
Auditor's remuneration	3,450	3,230
Write-down of inventories (included in cost of sales)	222,878	29,386
Cost of inventories recognised as an expense	4,681,511	4,810,083
Depreciation of property, plant and equipment	551,775	504,596
Amortisation of prepaid lease payments	17,254	14,261
Amortisation of intangible assets	78,969	69,040
Net exchange losses (gains)	(20,116)	2,354
Loss (gain) on disposal of property, plant and equipment	46,115	1,017
Impairment losses on intangible assets (included in other expenses)	21,065	2,741
Impairment losses on trade and other receivables (included in other expenses) (note)	140,541	85,777
Impairment losses on goodwill (included in other expenses)	14,724	—
Impairment losses on interests in a joint venture (included in other expenses)	53,000	—

Note: During the year ended 31 December 2013, the Group provided RMB140,541,000 (2012: RMB83,247,000) of impairment loss on trade receivables. The impairment provided in current year are mainly from certain wind gear customers, as they have been in financial difficulties since 2011 and there had been delayed in payments. The Group assesses the recoverable amount of receivables and impairment has been made for the difference between recoverable amounts and carrying amounts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS

Details of the emoluments paid or payable to directors for both years are as follows:

	2013 RMB'000	2012 RMB'000
Directors		
– fee	440	360
– salaries and other allowances	21,979	21,979
– retirement benefit plan contributions	371	371
Total emoluments	22,790	22,710

	2013				2012			
	Fee RMB'000	Salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000	Fee RMB'000	Salaries and allowances RMB'000	Retirement benefits scheme contributions RMB'000	Total RMB'000
Hu Yueming	—	3,397	53	3,450	—	3,397	53	3,450
Chen Yongdao	—	3,097	53	3,150	—	3,097	53	3,150
Lu Xun	—	3,097	53	3,150	—	3,097	53	3,150
Li Shengqiang	—	3,097	53	3,150	—	3,097	53	3,150
Liu Jianguo	—	3,097	53	3,150	—	3,097	53	3,150
Liao Enrong	—	3,097	53	3,150	—	3,097	53	3,150
Jin Maoji	—	3,097	53	3,150	—	3,097	53	3,150
Chen Shimin	120	—	—	120	120	—	—	120
Zhu Junsheng	120	—	—	120	120	—	—	120
Jiang Xihe	120	—	—	120	120	—	—	120
Jiang Jianhua	80	—	—	80	—	—	—	—
	440	21,979	371	22,790	360	21,979	371	22,710

Mr Hu Yueming is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

13. DIRECTORS', CHIEF EXECUTIVE'S AND EMPLOYEES' EMOLUMENTS *(Continued)*

Employees

The five highest paid individuals of the Group for both years are all directors, details of their emoluments are set out above.

During the years ended 31 December 2013 and 2012, no emoluments were paid by the Group to any of the directors as an inducement to join or upon joining the Group or as compensation for loss of office. None of the directors waived any emoluments during both years.

14. EARNINGS PER SHARE

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

	2013 RMB'000	2012 RMB'000
Earnings		
Earnings for the purpose of basic and diluted earnings per share (Profit for the year attributable to owners of the Company)	**64,573**	138,426

	2013 '000	2012 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**1,372,451**	1,362,743
Effect of dilutive potential ordinary shares:		
Share option	—	—
Weighted average number of ordinary shares for the purpose of diluted earnings per share	**1,372,451**	1,362,743

The computation of diluted earnings per share for the year ended 31 December 2013 and 31 December 2012 does 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 for shares in 2013 and 2012. Accordingly, the diluted earnings per share is same as the basic earnings per share for the year ended 31 December 2013 and 31 December 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

15. PROPERTY, PLANT AND EQUIPMENT

	Freehold land RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Fixture and equipment RMB'000	Transportation equipment RMB'000	Construction in progress RMB'000	Leasehold improvements RMB'000	Software RMB'000	Total RMB'000
COST									
At 1 January 2012	—	1,285,548	3,624,503	166,592	234,080	1,663,783	1,162	9,020	6,984,688
Additions	17,343	17,324	41,443	5,054	8,288	1,081,949	—	2,381	1,173,782
Transfer	—	569,445	708,765	18,598	19,149	(1,315,957)	—	—	—
Disposals	—	(11,594)	(48,008)	(1,330)	(954)	—	—	(108)	(61,994)
At 31 December 2012	17,343	1,860,723	4,326,703	188,914	260,563	1,429,775	1,162	11,293	8,096,476
Additions	—	8,001	36,895	3,684	5,299	944,906	—	1,138	999,923
Transfer	—	473,616	391,426	18,668	35,142	(922,332)	—	3,480	—
Disposals	—	(81,841)	(21,299)	(4,574)	(2,334)	—	—	—	(110,048)
At 31 December 2013	**17,343**	**2,260,499**	**4,733,725**	**206,692**	**298,670**	**1,452,349**	**1,162**	**15,911**	**8,986,351**
DEPRECIATION									
At 1 January 2012	—	161,978	1,012,330	90,040	124,178	—	1,162	6,110	1,395,798
Provided for the year	—	63,313	374,140	26,834	38,298	—	—	2,011	504,596
Eliminated on disposals	—	(8,235)	(32,198)	(741)	(887)	—	—	—	(42,061)
At 31 December 2012	—	217,056	1,354,272	116,133	161,589	—	1,162	8,121	1,858,333
Provided for the year	—	68,021	413,242	27,484	41,397	—	—	1,631	551,775
Eliminated on disposals	—	(36,294)	(14,244)	(4,146)	(2,065)	—	—	—	(56,749)
At 31 December 2013	—	**248,783**	**1,753,270**	**139,471**	**200,921**	—	**1,162**	**9,752**	**2,353,359**
CARRYING VALUES									
At 31 December 2013	**17,343**	**2,011,716**	**2,980,455**	**67,221**	**97,749**	**1,452,349**	—	**6,159**	**6,632,992**
At 31 December 2012	17,343	1,643,667	2,972,431	72,781	98,974	1,429,775	—	3,172	6,238,143

The carrying values of plant and machinery includes an amount of RMB453,348,000 (2012: nil) in respect of assets held under finance leases in respect of certain sale and leaseback arrangements.

The Group is in the process of obtaining property certificates for the buildings above with carrying amount of RMB1,341,279,000 (2012: RMB1,147,341,000) at the end of reporting period.

The freehold land is situated in the USA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

15. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The above items of property, plant and equipment other than freehold land and construction in progress are depreciated on a straight line basis, after taking into account their estimated residual value, at the following rates per annum:

Buildings	2.8% - 6.5%
Plant and machinery	9.7% - 19.4%
Fixture and equipment	9.7% - 19.4%
Transportation equipment	16.2%
Leasehold improvements	Over the shorter of the lease terms or 3 years
Software	20%

16. PREPAID LEASE PAYMENTS

	2013	2012
	RMB'000	RMB'000
Medium-term land use rights in the PRC	**1,056,996**	958,778
Analysed for reporting purpose as:		
Current assets	**22,639**	20,330
Non-current assets	**1,034,357**	938,448
	1,056,996	958,778

The amount represents land use rights for leasehold interest in land situated in the PRC with usage rights of 50 years.

Included in medium-term prepaid lease payments are land use rights located in the PRC with carrying amount of RMB544,961,000 (2012: RMB551,203,000). The Group is in the process of obtaining these land use rights certificates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

17. GOODWILL

	2013 RMB'000	2012 RMB'000
COST	**17,715**	17,715
IMPAIRMENT	**(14,724)**	—
CARRYING VALUES	**2,991**	17,715

For the purposes of impairment testing, the carrying values of goodwill have been allocated to three groups of cash generating units ("CGUs"), as follows:

	2013 RMB'000	2012 RMB'000
Manufacture and sales of propellers ("Unit A")	—	12,091
Engineering processing and manufacturing ("Unit B")	**2,991**	2,991
Manufacture and sales of diesel engines ("Unit C")	—	2,633
	2,991	17,715

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 year ended 31 December 2013, the Group recognised an impairment loss of RMB14,724,000 (31 December 2012: nil) in relation to goodwill arising on acquisition of Unit A and Unit C. At 31 December 2013, the Group determined that there is no impairment in relation to goodwill arising on acquisition of Unit B.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

18. INTANGIBLE ASSETS

	Development costs RMB'000	Technical know-how RMB'000	Total RMB'000
COST			
At 1 January 2012	414,609	39,163	453,772
Additions	78,284	—	78,284
At 31 December 2012	492,893	39,163	532,056
Additions	103,956	2,460	106,416
At 31 December 2013	**596,849**	**41,623**	**638,472**
AMORTISATION AND IMPAIRMENT			
At 1 January 2012	178,970	3,499	182,469
Charge for the year	66,391	2,649	69,040
Impairment loss recognised in the year	2,741	—	2,741
At 31 December 2012	248,102	6,148	254,250
Charge for the year	76,542	2,427	78,969
Impairment loss recognised in the year	21,065	—	21,065
At 31 December 2013	**345,709**	**8,575**	**364,284**
CARRYING VALUES			
At 31 December 2013	**251,140**	**33,048**	**284,188**
At 31 December 2012	244,791	33,015	277,806

Development costs are internally generated for the Group's self-developed new products. Technical know-how were acquired from third parties or purchased as part of a business combination in prior years. The intangible assets have finite useful lives, and are amortised on a straight-line basis over the following periods:

Development costs	5 years
Technical know-how	5 - 10 years

During the year ended 31 December 2013, an impairment loss of approximately RMB21,065,000 (2012: RMB2,741,000) was recognised due to insufficient sales order for these development projects.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

19. INTERESTS IN ASSOCIATES

Details of the Group's interests in associates are as follows:

	2013 RMB'000	2012 RMB'000
Cost of unlisted investments in associates	**191,905**	194,845
Accumulated share of post-acquisition results	**(19,304)**	(11,521)
	172,601	183,324

At 31 December 2013, included in the cost of investments in associates is goodwill of RMB11,491,000 (2012: RMB11,491,000) arising on acquisitions of associates in prior years. There is no unrecognised share of losses in associates on 31 December 2013 and 2012.

Details of each of the Group's material associates at the end of the reporting period are as follow:

Name of entity	Form of business structure	Country of establishment/ principal place of operation	Proportion of nominal value of registered capital and proportion of voting power held by the Group		Principal activity
			2013	2012	
南通富來威農業裝備有限公司 Nantong FLW Agricultural Equipment Co. Ltd. ("Nantong FLW")	PRC equity joint venture	PRC	**49.58%**	49.58%	Manufacture and sales of agriculture equipment
南京伊晶能源有限公司 Nanjing E-crystal Energy Co., Ltd. ("Nanjing E-crystal")	PRC equity joint venture	PRC	**29.63%**	29.63%	Manufacture and sales of LED material
長源(南京)鑄造有限公司 Chang Yuan (Nanjing) Casting Co. Ltd. ("Nanjing Changyuan")	PRC equity joint venture	PRC	**30%**	30%	Manufacture and sales of metal casting

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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19. INTERESTS IN ASSOCIATES *(Continued)*

Summarised financial information of material associates

Summarised financial information in respect of each of the three (2012: three) Group's material associates is set out below. The summarised financial information below represents amounts shown in the associate's financial statements prepared in accordance with IFRSs.

All of these associates are accounted for using the equity method in these consolidated financial statements.

(1) Nantong FLW

	2013	2012
	RMB'000	RMB'000
Current assets	**117,064**	134,395
Non-current assets	**81,413**	63,265
Current liabilities	**(47,153)**	(36,323)

	2013	2012
	RMB'000	RMB'000
Revenue	**42,121**	47,375
(Loss) Profit for the year	**(10,013)**	257
Total comprehensive (expense) income for the year	**(10,013)**	257
Dividends received from the associate during the year	**—**	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2013	2012
	RMB'000	RMB'000
Net assets of Nantong FLW	**151,324**	161,337
Proportion of the Group's ownership interest in Nantong FLW	**49.58%**	49.58%
Goodwill	**1,470**	1,470
Carrying amount of the Group's interest in Nantong FLW	**76,496**	81,461

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

19. INTERESTS IN ASSOCIATES *(Continued)*

(2) Nanjing E-crystal

	2013 RMB'000	2012 RMB'000
Current assets	**125,974**	179,544
Non-current assets	**44,285**	11,910
Current liabilities	**(43,580)**	(62,534)

	2013 RMB'000	2012 RMB'000
Revenue	**5,421**	21,498
Loss for the year	**(2,241)**	(6,080)
Total comprehensive expense for the year	**(2,241)**	(6,080)
Dividends received from the associate during the year	**—**	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2013 RMB'000	2012 RMB'000
Net assets of Nanjing E-crystal	**126,679**	128,920
Proportion of the Group's ownership interest in Nanjing E-crystal	**29.63%**	29.63%
Goodwill	**—**	—
Carrying amount of the Group's interest in Nanjing E-crystal	**37,535**	38,199

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

19. INTERESTS IN ASSOCIATES *(Continued)*

(3) Nanjing Changyuan

	2013 RMB'000	2012 RMB'000
Current assets	56,076	119,110
Non-current assets	61,206	56,502
Current liabilities	(82,703)	(132,922)

	2013 RMB'000	2012 RMB'000
Revenue	129,494	289,412
Loss for the year	(8,111)	(31,622)
Total comprehensive expense for the year	(8,111)	(31,622)
Dividends received from the associate during the year	—	—

Reconciliation of the above summarised financial information to the carrying amount of the interest in the associate recognised in the consolidated financial statements:

	2013 RMB'000	2012 RMB'000
Net assets of Nanjing Changyuan	34,579	42,690
Proportion of the Group's ownership interest in Nanjing Changyuan	30%	30%
Goodwill	9,707	9,707
Carrying amount of the Group's interest in Nanjing Changyuan	20,081	22,514

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

19. INTERESTS IN ASSOCIATES *(Continued)*

(3) Nanjing Changyuan *(Continued)*

Aggregate information of associates that are not individually material

As at 31 December 2013,there are five (2012: four) associates that are not individually material to the Group, and their aggregate information is as follows:

	2013 RMB'000	2012 RMB'000
The Group's share of profit (loss) from continuing operations	279	(580)
The Group's share of total comprehensive income	279	(580)
Aggregate carrying amount of the Group's interest in these associates	38,489	41,150

20. INTERESTS IN JOINT VENTURES

	2013 RMB'000	2012 RMB'000
Cost of unlisted investments in joint ventures	587,120	587,120
Accumulated share of post-acquisition results, net of dividend received	(61,533)	25,452
Less: impairment loss recognised (note)	(53,000)	—
	472,587	612,572

At 31 December 2013, included in the cost of investment in jointly controlled entities is goodwill of nil (2012: RMB17,920,000) arising on acquisition of a joint venture in prior years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

20. INTERESTS IN JOINT VENTURES *(Continued)*

Details of the Group's material joint venture at the end of the reporting period are as follow:

Name of entity	Form of business structure	Country of establishment/ principal place of operation	Proportion of nominal value of registered capital and proportion of voting power held by the Group		Principal activity
			2013	2012	
江蘇省宏晟重工集團有限公司 Jiangsu Hongsheng Heavy Industries Group Co., Ltd. ("Jiangsu Hongsheng")	PRC equity joint venture	PRC	**50.01%**	50.01%	Manufacture and sales of forged steel and fittings

Note: The Group holds 50.01% of the registered capital of Jiangsu Hongsheng and holds 50.01% of the voting power in general meeting. However, under the joint venture agreement, Jiangsu Hongsheng is jointly controlled by the Group and the other party because the financial and operating decisions relating to the activity of Jiangsu Hongsheng require the unanimous consent of the Group and the other party sharing the control. Therefore, Jiangsu Hongsheng is classified as a joint venture of the Group.

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 year ended 31 December 2013 (31 December 2012: nil).

Summarised financial information of a material joint venture

Summarised financial information of the Group's material joint venture is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRSs.

The joint venture is accounted for using the equity method in this consolidated financial statements.

Jiangsu Hongsheng

	2013 RMB'000	2012 RMB'000
Current assets	**955,217**	1,394,067
Non-current assets	**1,282,524**	684,247
Current liabilities	**(1,460,351)**	(953,683)
Non-current liabilities	**(198,265)**	(373,565)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

20. INTERESTS IN JOINT VENTURES *(Continued)*

The above amounts of assets and liabilities include the following:

	2013 RMB'000	2012 RMB'000
Cash and cash equivalent	**38,762**	115,693
Current financial liabilities (excluding trade and other payables and provisions)	**(389,138)**	(268,296)
Non-current financial liabilities (excluding trade and other payables and provisions)	(198,265)	(373,565)

	2013 RMB'000	2012 RMB'000
Revenue	**686,796**	610,902
Profit or loss from continuing operations	**(171,941)**	(100,851)
Loss for the year	**(171,941)**	(100,851)
Other comprehensive income for the year	—	—
Total comprehensive income for the year	**(171,941)**	(100,851)
Dividends received from Jiangsu Hongsheng during the year	—	—

The above profit (loss) for the year include the following:

	2013 RMB'000	2012 RMB'000
Depreciation and amortisation	**(57,625)**	(43,469)
Interest income	**3,008**	3,381
Interest expense	**(35,309)**	(16,001)
Income tax expense	—	(5,640)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

20. INTERESTS IN JOINT VENTURES *(Continued)*

Reconciliation of the above summarised financial information to the carrying amount of the interest in Jiangsu Hongsheng recognised in the consolidated financial statements:

	2013 RMB'000	2012 RMB'000
Net assets of Jiangsu Hongsheng	**579,125**	751,066
Proportion of the Group's ownership interest in Jiangsu Hongsheng	**50.01%**	50.01%
Goodwill	**17,920**	17,920
Effect of fair value adjustments at acquisition	**138,998**	139,981
Impairment of interest in Jiangsu Hongsheng	**(53,000)**	—
Carrying amount of the Group's interest in Jiangsu Hongsheng	**393,538**	533,509

Aggregate information of joint ventures that are not individually material

As at 31 December 2013,there are two (2012: two) joint ventures that are not individually material to the Group, and their aggregate information is as follows:

	2013 RMB'000	2012 RMB'000
The Group's share of profit (loss) from continuing operations	**32,986**	35,706
The Group's share of other comprehensive income	—	—
The Group's share of total comprehensive income	**32,986**	35,706

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

21. AVAILABLE-FOR-SALE INVESTMENTS

		2013 RMB'000	2012 RMB'000
Equity securities listed in Hong Kong, at fair value	(1)	**81,092**	195,292
Unlisted equity securities issued by private ntities established in the PRC, at cost	(2)	**84,006**	111,366
		165,098	306,658

Notes:

(1) On 2 December 2011, the Group entered into a cornerstone agreement ("the Cornerstone Investment Agreement") with, amongst other parties, 國電科技環保集團股份有限公司 Guodian Technology & Environment Group Corporation Limited ("Guodian Tech"), a joint stock limited company incorporated in the PRC with limited liability, to the proposed USD40,000,000 (equivalent to approximately RMB254,879,000) equity investment in Guodian Tech. Upon the listing of Guodian Tech's shares on the Hong Kong Stock Exchange on 30 December 2011, the Cornerstone Investment Agreement is completed and 144,100,000 H shares of Guodian Tech each priced at HKD2.16 are issued to the Group, which accounts for 12.12% of the total issued H share, and 2.42% of the total issued shares of Guodian Tech at 30 December 2011 and at 31 December 2012.

In the current year, the Group disposed of 92,007,000 H share of GuodianTech (2012: nil), which had been carried at fair value before disposal. A gain of disposal of RMB39,142,000 (2012:nil) has been recognised and shown under other gain and losses in the current year.

At 31 December 2013, the amount represents the Group's equity investment in Guodian Tech, measured at fair value at end of reporting period.

(2) The amount represents the investments in unlisted equity securities issued by private entities established in the PRC and are held by the Group as non-current assets, which are measured at cost less impairment at the end of the reporting period because the range of reasonable fair value estimates is so significant that the directors of the Company are of the opinion that their fair values cannot be measured reliably.

22. DEPOSIT FOR LAND LEASE

	2013 RMB'000	2012 RMB'000
Deposit for land lease	**280,800**	336,042

The amount represents deposit for land lease with total consideration of approximately RMB364 million (2012: RMB474 million) which has been paid partly in relation to the acquisition of land leases situated in the PRC and the transfer is subject to the approval of the PRC government. During the year, deposit for land lease amounted to RMB113,223,000 (2012: RMB112,400,000) had been transferred to prepaid lease payments account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

23. DEFERRED TAX

The followings are the major deferred tax (assets) liabilities recognised by the Group and movements thereon during the year:

	Doubtful debts allowance RMB'000	Inventories allowance RMB'000	Capitalisation of development costs RMB'000 (note)	Withholding tax RMB'000	Deferred income RMB'000	Warranty provision RMB'000	Tax loss RMB'000	Others RMB'000	Total RMB'000
At 1 January 2012	(29,496)	(11,720)	43,406	60,895	(13,353)	(12,189)	—	(2,410)	35,133
(Credit) carge to profit or loss (note11)	(16,181)	(3,581)	3,353	2,500	(7,769)	(1,647)	(16,526)	631	(39,220)
Reversal upon payment of withholding tax	—	—	—	(46,196)	—	—	—	—	(46,196)
At 31 December 2012	(45,677)	(15,301)	46,759	17,199	(21,122)	(13,836)	(16,526)	(1,779)	(50,283)
(Credit) charge to profit or loss (note11)	(20,477)	(32,601)	2,601	—	751	5,505	(52,855)	(1,129)	(98,205)
At 31 December 2013	**(66,154)**	**(47,902)**	**49,360**	**17,199**	**(20,371)**	**(8,331)**	**(69,381)**	**(2,908)**	**(148,488)**

Note: The development costs were deductible for tax purpose in the year they were incurred while they were capitalised and subject to amortisation in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

23. DEFERRED TAX *(Continued)*

The following is the analysis of the deferred tax balances for financial reporting presentation purposes:

	2013 RMB'000	2012 RMB'000
Deferred tax assets	(168,062)	(68,525)
Deferred tax liabilities	19,574	18,242
	(148,488)	(50,283)

At 31 December 2013, the Group has unused tax losses of RMB692,139,000 (2012: RMB312,493,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB277,524,000 (2012: RMB85,427,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB414,615,000 (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.

Under the EIT Law, starting from 1 January 2008, 10% withholding income tax is imposed on dividends relating to profits earned by the companies established in the PRC in the calendar year 2008 onwards to their foreign shareholders. For investors incorporated in Hong Kong which hold at least 25% of equity interest of those PRC companies, a preferential rate of 5% will be applied. Deferred tax has been provided for in respect of the temporary differences attributable to such profits and no deferred taxation has been provided for the remaining profits of approximately RMB3,591 million as at 31 December 2013 (2012: RMB3,054 million) as the Group is able to control the timing of the distribution and it is probable that the amount will not be distributed in the foreseeable future. The Group has applied the preferential rate of 5% as all the Company's subsidiaries in the PRC are directly held by an investment holding company incorporated in Hong Kong.

24. INVENTORIES

	2013 RMB'000	2012 RMB'000
Raw materials	493,343	465,458
Work in progress	1,084,470	688,968
Finished goods	811,993	626,078
	2,389,806	1,780,504

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

25. TRADE AND OTHER RECEIVABLES

	2013 RMB'000	2012 RMB'000
Accounts receivable	**4,577,676**	3,127,199
Bills receivable	**1,016,063**	1,153,277
Less: allowance for doubtful debts of accounts receivable	**(405,343)**	(264,802)
Total trade receivables	**5,188,396**	4,015,674
Advances to suppliers	**776,293**	440,243
Value-added tax recoverable	**201,580**	137,208
Other receivables	**73,955**	77,342
Less: allowance for doubtful debts of other receivable	**(2,530)**	(2,530)
Total trade and other receivables	**6,237,694**	4,667,937

The Group generally allows a credit period of 180 days to its trade customers. The following is an aged analysis of the trade receivables net of allowance for doubtful debts presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates.

	2013 RMB'000	2012 RMB'000
0 - 90 days	**2,518,390**	1,987,109
91 - 120 days	**529,705**	376,173
121 - 180 days	**889,187**	669,599
181 - 365 days	**929,522**	690,835
1 - 2 years	**238,719**	259,552
Over 2 years	**82,873**	32,406
	5,188,396	4,015,674

The trade receivable balances of RMB3,937,282,000 (2012: RMB3,032,881,000) are neither past due nor impaired at the end of the reporting period for which the Group has not provided for impairment loss since they are mainly the customers with good quality. No impairment loss was made on advance to suppliers since they are with good credit quality.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

25. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in the Group's trade receivable balances are debtors with aggregate carrying amount of RMB1,251,114,000 (2012: RMB982,793,000) which are past due at the end of the reporting period for which the Group has not provided for impairment loss, as there has not been a significant change in credit quality and the Group believes that the amounts are still recoverable as there are continuing subsequent settlement.

Ageing of trade receivables which are past due but not impaired

	2013 RMB'000	2012 RMB'000
181 - 365 days	**929,522**	690,835
1 - 2 years	**238,719**	259,552
Over 2 years	**82,873**	32,406
Total	**1,251,114**	982,793

Movement in the allowance for doubtful debts for trade receivables

	2013 RMB'000	2012 RMB'000
Balance at beginning of the year	**264,802**	181,555
Impairment losses recognised on trade receivables	**140,541**	83,247
Amounts written off as uncollectible	—	—
Balance at end of the year	**405,343**	264,802

Movement in the allowance for doubtful debts for other receivables

	2013 RMB'000	2012 RMB'000
Impairment losses recognised on other receivables and balance at end of the year	**2,530**	2,530

Included in the allowance for doubtful debts are individually impaired trade and other receivables with an aggregate balance of RMB407,873,000 (2012: RMB267,332,000) which have either been placed under liquidation or in financial difficulties. The Group does not hold any collateral over these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

25. TRADE AND OTHER RECEIVABLES *(Continued)*

Transfers of financial assets

The following were the Group's financial assets as at 31 December 2013 that were transferred to suppliers to settle its payables by endorsing those bills receivable on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these bills receivable, it continues to recognise the full carrying amount of the bills receivable and the payables to suppliers. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

Bills receivable endorsed to suppliers with full recourse

	2013 RMB'000	2012 RMB'000
Carrying amount of transferred assets	**165,718**	159,679
Carrying amount of associated liabilities	**(165,718)**	159,679
Net position	—	—

In addition to the above, as at 31 December 2013, the Group has discounted certain bills receivable to banks and transferred certain bills receivables to its suppliers to settle its payables through endorsing the bills to its suppliers, both with full recourse. The Group has derecognised these bills receivables and the payables to suppliers in their entirety as in the opinion of the directors of the Company, the Group has transferred substantially all the risks and rewards of ownership of these bills and has discharged its obligation of the payables to its suppliers under the relevant PRC practice, rule and regulations. In the opinion of the directors of the Company, the Group has limited exposure in respect of the settlement obligation of these bills receivable under relevant PRC rules and regulations should the issuing bank fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit quality and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 31 December 2013, the Group's maximum exposure to loss and cash outflow, which is same as the amount payable by the Group to collecting banks or the suppliers in respect of the discounted bills and endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB462,344,000 and RMB803,280,000, respectively (2012: RMB235,548,000 and RMB487,256,000, respectively).

All the bills receivable discounted to banks or endorsed to suppliers of the Group have a maturity date of less than six months from the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. AMOUNTS DUE FROM/TO ASSOCIATES

	2013 RMB'000	2012 RMB'000
Amounts due from:		
Nanjing Longwin Windpower Equipment Manufacturing Co., Ltd ("Nanjing Longwin")	—	4,618
Nanjing Changyuan	—	889
	—	5,507
Amounts due to:		
Nanjing E-crystal	**66,613**	69,278
Nantong FLW	**4,178**	6,998
Nanjing Longwin	**671**	—
Jiangsu Boming Logistics Co.,Ltd	—	200
	71,462	76,476

Included in the balance of amount due to Nanjing E-crystal is RMB53,163,000 (2012: RMB53,163,000) related to purchase of property, plant and equipment, the remaining amounts due from/to associates relate to trade balance and aged within 120 days. The amounts are unsecured, interest-free and repayable within 180 days.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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27. AMOUNTS DUE FROM/TO JOINT VENTURES

	2013 RMB'000	2012 RMB'000
Amounts due from:		
Nanjing Construction	33,239	16,657
Jiangsu Hongsheng	—	18,314
Shandong Heavy Duty	—	835
	33,239	35,806
Amounts due to:		
Jiangsu Hongsheng	7,467	—
Shandong Heavy Duty	1,086	—
	8,553	—

The amounts due from jointly controlled entities relate to trade balances and aged within 120 days. The amount is unsecured, interest-free and repayable within 180 days.

Included in the balance of amount due to Jiangsu Hongsheng is RMB7,467,000 (2012: nil) related to purchase of raw material. The amounts are unsecured, interest-free and repayable within 180 days.

28. STRUCTURED BANK DEPOSITS/PLEDGED BANK DEPOSITS/ BANK BALANCES AND CASH

Structured bank deposits represent foreign currency or interest rate or commodity price linked structured bank deposits ("SBDs") placed by the Group to bank. At 31 December 2013, it represents the deposit to Agriculture bank of China("the bank") of RMB 200,000,000 for a term of 38 days. Pursuant to the relevant underlying agreements, the SBDs carry interest at variable rate per annum with reference to the performance of interest rate or commodity price during the investment period and the principal sums are denominated in RMB fixed and guaranteed by the bank. In the opinion of the directors of the Group, the fair value of embedded derivatives does not have material impacts on the results and financial position of the Group.

The pledged bank deposits carry fixed interest rate of 2.8% (2012: 2.8%) per annum and pledged to secure short-term banking facilities.

Bank balances carry interest at prevailing market deposit rates which range from 0.07% to 0.35% (2012: 0.01% to 0.35%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

29. TRADE AND OTHER PAYABLES

	2013 RMB'000	2012 RMB'000
Accounts payable	1,634,477	1,533,857
Notes payable (Note)	1,260,378	449,585
Total trade payables	2,894,855	1,983,442
Advances from customers	416,563	360,987
Purchase of property, plant and equipment	241,165	260,965
Payroll and welfare payables	172,002	149,902
Accrued expenses	132,075	76,534
Value-added and other tax payable	39,605	51,939
Deferred income	11,256	9,856
Other payables	78,424	51,654
	3,985,945	2,945,279

Note: Notes payable are secured by certain of the Group's assets, details of which are set out in note 38.

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

	2013 RMB'000	2012 RMB'000
0 - 30 days	978,386	589,788
31- 60 days	496,827	251,959
61 - 180 days	1,174,685	925,382
181 - 365 days	157,730	142,876
Over 365 days	87,227	73,437
	2,894,855	1,983,442

The credit period on purchases of goods is 30 days to 180 days.

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30. BORROWINGS

	2013 RMB'000	2012 RMB'000
Bank loans	**7,446,894**	7,937,357
Short-term unsecured commercial papers (Note 1)	**700,000**	800,000
Medium-term notes (Note 2)	**500,000**	—
Private placement bond (Note 3)	**800,000**	—
	9,446,894	8,737,357
Secured	**1,933,042**	1,314,341
Unsecured	**7,513,852**	7,423,016
	9,446,894	8,737,357
Carrying amount repayable*:		
Within one year	**6,877,171**	6,732,831
More than one year, but not exceeding two years	**1,382,696**	627,938
More than two years, but not more than five years	**955,500**	660,300
	9,215,367	8,021,069
Carrying amount of an unsecured syndicated loan that is repayable on demand due to breach of covenants (shown under current liabilities)	**231,527**	716,288
	9,446,894	8,737,357
Less: Amounts due within one year shown under current liabilities	**(7,108,698)**	(7,449,119)
Amounts due over one year	**2,338,196**	1,288,238

* The amounts due are based on scheduled repayment dates set out in the loan agreements.

Note 1: In February 2013, Nanjing High Speed Gear Manufacturing Co., Ltd, a wholly-owned subsidiary of the Group, issued an unlisted and unsecured short-term commercial paper of RMB700,000,000, which carries an interest rate of 5.3% per annum and shall be repayable in February 2014.

Note 2: In May 2013, Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd, a wholly-owned subsidiary of the Group, issued an unlisted and unsecured medium-term notes of RMB500,000,000, which carries an interest rate of 6.2% per annum and shall be repayable in May 2018.

Note 3: In September 2013, Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd, a wholly-owned subsidiary of the Group, issued an unlisted and unsecured private placement bond of RMB800,000,000, which carries an interest of 7% per annum and shall be repayable in September 2015.

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30. BORROWINGS *(Continued)*

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates (or reset dates) are as follows:

	2013 RMB'000	2012 RMB'000
Fixed-rate borrowings:		
Within one year	**4,539,216**	4,305,894
More than one year	**1,383,571**	—
	5,922,787	4,305,894

In addition, the Group has variable-rate borrowings of RMB3,524,107,000 (2012: RMB4,431,463,000) which carry interest rates based on the rate of People's Bank of China prescribed interest rate, the HIBOR or the LIBOR.

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	2013 %	2012 %
Effective interest rate:		
Fixed-rate borrowings	**2.69 - 6.90**	4.70 - 7.64
Variable-rate borrowings	**1.41 - 6.72**	1.30 - 6.90

As at 31 December 2013, the Group's borrowings that are denominated in currencies other than RMB (the functional currency of relevant group entities) are USD132,420,000, and HKD672,500,000, which are equivalent to RMB807,031,000 and RMB528,720,000 respectively (2012: USD154,975,000, EUR1,423,000, and HKD1,039,896,000, which are equivalent to RMB974,291,000, RMB11,837,000 and RMB843,148,000). All other bank borrowings are denominated in RMB.

The above secured bank borrowings at the end of the reporting period were secured by pledge of assets, details of which are set out in note 38.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31. WARRANTY PROVISION

	1.1.2013 RMB'000	Accrual RMB'000	Utilisation RMB'000	31.12.2013 RMB'000
Warranty provision	92,239	5,906	(42,603)	55,542

At the end of the reporting period, the amount represents the directors' best estimate of the expected cost that will be required under the Group's obligations for warranties under sale of goods. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

32. OBLIGATIONS UNDER FINANCE LEASES

	2013 RMB'000	2012 RMB'000
Analysed for reporting purposes as:		
Current liabilities	133,333	—
Non-current liabilities	266,667	—
	400,000	—

In 2013, the Group started to engage in a sale and leaseback arrangement. The lease term is 3 years (31 December 2012: 0). Interest rate underlying obligations under finance leases in respect of the sale and leaseback arrangements is 6.12% per annum. The Group has option to purchase the equipment for a notional amount at the end of the leases term. No arrangements have been entered into for contingent rental payments.

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32. OBLIGATIONS UNDER FINANCE LEASES *(Continued)*

	Minimum lease payments		Present value of minimum lease payments	
	2013	2012	**2013**	2012
	RMB'000	RMB'000	**RMB'000**	RMB'000
Amounts payable under finance leases within one year	**155,149**	—	**133,333**	—
In more than one year but not more than two years	**146,835**	—	**133,333**	—
In more than two years but not more than five years	**138,538**	—	**133,334**	—
	440,522	—	**400,000**	—
Less: future finance charges	**(40,522)**	—	**N/A**	N/A
Present value of lease obligations	**400,000**	—	**400,000**	—
Less: Amount due for settlement after 12 month (shown under current liabilities)			**(133,333)**	—
			266,667	—

The Group's obligations under finance leases are secured by the lessor's charge over the leased assets, and guaranteed by a subsidiary, Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd..

33. DEFERRED INCOME

At the end of the reporting period, the amount represent the grants received from the PRC government for the Group's acquisition of assets for technology development and construction of non-current assets, and will be released to income over the useful lives of the relevant assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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34. DERIVATIVE FINANCIAL INSTRUMENTS

	2013	2012
	RMB'000	RMB'000
Cash flow hedge- interest rate swaps	**(1,529)**	(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 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 31 December 2013 are set out below:

Notional amount	Maturity	Swaps
HKD78,750,000	18 April 2014	From HIBOR+2.05% to 2.80%
HKD183,750,000	11 April 2014	From HIBOR+2.05% to 2.87%
USD1,237,500	18 April 2014	From LIBOR+2.05% to 2.80%
USD2,887,500	11 April 2014	From LIBOR+2.05% to 2.93%

As at 31 December 2013, fair value loss of RMB1,529,000 (2012: RMB6,496,000) have been recognised in the other comprehensive income and accumulated in equity and are expected to be released to the 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 CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

34. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

	2013 RMB'000 Interest rate swap	2012 RMB'000 Interest rate swap
At 1 January	(6,496)	—
Loss for the year recognised in other comprehensive income	—	(6,496)
Loss for the year recognised in profit or loss	4,967	—
At 31 December	(1,529)	(6,496)

35. SHARE CAPITAL

	Number of shares (in thousand)	Amount USD'000	Equivalent to RMB'000
Ordinary shares of USD0.01 each			
Authorised:			
At 1 January 2012, 31 December 2012 and 31 December 2013	3,000,000	30,000	234,033
Issued and fully paid:			
At 1 January 2012 and 31 December 2012	1,362,743	13,627	102,543
Issued on placement (Note)	272,548	2,725	16,675
At 31 December 2013	**1,635,291**	**16,352**	**119,218**

Note: On 19 December 2013, the Company issued and allotted a total of 272,548,000 shares of HK$3.98 each to Glorious Time Holdings Limited and other new shareholders of 255,962,000 shares and 16,586,000 shares respectively. The proceeds were used to provide additional working capital for the Company.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

36. SHARE-BASED PAYMENT TRANSACTIONS

The Company's share option scheme (the "Scheme") was adopted pursuant to a resolution passed on 8 June 2007 for the primary purpose of providing incentives to directors and eligible employees, and will expire on 8 June 2017. Under the Scheme, the Board of Directors of the Company may grant options to:

(i) any full-time or part-time employees, executives or officers of the Company or any of its subsidiaries;

(ii) any directors (including non-executive directors and independent non-executive directors) of the Company or any of its subsidiaries;

(iii) any advisers, consultants, suppliers, customers and agents to the Company or any of its subsidiaries; and

(iv) such other persons who, in the sole opinion of the Board of Directors, will contribute or have contributed to the Group. The assessment criteria of which are:

- contribution to the development and performance of the Group;
- quality of work performed for the Group;
- initiative and commitment in performing his/her duties; and
- length of service or contribution to the Group

The total number of shares in respect of which options may be granted under the Scheme is not permitted to exceed 10% of the shares of the Company in issue at any point of time, without prior approval from the Company's shareholders to refresh the said limit to not exceed 30% of the issued share capital of the Company from time to time. The number of shares issued and to be issued in respect of which options granted and may be granted to any individual in any one year is not permitted to exceed 1% of the shares of the Company in issue at any point in time, without prior approval from the Company's shareholders. Options granted to substantial shareholders or independent non-executive directors or any of their associates in excess of 0.1% of the Company's share capital or with a value in excess of HKD 5 million must be approved in advance by the Company's shareholders.

Option granted must be taken up within 12 months of the date of grant, upon payment of HKD1 per grant. Options may be exercised at any time after the date upon which the option is deemed to be granted and accepted and prior to the 10th anniversary of the date of grant. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

36. SHARE-BASED PAYMENT TRANSACTIONS *(Continued)*

The following table discloses movements of the Company's share options held by employees during the year:

Date of grant	Exercise price HKD	Exercisable period	Outstanding at 1.1.2012	Exercised during the year	Expired during the year	Outstanding and exercisable at 31.12.2013
6 November 2008	5.6	6.11.2008 to 5.11.2013	11,714,800	—	(11,714,800)	—

The estimated fair value of the options on the date of grant is RMB30,030,000 and has been fully recognised in the employee benefit expenses in profit or loss for the year ended 31 December 2008.

No share option has been exercised till the expiring date of 5 November 2013.

37. CAPITAL COMMITMENTS

	2013 RMB'000	2012 RMB'000
Commitments contracted for but not provided in the consolidated financial statements in respect of:		
– the acquisition of land leases	**83,400**	138,075
– the acquisition of property, plant and equipment	**567,364**	849,023
– the additional investments in an associate	—	12,000
	650,764	999,098

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

38. PLEDGE OF ASSETS

At the end of the reporting period, the following assets were pledged to banks to secure banking facilities granted to the Group:

	2013 RMB'000	2012 RMB'000
Bank deposits	2,514,615	1,897,712
Accounts receivable	418,304	860,205
Bills receivable	241,066	18,129
Property, plant and equipment	68,767	46,017
Prepaid lease payments	25,273	10,116
	3,268,025	2,832,179

39. OPERATING LEASES

Minimum lease payments paid under operating leases during the year:

	2013 RMB'000	2012 RMB'000
Factory and office premises	7,783	6,853

At the end of the reporting period, the Group had outstanding commitments payable under non-cancellable operating leases in respect of factory and office premises which fall due as follows:

	2013 RMB'000	2012 RMB'000
Within one year	3,197	4,781
In the second to fifth year inclusive	2,459	4,992
	5,656	9,773

Operating lease payments represent rentals payable by the Group for leasehold land and office premises. The leasehold land is negotiated for a fixed term of 10 years. The leases of the office premises are negotiated annually. Rentals are fixed over the lease terms.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

40. RETIREMENT BENEFIT PLANS

The employees of the PRC subsidiaries are members of a state-managed retirement pension scheme operated by local social security bureaux in the PRC. The PRC subsidiaries are required to contribute a specified percentage of their payroll costs to the retirement pension scheme to fund the benefits. The only obligation of the Group with respect to the retirement pension scheme is to make the specified contributions. The Group also operates a Mandatory Provident Fund Scheme for all employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes a certain percentage of the relevant payroll costs to the scheme, which contribution is matched by the employees. The costs charged to profit or loss during the year were RMB100,831,000 (2012: RMB118,375,000). All the contributions had been paid over to these schemes as at the end of the reporting period.

41. CONTINGENT LIABILITIES

During the year, the Group entered an agreement (the "Agreement") with a third party (the "Subcontractor"), pursuant to which effective from 1 January 2013, the Group assigns the Subcontractor and the Subcontractor agrees to repair all the wind gear products for the Group at a fixed fee at 2.5% of annual sales of certain wind gear products of the Group (the "Fixed Fee"). The Group is not liable for any additional cost incurred by the Subcontractor in relation to the repair of those wind gear products, other than the Fixed Fee.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

42. RELATED PARTY DISCLOSURES

During the year, other than those disclosed in notes 13, 19, 20, 26 and 27 , the Group had the following significant transactions with related parties:

(I) Related party transactions

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

Name of company	Relationship	Nature of transactions	2013 RMB'000	2012 RMB'000
Nanjing Longwin	Associate	Purchase of goods	**24,062**	48,127
Nanjing E-crystal	Associate	Purchase of property, plant and equipment	**—**	53,163
		Purchase of goods	**—**	15,124
		Utility charge income	**—**	2,535
Jiangsu Hongsheng	Joint venture	Purchase of goods	**27,808**	17,185
		Sales of goods	**—**	503
Nanjing Construction	Joint venture	Sales of goods	**31,465**	98,190
		Purchase of goods	**10,490**	581
		Rental income	**331**	415
Nantong FLW	Associate	Technology development Income	**3,000**	—
Shandong Heavy Duty	Joint venture	Sales of goods	**20,855**	17,261
		Purchase of goods	**1,291**	82
Nanjing Yuhuatai District Saihong Bridge Office 南京雨花台賽虹橋街道辦事處	Holding company of a non-controlling shareholder of a subsidiary	Rental expenses	**1,206**	894

(II) Compensation of key management personnel

Other than the emolument paid to the directors of the Company, who are also considered as the key management of the Group as set out in note 13, the Group did not have any other significant compensation to key management personnel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

43. FINANCIAL INFORMATION OF THE COMPANY

	2013 RMB'000	2012 RMB'000
Assets		
Investments in subsidiaries and amounts due from subsidiaries	5,148,034	4,856,442
Fixture and equipment	2	45
Available-for-sale investments	81,092	195,292
Other receivables	58,760	9,197
Bank balances and cash	282,031	15,528
	5,569,919	5,076,504
Liabilities		
Other payables	6,109	7,610
Amounts due to subsidiaries	1,888	1,260
Borrowings	373,043	716,288
Derivative financial instruments	1,529	6,496
	382,569	731,654
	5,187,350	4,344,850
Capital and reserves		
Share capital	119,218	102,543
Reserves	5,068,132	4,242,307
	5,187,350	4,344,850

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

43. FINANCIAL INFORMATION OF THE COMPANY *(Continued)*

Movement in reserves

	Distributable reserves RMB'000	Deemed capital contribution reserve RMB'000	Investment revaluation reserve RMB'000	Share option reserve RMB'000	Hedging reserve RMB'000	Total RMB'000
At 1 January 2012	3,453,368	77,651	—	29,316	—	3,560,335
Profit for the year	748,055	—	—	—	—	748,055
Other comprehensive expense for the year	—	—	(59,587)	—	(6,496)	(66,083)
Total comprehensive income (expense) for the year	748,055	—	(59,587)	—	(6,496)	681,972
At 31 December 2012	4,201,423	77,651	(59,587)	29,316	(6,496)	4,242,307
Issue of shares	839,210	—	—	—	—	839,210
Expiration of share option	29,316	—	—	(29,316)	—	—
(Loss) for the year	(68,493)	—	—	—	—	(68,493)
Other comprehensive expense for the year	—	—	50,141	—	4,967	55,108
Total comprehensive income (expense) for the year	(68,493)	—	50,141	—	4,967	(13,385)
At 31 December 2013	**5,001,456**	**77,651**	**(9,446)**	—	**(1,529)**	**5,068,132**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

Details of the Company's material subsidiaries at 31 December 2013 and 2012 are as follows:

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest indirectly held by the Company		Principal activities
			2013 %	2012 %	
Nanjing High Accurate [3] 南京高精齒輪集團有限公司	PRC 16 August 2001	RMB653,500,000	100	100	Manufacture and sales of gear, gear box and fittings
Nanjing High Speed Gear Manufacturing Co., Ltd. [2] 南京高速齒輪製造有限公司	PRC 8 July 2003	RMB2,000,000,000	100	100	Manufacture and sales of gear, gear box and fittings
Nanjing Ningkai Mechanical Co., Ltd. [2] 南京寧凱機械有限公司	PRC 19 November 2002	RMB41,077,000	85.83	85.83	Engineering processing and manufacturing
Nanjing Gaote Gear Box Manufacturing Co., Ltd. [3] 南京高特齒輪箱製造有限公司	PRC 26 November 2003	USD42,393,264	100	100	Manufacture and sales of gear, gear box and fittings
Nanjing High Accurate Marine Equipment Co., Ltd. [2] 南京高精船用設備有限公司	PRC 2 February 2007	RMB96,000,000	100	100	Manufacture and sales of gear, gear box and fittings
Nanjing Ninghongjian Mechanical Co., Ltd. [2] 南京寧宏建機械有限公司	PRC 15 March 2007	RMB20,000,000	100	100	Engineering processing and manufacturing
Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. [1] 南京高精傳動設備製造集團有限公司	PRC 27 March 2007	USD418,300,000	100	100	Manufacture and sales of gear box and fittings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest indirectly held by the Company		Principal activities
			2013 %	2012 %	
Nanjing Zhong-Chuan Shipping Drive Equipment Co., Ltd. (3) 南京中傳船舶設備有限公司	PRC 10 June 2008	USD 45,600,000	**100**	100	Manufacture and sales of shipping drive equipment
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd. (2) 北京中傳首高冶金成套設備有限公司	PRC 25 April 2008	RMB30,000,000	**51**	51	Metallurgical engineering and manufacturing
Nanjing Gaochuan Electrical & Mechanical Auto Control Equipment Co., Ltd. (3) 南京高傳機電自動控制設備有限公司	PRC 22 October 2009	RMB464,830,000	**100**	100	Manufacture and sales of gear box and fittings
Nantong Diesel Engine Co., Ltd. (2) 南通柴油機股份有限公司	PRC 27 November 1993	RMB300,000,000	**89.36**	89.36	Manufacture and sales of diesel engines
Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd. (2) 南京高四控装备製造有限公司	PRC 27 February 1993	RMB26,000,000	**99.16**	82.23	Engineering processing and manufacturing
Zhenjiang Tongzhou Propeller Co., Ltd (2) 鎮江同舟螺旋槳有限公司	PRC 24 November 2005	RMB50,000,000	**76.33**	76.33	Manufacture and sales of propellers
Zhong-Chuan Heavy Duty Machine Tool Corporation Ltd. (3) 中傳重型機床有限公司	PRC 11 October 2010	USD44,200,000	**90**	90	Manufacture and sales of heavy duty machine tools
Zhong-Chuan Heavy Duty Equipment Co., Ltd. (2) 中傳重型裝備有限公司	PRC 28 February 2011	RMB250,000,000	**68**	68	Manufacture and sales of heavy duty equipment

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

Name of subsidiary	Place and date of incorporation/ establishment/ operation	Issued and fully paid share capital/ registered capital	Equity interest indirectly held by the Company 2013 %	2012 %	Principal activities
Nanjing Jiuyi Heavy Duty Gear Box Manufacturing Co., Ltd. (2) 南京九一重型齒輪製造有限公司	PRC 27 July 2011	RMB150,000,000	**100**	100	Manufacture and sales of gear
AE&E Nanjing Boiler Co., Ltd. (3) 南京奧能鍋爐有限公司	PRC 25 January 1991	RMB128,824,800	**90**	90	Manufacture and sales of industrial boilers, heat recovery equipment and related products
New Best Zhong-Chuan Technology Co., Ltd. (2) 江蘇新貝斯特中傳科技有限公司	PRC 27 December 2011	RMB200,000,000	**63**	63	Manufacture and sales of machine tools
Nanjing Jingjing Photoelectric Science & Technology Co. Ltd (2) 南京京晶光電科技有限公司	PRC 15 March 2012	RMB200,000,000	**100**	100	Manufacture and sales of LED products
Nanjing Handa Import and Export Trading Co., Ltd. (2) (4) 南京翰達進出口貿易有限公司	PRC 25 April 2012	RMB100,000,000	**41**	41	Trading business
China Transmission Holdings Limited 中傳控股有限公司	Hong Kong 7 November 2007	HKD100	**100**	100	Investment holding
Century Well Holdings Limited 英威集團有限公司	Hong Kong 9 January 2008	HKD100	**100**	100	Inactive
NGC Transmission Equipment (America) Inc.	USA 7 August 2008	USD1,500,000	**100**	100	Sales of gear and fittings
NGC Renewable, LLC	USA 29 July 2011	USD24,000,000	**100**	100	Inactive

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

The above table lists the subsidiaries of the Group which, in the opinion of the Directors, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

At the end of the reporting period, the Company considers these subsidiaries below that are not material to the Group. A majority of these subsidiaries operate in PRC. The principal activities of these subsidiaries are summarised as follows:

Principal activities	Principal place of business	Number of subsidiaries	
		31/12/2013	31/12/2012
Production and after sale service of wind gear transmission equipment	PRC	**15**	2
Manufacture and sales of marine gear transmission equipment	PRC	**2**	2
Manufacture and sales of computer numerical controlled ("CNC") machine tool products	PRC	**4**	2
Manufacture and sales of traditional and other transmission products	PRC	**9**	8
Investment holding	BVI	**2**	2
		32	16

Note:

(1) Wholly-foreign owned enterprise established in the PRC

(2) Domestic enterprise established in the PRC

(3) Sino-foreign owned enterprise established in the PRC

(4) The Group has control over Nanjing Handa Import and Export Trading Co., Ltd. because it controls 75% of the voting power in board meeting.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2013

44. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY *(Continued)*

There is no subsidiary with non-controlling interests that are material to the Group as at 31 December 2013 and 2012.

Except for Nanjing High Speed Gear Manufacturing Co., Ltd, which has issued unlisted and unsecured short-term commercial paper of RMB 700,000,000, Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd, which has issued RMB500,000,000 unlisted and unsecured medium term notes, and RMB800,000,000 private placement bond respectively, none of other subsidiaries had any debt securities outstanding at the end of the year or at any time during the year.

45. EVENTS AFTER THE END OF THE REPORTING PERIOD

In 17 January 2014, Nanjing High Speed Gear Manufacturing Co.,Ltd, a wholly-owned subsidiary of the Group, issued an unlisted and unsecured short-term commerical paper of RMB 800,000,000, which carries an interest rate of 8.7% per annum and shall be repayable in January 2015.

FINANCIAL SUMMARY

	Year ended 31 December				
	2009	2010	2011	2012	**2013**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
RESULTS					
Revenue	5,647,045	7,392,649	7,120,712	6,368,817	**6,539,058**
Profit for the year	965,778	1,393,458	547,588	128,472	**31,157**

	As at 31 December				
	2009	2010	2011	2012	**2013**
	RMB'000	RMB'000	RMB'000	RMB'000	**RMB'000**
ASSETS AND LIABILITIES					
Total assets	10,234,919	14,931,515	18,400,984	19,882,234	**22,970,686**
Total liabilities	(5,784,567)	(7,417,174)	(10,778,949)	(12,137,671)	**(14,208,985)**
	4,450,352	7,514,341	7,622,035	7,744,563	**8,761,701**
Attributable to:					
Equity owners of the Company	4,420,937	7,392,730	7,472,581	7,539,438	**8,513,877**
Non-controlling interests	29,415	121,611	149,454	205,125	**247,824**
	4,450,352	7,514,341	7,622,035	7,744,563	**8,761,701**