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)

2014 Interim Report

* For identification purpose only

Contents

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

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

Independent non-executive Directors

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE

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

AUDITOR

Deloitte Touche Tohmatsu

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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17M Floor
Hopewell Centre
183 Queen's Road East
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Hong Kong

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Mr. Liao Enrong
Mr. Lui Wing Hong, Edward

PRINCIPAL BANKERS

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

WEBSITE

www.chste.com

PLACE OF LISTING

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

FINANCIAL SUMMARY

	Six months ended 30 June 2014 RMB'000 (Unaudited)	Six months ended 30 June 2013 RMB'000 (Unaudited)	Changes
Performance highlights			
Revenue	**3,947,477**	2,640,351	49.5%
Gross profit	**1,010,371**	532,782	89.6%
Profit (loss) for the period attributable to the owners of the Company	**234,502**	(289,274)	N/A
Basic earnings (loss) per share (RMB)	**0.143**	(0.212)	N/A
Diluted earnings (loss) per share (RMB)	**N/A**	(0.212)	N/A

	As at 30 June 2014 RMB'000 (Unaudited)	As at 31 December 2013 RMB'000 (Audited)	Changes
Balance sheet highlights			
Total assets	**24,414,439**	22,970,686	6.3%
Total liabilities	**15,431,013**	14,208,985	8.6%
Net asset	**8,983,426**	8,761,701	2.5%
Net asset per share (RMB)	**5.5**	5.4	1.9%
Gearing ratio* (%)	**63.2**	61.9	

* Gearing ratio = total liabilities/total assets

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in a wide range of industrial applications. During the period under review, the Group recorded sales revenue of approximately RMB3,947,477,000 (30 June 2013: RMB2,640,351,000), representing an increase of 49.5% from the corresponding period of 2013. The gross profit margin recorded for the period was approximately 25.6% (30 June 2013: 20.2%). Profit attributable to the owners of the Company was approximately RMB234,502,000 (30 June 2013: loss attributable to the owners of the Company of approximately RMB289,274,000). Basic earnings per share were RMB0.143 (30 June 2013: basic and diluted loss per share of RMB0.212).

Principal business review

1. **Wind gear transmission equipment**

   Development of large and diversified equipment

   The wind gear transmission equipment is a major product that has been developed by the Group. During the period under review, sales revenue from wind gear transmission equipment business increased by approximately 67.5% as compared with the corresponding period last year to approximately RMB2,788,054,000 (30 June 2013: RMB1,664,526,000). The increase was partly attributable to the fact that the wind power industry started to recover since the second quarter of 2013, which continued until first half of 2014, when 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 has achieved good results in terms of its research and development. 1.5MW, 2MW and 3MW wind gear transmission equipment has been put into mass production and delivered to domestic and overseas customers. The product technology is of international advanced level and is well recognised by our customers. Furthermore, the Group has successfully developed and sold 5MW and 6MW wind power gearbox transmission equipment for the development of offshore wind turbine, which is expected to bring a larger flow of business to the Group in the future.

   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. To accelerate expansion into overseas markets, the Group recently set up wholly-owned subsidiaries in Germany, Singapore and Canada, so as to have closer communication and discussion with potential overseas customers.

2. **Marine gear transmission equipment**

Actively expand the domestic and overseas markets

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 technology-driven marine supplementary business as the only manufacturer of marine supplementary products in the PRC which is capable of providing global shipment and global warranty services. In 2013, marine transmission equipment business achieved remarkable sales performance. In 2014, observing requirements presented in the Implementation Programs to Accelerate the Structural Adjustment for Promoting the Transformation and Upgrading in the Shipbuilding Industry (2013-2015) promulgated by the state council (《船舶工業加快結構調整促進轉型升級實施方案(2013—2015)》), the Group will continue to increase its innovation capabilities by launching more high-end products, and strive to provide the best marine propulsion system, platform gear box and marine transmission equipment for special purposes for more domestic and overseas customers. The Group has expanded its awareness of brands in the overseas market. In April 2014, the Group participated in the thirteenth Asia Pacific Maritime held at Marina Bay Sands Conference Centre in Singapore. Over 1,500 players from around 50 countries joined the exhibition, with the participation of about 15,000 visitors from more than 60 countries. At the exhibition, the Group displayed and demonstrated marine platform lifting system gear box, adjustable propulsion system and sideways-acting propeller and rudder propeller, etc. to domestic and international customers, which brought about excellent performance underpinned by attracting a great deal of attention of visitors. 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, turnover of marine gear transmission equipment was approximately RMB174,420,000 (30 June 2013: RMB134,154,000), representing an increase of 30.0% as compared with the corresponding period last year.

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

Achievements in research and development and promising market potential

The 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. The Group secured again an order of metro gear box from Brazil recently, purchasing above 300 units of PDM490 metro gear boxes with two-stage transmission structure. The previous gear box orders pertaining to Brazil's two MTR lines were completed for delivery and those products are operating smooth. During the period under review, the Group obtained an order of more than 4,800 units of gear boxes for trains in suburbs of South Africa, which will be delivered within coming 10 years. That is the ever largest order in railway transportation business for the Group. During the period under review, the gear box ordered is PDM460 type with two-stage transmission structure, which has passed the initial inspection, including various testing materials of gear box, appearance of gear box, spare parts and relevant technical documentations. That ensures high reliability of gear box during variable loads and high vibration and other complex conditions. Also, the application of unique gear modification technology increased the load-carrying capacity of gear box. This type of gear box has a no-repairing life exceeding 1,200,000 kilometers, meeting the requirement of low noise and high density power. PDM460 gear box will be used on new suburb trains at Pretoria, Johannesburg, Cape Town and Durban in South Africa. Such new trains are used for improving the increasing number of passengers in these areas while providing efficient and safe public transportation for them, 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 RMB69,904,000 for the Group (30 June 2013: RMB34,236,000), representing an increase of approximately 104.2% from the corresponding period last year.

4. **Traditional transmission products**

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

The Group's traditional gear transmission equipment products are mainly provided for customers from various industries including metallurgy, construction materials, traffic, transportation, petrochemicals, aerospace and mining. During the period under review, sales of high speed heavy load gear transmission equipment, gear transmission equipment for construction materials, gear transmission equipment for bar-rolling, wire-rolling and plate-rolling mills and other products increased by 40.1%, 35.2%, 2.4% and 35.7% to RMB4,630,000 (30 June 2013: RMB3,304,000), RMB174,882,000 (30 June 2013: RMB129,331,000), RMB160,749,000 (30 June 2013: RMB157,050,000) and RMB382,192,000 (30 June 2013: RMB281,651,000), respectively. Sales revenue of general purpose gear transmission equipment amounted to RMB29,438,000 (30 June 2013: RMB36,200,000), representing a decrease of 18.7%.

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 own research and development technologies, the Group focused on the development of energy-saving and environmentally-friendly products. New products were also launched to facilitate the development strategies. Furthermore, the Group enhanced efforts in providing and selling to client spare parts of relevant products, helping them improve products with the existing equipment without incurring any additional capital expenditures. As a result, the Group remained as one of the major suppliers of traditional transmission products in the market.

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

CNC machine tool products industry

Machine tool is the core equipment of the equipment manufacturing industry. The modernisation of equipment manufacturing industry of China depends on the development of its machine tool industry. We must enhance the manufacturing capacity of our machine tool to support the development of equipment manufacturing industry. Besides, the price for heavy machine tools is very high as the international market is dominated by few manufacturers. The Group intends to take the opportunity to develop heavy, precise and efficient machine tool products to explore the high-end market and by providing advanced machine tools for equipment manufacturing industry.

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

From 24 to 28 February 2014, the eighth CNC Machine Tool Show (CCMT2014) was held in Shanghai New International Expo Centre, which was organised by China Machine Tool & Tool Builders' Association. Machine tool companies under the Group participated in the exhibition as high-tech enterprises which are specialised in the research & development, production and sales of CNC machine tools.

Recently, the world's largest screw propeller Lathe-Mill NC Machine with seven-six axis, as developed by the Group in-house, was assembled on site in a user Wuhan Heavy Industry Casting & Forging Co., Ltd. and conducted trial machining on typical screw propeller workpieces according to the user's requirement. The lathe's various operational performance indicators reach and even exceed the requirements expected by the user, winning recognition and praise from user representatives, ship-owner representatives and CSSC. The lathe is able to process propellers with a diameter of eleven meters to the maximum by applying first Seven-Six Axis. Thus the processing efficiency doubled as compared to original five-axis, and its processing accuracy also increased significantly. Seven-six axis CNC milling machine is the largest and the most complicated machine tool in the world. The successful development of this machine tool demonstrates strong research and development and manufacturing capabilities of the Group, indicating the ability of Chinese machine tool enterprises to compete with leading global machine tool enterprises in the international market.

During the period under review, the Group provided CNC machine tool products to customers through various subsidiaries and recorded sales revenue of approximately RMB83,507,000 (30 June 2013: RMB117,517,000), representing a decrease of 28.9% from the corresponding period last year.

6. **Diesel engine products industry**

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

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

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

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

During the period under review, diesel engine products generated sales revenue of approximately RMB79,701,000 (30 June 2013: RMB82,382,000) for the Group, representing a decrease of 3.3% from the corresponding period last year.

LOCAL AND EXPORT SALES

During the period under review, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. During the period under review, the overseas sales amounted to approximately RMB729,390,000 (30 June 2013: RMB543,731,000), an increase of 34.1% as compared with the corresponding period last year, accounting for 18.5% of total sales (30 June 2013: 20.6%) and representing a decrease of 2.1% to total sales over the corresponding period last year. At present, the overseas customers of the Group are mainly from the U.S., and there are also customers from other countries including India, Japan and Europe. As the economies in Europe and the U.S. were yet to be fully recovered during the period under review, the Group also exported different types of products to overseas market.

PATENTED PROJECTS

The business of the Group has high entry barriers and requires specific technical know-how. The Group enhances corporate growth by introducing new products and new technology. Various new products have made their debuts in the domestic market under the Group's on-going innovation of products and technology. Leveraging its advanced technology and premium quality, the Group has obtained over 100 national, provincial and municipal technology advancement awards, outstanding new products awards, certification for new products, certification for high and new tech products and certification of high and new tech enterprise. As of 30 June 2014, a total of 314 patents were granted by the State. In addition, 44 patent applications have been submitted and pending for approval. The Group was the first producer to adopt ISO1328 and ISO06336 international standards. It was nominated as an enterprise for the 863 State Plan and a Computer Integrated Manufacturing System (CIMS) Application Model Enterprise by the Ministry of Science and Technology of the PRC. Until now, the Company passed ISO9001:2008 Quality Management System Certification, ISO14001:2004 Environmental Management System Certification and GB/T28001-2001 Occupational Health and Safety Management System Certification. Nanjing Hign 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), Germanischer Lloyd (GL), American Bureau of Shipping (ABS), Lloyd's Register of Shipping (LR), Registro Italiano Navale (RINA), Det Norske Veritas (DNV), Russian Maritime Register of Shipping (RMRS) and Nippon Kaiji Kyokai (NK). The wind power products manufactured by Nanjing High Speed Gear Manufacturing Co., Ltd., a subsidiary of the Company, have obtained certifications from China Classification Society (CCS), China General Certification Center (CGC), Technischer Uberwachungs-Verein (TUV), Germanischer Lloyd (GL) and DEWI-OCC Offshore and Certification Centre in Germany. Its rail transportation products have obtained certifications from International Railway Industry Standard (IRIS). Locomotive tractive gears have successfully passed the certification of China Railway Test & Certification Centre (CRCC). The mining machinery products manufactured by China Transmission Heavy Equipment Co., Ltd., a subsidiary of the Company, have obtained certifications from China Mining Products Safety Approval and Certification Center.

PROSPECTS

In the first half of 2014, the global economy continued to recover slowly and showed a stabilising trend with growth gradually improving. With the continuous recovery of the global economy and the easy monetary policy persisted by the major central banks, investor confidence gradually increased in this year. Benefiting from the overall operating condition together with various economic stimulus measures introduced by the government, the Chinese economy continued to improve. The PMI in June increased to above 50, which showed a sign of significant economic recovery.

With the continuous recovery of the global economy, the global wind power market started to recover and gradually returned to the rising trend. At the same time, the gradual improvement of grid connection conditions, the continuous introduction of favorable policies by the state and the production capacity expansion of downstream wind farms also resulted in the gradual improvement of the PRC wind power market which experienced a low development rate in the past three years. According to data published by the National Energy Administration of the PRC, in the first quarter of 2014, new on-grid wind power capacity amounted to 4.56 million KW and the aggregate on-grid wind power capacity amounted to 80.55 million KW by the end of March 2014, representing an increase of 24% as compared to the same quarter last year. Power generated using other energy to replace wind amounted to 4.8 billion kWh, representing a decrease of 2 billion kWh as compared to the same period last year. Average abandoning rate was 11.7%, representing a decrease of 5.4 percentage points as compared to the same period last year. From January to May 2014, the aggregate wind power generation amounted to 68.4 billion kWh, representing an increase of 14.7% as compared to the same period last year. It is estimated that wind power installed capacity will continue to increase in the second half of 2014 and in 2015 and it is expected that the wind power industry will recover.

Benefiting from the gradual recovery of the wind power industry, the Group recorded significant orders and delivery in the first half of 2014. It is expected that the number of both domestic and overseas customers will significantly increase. With the industry chain facing favorable operating environment, the Group put product quality in the first priority by optimising and upgrading its product mix and continuously expanding its business. As of 30 June 2014, the Group recorded sales revenue from wind power transmission products of approximately RMB2,788,054,000, representing an increase of 67.5% as compared to the same period last year. The gross profit margin was approximately 30.1%.

The Group will continue to adhere to its development policy of manufacturing large and diversified wind power transmission equipment in order to provide internationally advanced products and technologies. During the period under review, the Group commenced mass production of 3 MW wind turbine gearbox and delivered 82 units to its customers. The Group also successfully developed and sold 5 MW and 6 MW wind turbine gearbox for the development of offshore wind turbine which were also recognised by customers.

In respect of traditional transmission products, the PRC equipment industry is currently still staying in an oversupply condition. During the period under review, the segment did not experience a significant increase in the sales volume of products. Through changing its sales strategies, the Group provided integrating products to its customers while carrying out the spare parts supply business, in order to help its customers improve their production efficiency. On the other hand, orders for spare parts are expected to offset the effect of future decrease in some customers' orders for the integrating products on its business.

As one of the largest ship propulsion system manufactures in the PRC, the Group has been continuously focusing on improving its self-developed technologies and committed to diversification of ship transmission equipment products in order to provide comprehensive product services to its customers. During the industry adjustment period, the Group always insists on promoting products for use by its customers in order to strengthen customer perception of its products so that the ship transmission equipment business can achieve satisfactory results by quickly seizing opportunities by virtue of the economic recovery momentum in the industry.

In respect of transmission equipment for high-speed locomotives, urban light rails and metros business, the Group also experienced significant development. During the period under review, orders from overseas customers were in active recovery, indicating that the Group's products won recognition from and confidence of international market and its customer. The Group will continue to actively accelerate the research and development of its products, and insist on optimising and upgrading its product mix in order to develop the rail transportation transmission equipment into a new source of the Group's revenue growth.

While maintaining the development of its business with traditional advantages, the Group also puts great efforts on the development of the business segments such as heavy duty high precision machine tools, LED sapphire substrate and coal mine mechanical & electrical integration. The LED sapphire substrate business experienced steady growth and it is expected that its revenue contribution to the Group will increase in the second half of 2014. The coal mine industry is currently showing a downward trend and sales of coal mine machinery remain unclear. Currently, the Group is actively designing and manufacturing products of coal mine machinery for potential well-known customers in the PRC in order to increase the market recognition of its products in the future and expects this business to bring revenue contribution to the Group in 2015. The Company is also actively expanding its mechanical & electrical Integration business by introducing electrical transmission equipment such as electrical control system and frequency converter into market while developing the wind farm business and it is expected that this business will experience significant growth in 2015.

Looking forward to the second half, the global economy will continue to improve. It is predicted in the World Economic Situation and Prospects 2014 issued by the United Nations that the global GDP will increase by 3% and 3.4% in 2014 and 2015, respectively, and the global trade prospect will improve, but there are still lots of uncertainties and risks in relation to the global economic growth and financial stability.

The Group will continue to focus on improving its self-development capacity while maintaining its moderate investment attitude and business development, in order to enable the Group's various products and business to achieve industry-leading position in the respective segments. The Group also adheres to the philosophy with product quality and credibility as the core in order to ensure that its product quality and level will not be affected by its turnover growth and business expansion. In addition, the Group is aimed to become an international company and actively expands into overseas market. Currently, the Group has established a branch in Singapore which is responsible for business in Southeast Asia and established a sales company in Europe as a flagship in Europe. The Group has also established a branch in Northern America for expanding into Northern American market. Leveraging on its gradually established global layout, the Group will grasp opportunities arising from the recovery of the macro-economy and wind power industry to introduce its products to the world and maintain its position as a leading machinery transmission equipment supplier in the PRC.

INTERIM DIVIDEND

The Board did not recommend payment of an interim dividend for the six months ended 30 June 2014.

FINANCIAL PERFORMANCE

Sales revenue of the Group for the period under review increased by 49.5% to approximately RMB3,947,477,000.

	Revenue Six months ended 30 June		
	2014 RMB'000	2013 RMB'000	Changes
High-speed Heavy-load Gear Transmission Equipment	**4,630**	3,304	40.1%
Gear Transmission Equipment for Construction Materials	**174,882**	129,331	35.2%
General Purpose Gear Transmission Equipment	**29,438**	36,200	-18.7%
Gear Transmission Equipment for Bar-rolling, Wire-rolling and Plate-rolling Mills	**160,749**	157,050	2.4%
Other products	**382,192**	281,651	35.7%
Traditional Products - Subtotal	**751,891**	607,536	23.8%
Wind Gear Transmission Equipment	**2,788,054**	1,664,526	67.5%
Marine Gear Transmission Equipment	**174,420**	134,154	30.0%
Transmission Equipment for High-speed Locomotives, Metros and Urban Light Rails	**69,904**	34,236	104.2%
CNC Products	**83,507**	117,517	-28.9%
Diesel Engine Products	**79,701**	82,382	-3.3%
Total	**3,947,477**	2,640,351	49.5%

Revenue

The Group's sales revenue for the six months ended 30 June 2014 was approximately RMB3,947,477,000, representing an increase of 49.5% as compared with the corresponding period last year. The increase was mainly due to the increase in customer orders for and shipments of wind power gear box products during the period under review. The average selling prices of wind power gear box equipment kept steady during the period under review. Sales revenue from wind gear transmission equipment increased from approximately RMB1,664,526,000 for the corresponding period last year to approximately RMB2,788,054,000 for the period under review, representing an increase of 67.5%.

During the period under review, sales revenue from traditional transmission products was approximately RMB751,891,000, representing an increase of 23.8% as compared with the corresponding period last year. The Group's sales revenue from marine gear transmission equipment and transmission equipment for high-speed locomotives, metros and urban light rails amounted to approximately RMB174,420,000 and RMB69,904,000, representing an increase of 30.0% and 104.2% as compared with the corresponding period last year, respectively. During the period under review, the Group's sales revenue from CNC products and diesel engine products were approximately RMB83,507,000 (30 June 2013: RMB117,517,000) and RMB79,701,000 (30 June 2013: RMB82,382,000), respectively.

Gross profit margin and gross profit

The Group's consolidated gross profit margin for the six months ended 30 June 2014 was approximately 25.6% (30 June 2013: 20.2%), representing a slight increase of 5.4% as compared with the corresponding period last year. Consolidated gross profit for the period under review reached approximately RMB1,010,371,000 (30 June 2013: RMB532,782,000), representing an increase of 89.6% as compared with the corresponding period last year. The increases in both consolidated gross profit margin and consolidated gross profit were mainly due to the substantial increase in sales revenue of wind gear transmission products during the period under review, which also indicated that the Group reached the stage of economy of scale.

Other income, other gains and losses

The total amount of other income of the Group for the six months ended 30 June 2014 was approximately RMB241,331,000 (30 June 2013: RMB63,514,000 after adjustment), representing an increase of 280.0% as compared with the corresponding period last year. Other income is mainly comprised of bank interest income, government grants and sales of scraps and materials.

During the period under review, other gains and losses recorded a net loss of approximately RMB69,450,000, (30 June 2013: a net gain of RMB51,922,000 after adjustment), mainly comprised of loss from disposal of a joint venture and a subsidiary.

Distribution and selling costs

The distribution and selling costs of the Group for the six months ended 30 June 2014 were approximately RMB130,455,000 (30 June 2013: RMB132,719,000), representing a decrease of 1.7% as compared with the corresponding period last year. The expenses mainly represented product packaging expenses, transportation expenses and staff costs. The percentage of distribution and selling costs to sales revenue for the period under review was 3.3% (30 June 2013: 5.0%), representing a decrease of 1.7% to sales revenue as compared with the corresponding period last year.

Administrative expenses

Administrative expenses of the Group increased from approximately RMB301,721,000 for the six months ended 30 June 2013 to approximately RMB316,724,000 for the six months ended 30 June 2014, mainly due to the increase in amortisation for intangible assets and bank handling fee. The percentage of administrative expenses to sales revenue decreased by 3.4% to 8.0% as compared with the corresponding period last year.

Other expenses

Other expenses of the Group for the six months ended 30 June 2014 were RMB67,935,000 (30 June 2013: RMB156,219,000), the decrease was mainly due to decrease in impairment of trade receivables and provision for impairment losses on interest in a joint venture.

Finance costs

The finance costs of the Group for the six months ended 30 June 2014 was approximately RMB351,642,000 (30 June 2013: RMB286,729,000), representing an increase of 22.6% as compared with the corresponding period last year, which was mainly due to the increase in the principal amount of medium-term notes and bank borrowings.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2014, the equity attributable to owners of the Company amounted to approximately RMB8,736,912,000 (31 December 2013: RMB8,513,877,000), representing an increase of 2.6% as compared with that at the beginning of the year. The Group had total assets of approximately RMB24,414,439,000 (31 December 2013: RMB22,970,686,000), representing an increase of approximately RMB1,443,753,000, or 6.3%, as compared with that at the beginning of the year. Total current assets were approximately RMB14,850,103,000 (31 December 2013: RMB13,633,411,000), representing an increase of 8.9% as compared with that at the beginning of the year and accounting for 60.8% of the total assets (31 December 2013: 59.4%). Total non-current assets were approximately RMB9,564,336,000 (31 December 2013: RMB9,337,275,000), representing an increase of approximately 2.4% as compared with that at the beginning of the year and accounting for 39.2% of the total assets (31 December 2013: 40.6%).

As at 30 June 2014, total liabilities of the Group were approximately RMB15,431,013,000 (31 December 2013: RMB14,208,985,000), representing an increase of RMB1,222,028,000, or 8.6% as compared with that at the beginning of the year. Total current liabilities were approximately RMB12,329,569,000 (31 December 2013: RMB11,508,601,000), representing an increase of 7.1% as compared with that at the beginning of the year. Total non-current liabilities were approximately RMB3,101,444,000 (31 December 2013: RMB2,700,384,000), representing an increase of 14.9% as compared with that at the beginning of the year.

As at 30 June 2014, the net current asset of the Group was approximately RMB2,520,534,000 (31 December 2013: RMB2,124,810,000), representing an increase of RMB395,724,000, or 18.6%, as compared with that at the beginning of the year.

As at 30 June 2014, total cash and bank balances of the Group were approximately RMB4,266,727,000 (31 December 2013: RMB4,949,986,000), representing a decrease of RMB683,259,000, or 13.8%, as compared with that at the beginning of the year. Total cash and bank balances include pledged bank deposits of RMB3,275,176,000 (31 December 2013: RMB2,514,615,000) and structured bank deposits of RMB2,080,000 (31 December 2013: RMB200,000,000).

As at 30 June 2014, the Group had total bank loans of approximately RMB11,147,136,000 (31 December 2013: RMB9,446,894,000), representing an increase of RMB1,700,242,000, or 18.0%, as compared with that at the beginning of the year, of which short-term bank loans were RMB8,348,456,000 (31 December 2013: RMB7,108,698,000), accounting for approximately 74.9% (31 December 2013: 75.2%) of the total bank loans. The short-term bank loans are repayable within one year. The fixed and floating interest rates of the Group's bank loans for the first half of 2014 ranged from 1.98% to 8.7% 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 RMB2,520,534,000, the Directors of the Company believe that the Group will have sufficient funds to meet its working capital requirements and foreseeable capital expenditure.

Gearing ratio

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) increased from 61.9% as at 31 December 2013 to 63.2% as at 30 June 2014, mainly due to the increase in bank loans.

Capital structure

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

The Group's loans and cash and cash equivalents were mainly denominated in Renminbi, Hong Kong dollars and U.S. dollars. The Group's bank borrowings denominated in Hong Kong dollars and U.S. dollars as at 30 June 2014 amounted to approximately HK$638,000,000 and US$131,000,000 respectively.

On 21 May 2013, Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd.* (南京高精傳動設備製造集團有限公司) ("Nanjing High Accurate Drive"), a wholly-owned subsidiary of the Company, completed the issue of the first tranche of the 2013 domestic medium term notes in the PRC with an aggregate principal amount of RMB500,000,000, the fund as raised was utilised for the repayment of bank loans and as its working capital. The first tranche of the 2013 medium term notes bears a fixed interest rate of 6.2% per annum and has a term of five years, and shall be repayable on 21 May 2018. In addition, on 30 April 2014, Nanjing High Accurate Drive completed the issuance of the first batch of the 2014 medium term notes with a total principal amount of RMB500,000,000 in the PRC. Nanjing high Accurate Drive intends to utilise the fund as raised for the repayment of bank loans and as its working capital. The first batch of the 2014 medium term notes carries a fixed interest rate of 8.5% per annum with a term of five years, repayable on 30 April 2019.

During the period under review, the Group used interest rate swap as hedging instrument by converting certain bank borrowings from floating rate to fixed rate in order to control the risk of interest rate fluctuation of such bank borrowings. On 30 June 2014, the interest rate risk of the Group's bank borrowings of US$40,000,000 was hedged by using interest rate swaps which converted floating interest rate to fixed interest rate (see note 17 to the condensed consolidated financial statements for details).

During the period under review, the Group's borrowings with fixed interest rates (after taking into account the effect of the abovementioned interest rate swap used by the Group) to total borrowings was approximately 74.1%.

PLEDGE OF ASSETS

Save as disclosed in note 20 to the condensed consolidated financial statements, the Group has made no further pledge of assets as at 30 June 2014.

CONTINGENT LIABILITIES

Save as disclosed in note 26 to the condensed consolidated financial statements, as at 30 June 2014, the Directors were not aware of any other material contingent liabilities.

COMMITMENTS

As at 30 June 2014, the Group had expenditure contracted for but not provided in the consolidated financial statements in respect of acquisition of property, plant and equipment and the land use rights of approximately RMB840,508,000 (31 December 2013: RMB650,764,000). Details are set out in note 19 to the condensed consolidated financial statements.

EXPOSURE IN FOREIGN EXCHANGE RATE FLUCTUATIONS

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

The Group's bank borrowing denominated in Hong Kong dollars and U.S. dollars as at 30 June 2014 amounted to approximately HK$638,000,000 and US$131,000,000 respectively. The Group raised the proceeds of approximately HK$1,082,000,000 from the placing of 272,548,000 new shares on 19 December 2013. The Group may thus be exposed to certain foreign exchange rate risks.

The net losses from foreign exchange recorded by the Group for the period under review were approximately RMB3,525,000 (30 June 2013: net gains of RMB10,211,000), which was mainly due to the appreciation of the Renminbi against major foreign currencies during the period under review. In light of the above, the Group will actively manage the net amount of foreign currency assets and liabilities by formulating foreign currency control measures and strategies, with a view to reducing its exposures to foreign exchange rate risks in 2014.

INTEREST RATE RISK

The loans of the Group are mainly sourced from bank loans and medium term notes. Therefore, the benchmark lending rate announced by the People's Bank of China, the London Interbank Offered Rate and the Hong Kong Interbank Offered Rate will have a direct impact on the Group's cost of debt and future changes in interest rate will also have certain impacts on the Group's cost of debt. The Group will strive to reduce the finance cost by actively monitoring the changes in credit policies, taking pre-emptive actions, strengthening capital management and expanding financing channels. During the period under review, the Group used interest rate swap as hedging instrument by converting certain bank borrowings from floating rate to fixed rate which ranges from 1.4% to 2.93% per annum in order to control the risk of interest rate fluctuation of such bank borrowings.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2014, the Group had approximately 8,979 employees (30 June 2013: 9,283). Staff costs of the Group for the first half of 2014 were approximately RMB622,844,000 (30 June 2013: RMB579,614,000). The costs included basic salaries, discretionary bonuses and staff benefits such as medical and insurance plans, pension schemes, unemployment insurance plans, etc.

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

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

The salary levels of employees are generally determined by reference to the employees' positions, responsibilities and performance as well as the Group's financial performance. In addition to salaries, the Group provides housing allowances to some of its employees. The Group also offers incentive programmes to encourage its employees to take initiatives and rewards employees who have made valuable contributions or achieved technical breakthroughs. The Group's employees are rewarded for their creative achievements in technology and technical skills, information management, product quality and enterprise management.

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

PENSION SCHEME

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

SIGNIFICANT INVESTMENT HELD

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

MATERIAL ACQUISITION AND DISPOSAL

There was no material acquisition and disposal of subsidiaries and associated companies during the period under review.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

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

EVENTS AFTER THE END OF THE REPORTING PERIOD

No significant event took place subsequent to 30 June 2014.

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

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

For the six months ended 30 June 2014, the Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the deviation from code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and 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 power and authority under the present arrangement will not be impaired and this arrangement will enable the Company to make and implement decisions promptly and efficiently.

The Company's Chairman and Chief Executive Officer, most of the independent non-executive Directors, Chairman of the Audit Committee, Chairman of the Remuneration Committee, Chairman of the Nomination Committee and external auditors have attended the 2013 Annual General Meeting, except one independent non-executive Director, who was absent from the 2013 Annual General Meeting due to the fact that he had to deal with other important matters.

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 six months period ended 30 June 2014.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2014.

AUDIT COMMITTEE

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

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

The Group's 2014 interim report and unaudited condensed consolidated financial statements for the six months ended 30 June 2014 have been reviewed by the audit committee. The audit committee considered that the financial statements are in compliance with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.

REMUNERATION COMMITTEE

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

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

NOMINATION COMMITTEE

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

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

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

As at 30 June 2014, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which would be required to be notified to the Company and the Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to Section 352 of the SFO, to be recorded in the register referred to therein, or which would be required to be notified to the Company and the Stock Exchange, pursuant to the Model Code contained in the Listing Rules.

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

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

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

As at 30 June 2014, the following persons, other than the directors or chief executive of the Company, had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which were recorded in the register required to be kept under Section 336 of the SFO:

Name	Nature of interests	Number of securities held	Approximate percentages to the equity (%)
Fortune Apex Limited (Note 1)	Beneficial owner	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	129,560,730 (long position)	7.92 (long position)

Note:

(1) As at 30 June 2014, Fortune Apex Limited owns 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. Chen Yongdao (executive Director)	10.5343%
5	Mr. Li Cunzhang*	8.8945%
6	Mr. Li Shengqiang (executive Director)	8.9725%
7	Mr. Liao Enrong (executive Director)	5.3422%
8	Mr. Jin Maoji (executive Director)	5.9195%
9	Mr. Yao Jingsheng	2.5678%
10	Mr. Chen Zhenxing	0.9091%
11	Mr. Zhang Xueyong	1.1286%
12	Mr. Xu Yong	0.7376%
13	Mr. Wang Zhengrong	0.6792%
14	Mr. Chen Liguo	1.0825%
	Total	100.0000%

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

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

(2) Glorious Time Holdings Limited is a company incorporated in the British Virgin Islands, whose ultimate beneficial owner is Mr. Ji Chang Qun.

(3) The Capital Group Companies Inc. held 7.92% interest of the Company through several controlled corporations, including Capital Group International, Inc., Capital Guardian Trust Company, Capital International, Inc., Capital International Limited and Capital International Sarl.

Save as disclosed above and so far as the Directors are aware of, as at 30 June 2014, there was no other person, other than the directors or chief executive of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be recorded in the register referred to therein.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 June 2007 pursuant to the written resolutions of all shareholders of the Company, which will expire on 8 June 2017. 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.

The Company had no share options granted as at 30 June 2014.

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 27 to 54, which comprises the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 "Interim Financial Reporting" ("IAS 34") issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with IAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
29 August 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	NOTES	Six months ended 30.06.2014 RMB'000 (Unaudited)	Six months ended 30.06.2013 RMB'000 (Unaudited)
Revenue	3	**3,947,477**	2,640,351
Cost of sales		**(2,937,106)**	(2,107,569)
Gross profit		**1,010,371**	532,782
Other income		**241,331**	63,514
Other gains and losses	4	**(69,450)**	51,922
Distribution and selling costs		**(130,455)**	(132,719)
Administrative expenses		**(316,724)**	(301,721)
Research and development costs		**(70,584)**	(40,361)
Other expenses		**(67,935)**	(156,219)
Finance costs		**(351,642)**	(286,729)
Share of results of associates		**(3,058)**	(916)
Share of results of joint ventures		**9,443**	(22,588)
Profit (loss) before taxation		**251,297**	(293,035)
Taxation	5	**(35,852)**	(23,318)
Profit (loss) for the period	6	**215,445**	(316,353)
Other comprehensive (expense) income for the period:			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation of financial statements of foreign operations		**88**	(144)
Fair value (loss) gain on:			
available-for-sale financial assets		**(6,734)**	106,124
hedging instruments designated in cash flow hedges		**(1,352)**	2,821
Reclassified to profit or loss on disposal of available-for-sale financial assets		**(932)**	(39,142)
Settlement of cash flow hedges		**1,529**	—
Other comprehensive (expense) income for the period		**(7,401)**	69,659
Total comprehensive income (expense) for the period		**208,044**	(246,694)

	NOTE	Six months ended 30.06.2014 RMB'000 (Unaudited)	Six months ended 30.06.2013 RMB'000 (Unaudited)
Profit (loss) for the period attributable to:			
Owners of the Company		**234,502**	(289,274)
Non-controlling interests		**(19,057)**	(27,079)
		215,445	(316,353)
Total comprehensive income (expense) attributable to:			
Owners of the Company		**227,101**	(219,615)
Non-controlling interests		**(19,057)**	(27,079)
		208,044	(246,694)
EARNINGS (LOSS) PER SHARE	8		
Basic (RMB)		**0.143**	(0.212)
Diluted (RMB)		**n/a**	(0.212)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 JUNE 2014

	NOTES	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
NON-CURRENT ASSETS			
Property, plant and equipment	9	7,067,291	6,632,992
Prepaid lease payments	9	1,042,200	1,034,357
Goodwill	10	61,945	2,991
Intangible assets	11	270,196	284,188
Interests in associates		168,802	172,601
Interests in joint ventures	12	88,492	472,587
Available-for-sale investments		153,990	165,098
Deposit for land lease		280,800	280,800
Prepayment for acquisition of property, plant and equipment	9	231,182	123,599
Deferred tax assets		199,438	168,062
		9,564,336	9,337,275
CURRENT ASSETS			
Inventories		2,462,831	2,389,806
Prepaid lease payments	9	23,206	22,639
Trade and other receivables	13	7,779,601	6,237,694
Amounts due from associates		19,488	—
Amounts due from joint ventures		41,492	33,239
Tax asset		4,017	47
Investment in interest bearing instruments	14	252,741	—
Structured bank deposits		2,080	200,000
Pledged bank deposits		3,275,176	2,514,615
Bank balances and cash		989,471	2,235,371
		14,850,103	13,633,411

	NOTES	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
CURRENT LIABILITIES			
Trade and other payables	15	3,640,606	3,985,945
Amounts due to associates		78,593	71,462
Amounts due to joint ventures		—	8,553
Tax liabilities		95,035	145,068
Borrowings - due within one year	16	8,348,456	7,108,698
Warranty provision		20,753	55,542
Obligation under finance leases		146,126	133,333
		12,329,569	11,508,601
NET CURRENT ASSETS		2,520,534	2,124,810
TOTAL ASSETS LESS CURRENT LIABILITIES		12,084,870	11,462,085
NON-CURRENT LIABILITIES			
Borrowings - due after one year	16	2,798,680	2,338,196
Deferred tax liabilities		36,203	19,574
Deferred income		76,125	74,418
Derivative financial instruments	17	1,352	1,529
Obligation under finance leases		189,084	266,667
		3,101,444	2,700,384
		8,983,426	8,761,701
CAPITAL AND RESERVES			
Share capital	18	119,218	119,218
Reserves		8,617,694	8,394,659
Equity attributable to owners of the Company		8,736,912	8,513,877
Non-controlling interests		246,514	247,824
		8,983,426	8,761,701

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

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

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

For the six months ended 30 June 2014

	Attributable to owners of the Company													
	Share capital RMB'000	Share premium RMB'000	Deemed capital contribution reserve RMB'000	Capital reserve RMB'000	Investment revaluation reserve RMB'000	Statutory surplus reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Share option reserve RMB'000	Hedging reserve RMB'000	Retained profits RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2014 (audited)	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
Profit (loss) for the period	—	—	—	—	—	—	—	—	—	—	234,502	234,502	(19,057)	215,445
Other comprehensive (expense) income for the period	—	—	—	—	(7,666)	—	—	88	—	177	—	(7,401)	—	(7,401)
Total comprehensive (expense) income for the period	—	—	—	—	(7,666)	—	—	88	—	177	234,502	227,101	(19,057)	208,044
Acquisition of subsidiaries	—	—	—	—	—		—	—	—	—	—	—	7,900	7,900
Capital contributions by non-controlling shareholders of subsidiaries	—	—	—	—	—	—	—	—	—	—	—	—	12,980	12,980
Acquisition of additional interest in subsidiaries	—	—	—	(4,066)	—	—	—	—	—	—	—	(4,066)	(3,133)	(7,199)
At 30 June 2014 (unaudited)	119,218	5,010,141	77,651	153,699	(17,112)	366,125	52,335	(1,086)	—	(1,352)	2,977,293	8,736,912	246,514	8,983,426

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	NOTES	Six months ended 30.06.2014 RMB'000 (Unaudited)	30.06.2013 RMB'000 (Unaudited)
Net cash used in operating activities		**(925,583)**	(46,898)
Net cash used in investing activities			
Placement of pledged bank deposits		**(2,444,087)**	(1,802,906)
Purchase of property, plant and equipment		**(288,383)**	(673,902)
Purchase of investment in interest bearing instruments		**(252,741)**	(22,640)
Prepayment for acquisition of property, plant and equipment		**(231,182)**	(5,895)
Capital injection in a subsidiary		**(96,085)**	—
Additions of intangible assets		**(44,022)**	(23,249)
Outflow of disposal of a subsidiary	23	**(30,189)**	—
Placement of structured bank deposits		**(2,080)**	—
Withdrawal of pledged bank deposits		**1,683,526**	1,418,580
Withdrawal of structured bank deposits		**200,000**	—
Interest received		**68,645**	19,683
Inflow from acquisition of subsidiaries	22	**60,343**	—
Proceeds on disposal of available-for-sale investments		**4,374**	203,483
Government grants related to non-current assets		**3,960**	23,520
Proceeds on disposal of property, plant and equipment		**2,163**	5,861
Proceeds from disposal of an associate		**740**	—
Deposit paid for land lease		**—**	(57,981)
Prepaid lease payments paid		**—**	(2,249)
		(1,365,018)	(917,695)
Net cash from (used in) financing activities			
New bank borrowings raised		**7,710,819**	6,523,490
Capital contribution by non-controlling shareholders		**12,980**	77,225
Repayment of bank borrowings		**(6,222,735)**	(6,441,506)
Interest paid		**(382,498)**	(302,736)
Repayment of obligation under finance leases		**(66,666)**	—
Acquisition of additional interest in subsidiaries		**(7,199)**	(3,773)
		1,044,701	(147,300)
Net decrease in cash and cash equivalents		**(1,245,900)**	(1,111,893)
Cash and cash equivalents at 1 January		**2,235,371**	2,404,502
Cash and cash equivalents at 30 June, representing bank balances and cash		**989,471**	1,292,609

1. BASIS OF PREPARATION

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

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and method of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following new International Financial Reporting Standards ("IFRSs") issued by IASB that are mandatorily effective for the current interim period:

Amendments to IFRS 10, IFRS 12 and IAS 27	*Investment Entities;*
Amendments to IAS 32	*Offsetting Financial Assets and Financial Liabilities;*
Amendments to IAS 36	*Recoverable Amount Disclosures for Non-Financial Assets;*
Amendments to IAS 39	*Novation of Derivatives and Continuation of Hedge Accounting;*
IFRIC 21	*Levies*

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Changes in presentation of condensed consolidated statement of profit or loss and other comprehensive income

During the year ended 31 December 2013, the directors of the Company decided to change the classification of certain line items in the consolidated statement of profit or loss and other comprehensive income by presenting gain (loss) on disposal of available-for-sale investments and gain (loss) on disposal of property, plant and equipment as part of the Group's other gains and losses to better reflect the financial information of the Group's activities. The same classification has been applied in the current interim period for the six month ended 30 June 2014 and the preceding interim period figures for the six months ended 30 June 2013 have been re-presented to reflect the new presentation.

The reclassification has had no net effect on the results of the Group for the six-month period ended 30 June 2013. The effect of changes in presentation for the preceding interim period by line items presented in the condensed consolidated statement of profit or loss and other comprehensive income is as follows:

	30 June 2013 originally stated	Reclassification	30 June 2013 restated
	RMB'000	RMB'000	RMB'000
Other income	105,225	(41,711)	63,514
Other gains and losses	10,211	41,711	51,922
Change in results for the period		—	

3. REVENUE AND SEGMENTAL INFORMATION

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

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

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

3. REVENUE AND SEGMENTAL INFORMATION *(Continued)*

Segment revenue and results

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

	Six months ended	
	30.06.2014	30.06.2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Segment revenue		
– PRC	**3,218,087**	2,096,620
– USA	**599,901**	482,134
– Europe	**31,652**	32,837
– Others	**97,837**	28,760
	3,947,477	2,640,351
Segment profit		
– PRC	**789,305**	288,549
– USA	**227,311**	136,859
– Europe	**10,225**	7,452
– Others	**8,170**	4,608
	1,035,011	437,468
Other income, gains and losses	**16,786**	78,031
Finance costs	**(351,642)**	(286,729)
Share of results of associates	**(3,058)**	(916)
Share of results of joint ventures	**9,443**	(22,588)
Unallocated expenses	**(455,243)**	(498,301)
Profit (loss) before taxation	**251,297**	(293,035)

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

4. OTHER GAINS AND LOSSES

	Six months ended	
	30.06.2014	30.06.2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Gain on disposal of available-for-sale investments	**932**	39,142
Gain on disposal of property, plant and equipment	**19**	2,569
Loss on disposal of a joint venture	**(55,370)**	—
Loss on disposal of a subsidiary	**(11,506)**	—
Net exchange (losses) gains	**(3,525)**	10,211
	(69,450)	51,922

5. TAXATION

	Six months ended	
	30.06.2014	30.06.2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Current tax		
– PRC Enterprise Income Tax	**37,547**	30,009
– USA Corporate Income Tax	**5**	5
	37,552	30,014
Under (over) provision in prior years		
– PRC Enterprise Income Tax	**13,047**	(1,074)
Deferred tax credit	**(14,747)**	(5,622)
	35,852	23,318

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

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

5. TAXATION *(Continued)*

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2013: 25%).

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

Name of company	Year-end during which approval was obtained	Year ending during which approval will expire
Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed")	31 December 2011	31 December 2013(Note)
Nanjing High Accurate Marine Equipment Co., Ltd. ("Nanjing Marine")	31 December 2011	31 December 2013(Note)
Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate")	31 December 2011	31 December 2013(Note)
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

Note: The approval of Nanjing High Speed, Nanjing Marine and Nanjing High Accurate was issued on 13 September 2011, 30 September 2011and 30 September 2011 respectively. As the preferential tax rate of 15% for 3 years became effective from the date of approval and ended in September 2014, the subsidiaries applied the rate of 15% for the calculation of Enterprise Income Tax for the six months ended 30 June 2014. As at the reporting date, Nanjing High Speed, Nanjing Marine and Nanjing High Accurate are in the process of applying to renew the qualification of the high technology development enterprises.

At 30 June 2014, the Group has unused tax losses of RMB908,074,000 (31 December 2013: RMB692,139,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB420,315,000 (31 December 2013: RMB277,524,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB487,759,000 (31 December 2013: RMB414,615,000) 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.

5. TAXATION *(Continued)*

At 30 June 2014, no deferred tax asset has been recognised in respect of the fair value change of available-for-sale investment held by the Company, due to the fact that the fair value change is not taxable under Hong Kong Profits Tax.

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

6. PROFIT (LOSS) FOR THE PERIOD

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

	Six months ended	
	30.06.2014	30.06.2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Allowance for inventories (included in cost of sales)	**3,331**	70,389
Amortisation of intangible assets	**43,888**	36,812
Bank interest income	**(68,645)**	(19,683)
Depreciation of property, plant and equipment	**293,950**	269,736
Release of prepaid lease payments	**9,065**	8,344
Exchange losses (gains)	**3,525**	(10,211)
Loss on disposal of a joint venture	**55,370**	—
Loss on disposal of a subsidiary	**11,506**	—
Gain on disposal of property, plant and equipment	**(19)**	(2,569)
Impairment loss on trade and other receivables, net (included in other expenses)	**53,809**	86,003
Impairment loss on intangible assets (included in other expenses)	**14,126**	2,492
Impairment loss on goodwill (included in other expenses)	**—**	14,724
Impairment loss on interests in a joint venture (included in other expenses)	**—**	53,000

7. DIVIDENDS

The directors do not recommend payment of an interim dividend for the six-month period ended 30 June 2014 (six-month period ended 30 June 2013: nil).

8. EARNINGS (LOSS) PER SHARE

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

	Six months ended	
	30.06.2014	30.06.2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Earnings (loss)		
Earnings (loss) for the purposes of basic earnings and diluted earnings (loss) per share (Profit (loss) for the period attributable to owners of the Company)	**234,502**	(289,274)

	Six months ended	
	30.06.2014	30.06.2013
	'000	'000
	(Unaudited)	(Unaudited)
Number of shares		
Number of ordinary shares in issue for the purpose of basic and diluted earnings (loss) per share	**1,635,291**	1,362,743

No diluted earnings per share is presented for the six months ended 30 June 2014 as there is no potential dilutive shares in issue.

The computation of diluted loss per share for the six-month period ended 30 June 2013 did not assume the exercise of the Company's outstanding share options as the exercise price of those options was higher than the average market price during the period. Accordingly, the diluted loss per share was same as the basic loss per share for the period ended 30 June 2013.

9. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LEASE PAYMENTS

During the six months ended 30 June 2014, the Group acquired property, plant and equipment of RMB730,392,000, including RMB318,165,000 of Rugao Hongmao and Nantong Zhenhua (both defined in note 22) at the acquisition date (six months ended 30 June 2013: RMB733,614,000) for the purpose of expanding the Group's business.

In addition, during the six months ended 30 June 2014, the Group prepaid RMB231,182,000 (six months ended 30 June 2013: RMB5,895,000) for acquisition of property, plant and equipment.

At 30 June 2014, the Group is in the process of obtaining property certificates for the buildings with carrying amount of RMB1,357,086,000 (31 December 2013: RMB1,341,279,000).

At 30 June 2014, the Group is in the process of obtaining land use rights certificates in respect of medium-term land use rights located in the PRC with carrying amount of RMB541,829,000 (31 December 2013: RMB544,961,000).

10. GOODWILL

	30.06.2014 RMB'000 (Unaudited)	31.12.2013 RMB'000 (Audited)
Unit A (as defined below)	—	—
Unit B (as defined below)	2,991	2,991
Unit C (as defined below)	—	—
Unit D (as defined below)	58,954	—
	61,945	2,991

For the purposes of impairment testing, the carrying values of goodwill have been allocated to four groups of cash generating units ("CGUs") including manufacture and sales of propellers ("Unit A"), engineering processing and manufacturing ("Unit B"), manufacture and sales of diesel engines ("Unit C") and manufacture and sales of steel ingot ("Unit D"). Unit D is newly acquired during the current interim period (note 22).

The recoverable amounts of the CGUs have 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%, 10% and 11%, 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.

10. GOODWILL *(Continued)*

Expected future cash flow dropped mainly due to reduction in budgeted future sales. Accordingly, during the year ended 31 December 2013, the Group recognised a full impairment loss of RMB14,724,000 in relation to goodwill arising on acquisition of Unit A and Unit C, and the carrying amount of goodwill related to Unit A and Unit C were stated at nil at 30 June 2014 and 31 December 2013 respectively.

At 30 June 2014, management believes that any reasonably possible change in any of these assumptions would not cause the aggregate carrying amount of Unit B and Unit D to exceed the aggregate recoverable amount of the two CGUs. As a result, the management determined that there is no impairment loss to be recognised in relation to goodwill arising on acquisition of Unit B and Unit D.

11. INTANGIBLE ASSETS

During the six months ended 30 June 2014, the Group capitalized development cost of RMB44,022,000 (six months ended 30 June 2013: RMB20,790,000) for the purpose of developing new products.

12. INTERESTS IN JOINT VENTURES

	30.06.2014 RMB'000 (Unaudited)	31.12.2013 RMB'000 (Audited)
Cost of unlisted investments in jointly ventures	38,500	587,120
Accumulated share of post-acquisition results, net of dividend received	49,992	(61,533)
Less: impairment loss recognised (note)	—	(53,000)
	88,492	472,587

Note: On 6 January 2014, the Group disposed of its 50.01% equity interest in 江蘇省宏晟重工集團有限公司 ("Jiangsu Hongsheng") to one of the joint venture partners ("Hongsheng JV Partner") in Jiangsu Hongsheng at an agreed price of RMB338,168,000. At the date of disposal, the investment cost was RMB548,620,000, accumulated share of post-acquisition losses was RMB102,082,000 and the impairment loss was RMB53,000,000. The transaction has resulted in a loss of RMB55,370,000 and was included in other gain and loss during the interim period.

13. TRADE AND OTHER RECEIVABLES

	30.06.2014 RMB'000 (Unaudited)	31.12.2013 RMB'000 (Audited)
Accounts receivable	4,402,460	4,577,676
Bills receivable	2,363,819	1,016,063
Less: allowance for doubtful debts	(459,589)	(405,343)
Total trade receivables	6,306,690	5,188,396
Advances to suppliers	1,016,380	776,293
Value-added tax recoverable	252,695	201,580
Other receivables	206,366	73,955
Less: allowance for doubtful debts of other receivable	(2,530)	(2,530)
Total trade and other receivables	7,779,601	6,237,694

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

	30.06.2014 RMB'000 (Unaudited)	31.12.2013 RMB'000 (Audited)
0 - 90 days	3,736,660	2,518,390
91 - 120 days	575,017	529,705
121 - 180 days	850,061	889,187
181 - 365 days	851,251	929,522
1 - 2 years	204,027	238,719
Over 2 years	89,674	82,873
	6,306,690	5,188,396

14. INVESTMENT IN INTEREST BEARING INSTRUMENTS

At 30 June 2014, the amount represent the Group's investment in entrusted loans arranged by trust company in the PRC to invest in the specified bond product for a term of one year. The trust investment was presented as current asset in the condensed consolidated statement of financial position.

15. TRADE AND OTHER PAYABLES

	30.06.2014 RMB'000 (Unaudited)	31.12.2013 RMB'000 (Audited)
Accounts payable	1,588,115	1,634,477
Notes payable (note)	910,565	1,260,378
Total trade payables	2,498,680	2,894,855
Advances from customers	424,001	416,563
Purchase of property, plant and equipment	220,230	241,165
Payroll and welfare payables	110,363	172,002
Accrued expenses	155,149	132,075
Value-added and other tax payable	100,747	39,605
Deferred income	11,256	11,256
Other payables	120,180	78,424
Total trade and other payables	3,640,606	3,985,945

Note: Notes payable are secured by certain of the Group's assets as set out in note 20.

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

	30.06.2014 RMB'000 (Unaudited)	31.12.2013 RMB'000 (Audited)
0 - 30 days	927,716	978,386
31- 60 days	664,259	496,827
61 - 180 days	647,933	1,174,685
181 - 365 days	165,516	157,730
Over 365 days	93,256	87,227
	2,498,680	2,894,855

16. BORROWINGS

During the period, the Group obtained new borrowings in the amount of approximately RMB7,910,819,000, including those borrowings amounting to RMB200,000,000 acquired upon acquisition of subsidiaries during the period (six months ended 30 June 2013: RMB6,523,490,000). The borrowings bear fixed or floating interest at interest rates ranging from 1.98% to 8.7% per annum and are repayable within 1 to 5 years. The Group also repaid borrowings of approximately RMB6,222,735,000 (six months ended 30 June 2013: RMB6,441,506,000) during the period.

Borrowings are secured by certain of the Group's own assets as set out in note 20.

17. DERIVATIVE FINANCIAL INSTRUMENTS

	30.06.2014 RMB'000 (Unaudited)	31.12.2013 RMB'000 (Audited)
Cash flow hedge- interest rate swaps	**(1,352)**	(1,529)

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. All the interest rate swaps at 31 December 2013 were settled in April 2014, and on 17 April 2014 the Group uses new interest rate swaps denominated in United States Dollars (US$) by swapping a proportion of these borrowings from floating rates to fixed rates. The interest rate swaps and the corresponding bank borrowings have the similar terms and the directors of the Company considered that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps at 30 June 2014 are set out below:

At 30 June 2014:

Notional amount	**Maturity**	**Swaps**
US$40,000,000	16 January 2015	LIBOR+0.9%

At 31 December 2013:

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%
US$1,237,500	18 April 2014	From LIBOR+2.05% to 2.80%
US$2,887,500	11 April 2014	From LIBOR+2.05% to 2.93%

As at 30 June 2014, fair value loss of RMB1,352,000 (31 December 2013: RMB1,529,000) have been recognised in the other comprehensive income and accumulated in equity and are expected to be released to the condensed consolidated statement of profit or loss and other comprehensive income upon the payment of interest expense in accordance with the terms as stipulated in the bank borrowing agreements.

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

17. DERIVATIVE FINANCIAL INSTRUMENTS *(Continued)*

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

	Six months ended	
	30.06.2014	30.06.2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Derivative financial instruments at 1 January	**(1,529)**	(6,496)
Gain for the period recognised in other comprehensive income	**177**	2,821
At 30 June	**(1,352)**	(3,675)

18. SHARE CAPITAL

	Number of shares (in thousand)	Amount US$'000	Equivalent to RMB'000
Ordinary shares of US$0.01 each			
Authorised:			
At 1 January 2013, 31 December 2013 and 30 June 2014 (unaudited)	3,000,000	30,000	234,033
Issued and fully paid:			
At 1 January 2013	1,362,743	13,627	102,543
Issued on placement (Note)	272,548	2,725	16,675
At 31 December 2013 and 30 June 2014 (unaudited)	1,635,291	16,352	119,218

Note: On 19 December 2013, the Company issued and allotted a total of 272,548,000 shares at 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.

19. CAPITAL COMMITMENTS

	30.06.2014 RMB'000 (Unaudited)	31.12.2013 RMB'000 (Audited)
Commitments contracted for but not provided in the condensed consolidated financial statements in respect of:		
– land leases	83,400	83,400
– property, plant and equipment	757,108	567,364
	840,508	650,764

20. PLEDGE OF ASSETS

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

	30.06.2014 RMB'000 (Unaudited)	31.12.2013 RMB'000 (Audited)
Bank deposits	3,275,176	2,514,615
Accounts receivable	888,958	418,304
Bills receivable	—	241,066
Property, plant and equipment	67,055	68,767
Prepaid lease payments	24,835	25,273
	4,256,024	3,268,025

21. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

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

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

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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

Financial assets/financial liabilities	Fair value as at 30.06.2014	Fair value as at 31.12.2013	Fair value hierarchy	Basis of fair value measurement/valuation technique and key input	Significant unobservable input	Relationship of unobservable inputs to fair value
1) Interest rate swaps classified as derivative financial instruments in the condensed consolidated statement of financial position	Liabilities (designated for hedging) – RMB1,352,000	Liabilities (designated for hedging) – RMB1,529,000	Level 2	Discounted cash flow. Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contracted interest rates, discounted at a rate that reflects the credit risk of various counterparties.	N/A	N/A
2) Listed equity securities classified as available-for-sale investments in the condensed consolidated statements of financial position	Listed equity securities in Hong Kong: – Manufacturing industry – RMB69,984,000	Listed equity securities in Hong Kong: – Manufacturing industry – RMB81,092,000	Level 1	Quoted bid prices in an active market.	N/A	N/A

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

22. ACQUISITION OF SUBSIDIARIES

On 6 January 2014, the Group acquired from Jiangsu Hongsheng, which was a former joint venture of the Group and was disposed by the Group as set out in note 12, a 100% equity interest in 如皋市宏茂廢舊金屬回收有限公司 Rugao Hongmao Obsolete Metal Recycling Co., Ltd. ("Rugao Hongmao"), a 95% interest in 南通市振華宏晟重型鍛壓有限公司 Nantong Zhenhua Hongsheng Heavy Metal Forging Co., Ltd. ("Nantong Zhenhua") and a 100% interest in 如皋市宏茂鑄鋼有限公司 Rugao Hongmao Steel Co., Ltd. ("Hongmao Steel"). Rugao Hongmao is principally engaged in the recycling and sales of steel scrap. Nantong Zhenhua is principally engaged in the steel forging. Hongmao Steel is principally engaged in the manufacturing and sales of steel ingot.

Consideration transferred

	RMB'000
Rugao Hongmao	4,601
Nantong Zhenhua	209,061
Hongmao Steel	28,421
Total consideration transferred	242,083

Assets and liabilities recognised at the date of acquisition

	Rugao Hongmao RMB'000	Nantong Zhenhua RMB'000	Hongmao Steel RMB'000	Total RMB'000
Current assets (note)	26,544	243,173	402,843	672,560
Non-current assets	6	335,634	119,686	455,326
Current liabilities	(21,646)	(420,800)	(509,361)	(951,807)
Net assets	4,904	158,007	13,168	176,079

Note: Included in current assets is bank and cash balance of RMB60,343,000.

Non-controlling interests

The non-controlling interest (5%) in Nantong Zhenhua recognised at the acquisition date was measured by reference to the proportionate share of recognised amounts of net assets of Nantong Zhenhua and amounted to approximately RMB7,900,000.

22. ACQUISITION OF SUBSIDIARIES *(Continued)*

Goodwill arising on acquisition

	Nantong Zhenhua RMB'000
Consideration transferred	209,061
Plus: Non-controlling interests	7,900
Less: Recognised amount of identifiable net assets acquired (100%)	(158,007)
Goodwill arising on acquisition	58,954

Goodwill arose on the acquisition of Nantong Zhenhua because the acquisition included the core competence of steel management right of Nantong Zhenhua. These assets could not be separately recognised from goodwill because they are not capable of being separated from the Group and sold, transferred, licensed, rented or exchanged, either individually or together with any related contacts.

None of the goodwill arising on this acquisition is expected to be deductible for tax purpose.

Net cash inflow arising on acquisition

	RMB'000
Consideration receivable on disposal of Jiangsu Hongsheng (note 12)	338,168
Consideration payable on acquisition of subsidiaries	(242,083)
Deferred consideration receivable	(96,085)
Consideration in cash	—
Less: cash and cash equivalent balances acquired	60,343
	60,343

Impact of acquisition on the results of the Group

Included in the profit for the interim period for the six month ended 30 June 2014 is RMB75,000 loss attributable to Rugao Hongmao and RMB442,000 loss attributable to Nantong Zhenhua, and nil attributable to Hongmao Steel which was acquired on 6 January and disposed shortly on 9 Febuary (note 22 and 23). Revenue for the interim period includes RMB2,887,000 is attributable to Rugao Hongmao, RMB24,821,000 attributable to Nantong Zhenhua.

23. DISPOSAL OF A SUBSIDIARY

During the current interim period, the Group entered into an agreement to dispose of its 100% equity interest in Hongmao Steel, which was newly acquired on 6 January 2014 (note 22). The purpose of the disposal is to remove non-core business of the Group which the Group does not have adequate knowledge of that business. The disposal was completed on 9 February 2014, on which date the Group lost control of Hongmao Steel.

The results of the Hongmao Steel since its acquisition on 6 January 2014 to 9 February 2014, the date of disposal for the current period was as follows:

	RMB'000
Revenue	33,305
Cost of sales	(31,833)
Distribution expense	(151)
Administrative expense	(275)
Finance costs	(576)
Profit before tax	470
Income tax expense	—
Profit for the period	470

The net assets of Hongmao Steel at the date of disposal and the resulting loss on disposal recognised were as follows:

	RMB'000
Net assets at date of disposal	124,506
Loss on disposal recognised and charged to profit or loss	(11,506)
Total consideration	113,000
Satisfied by:	
Deferred cash consideration (note)	113,000
Net cash outflow arising on disposal:	
Total cash consideration received	—
Bank balances and cash disposed of	(30,189)
	(30,189)

Note: Pursuant to the relevant agreements, the deferred consideration will be settled by the buyer on or before 10 December 2015.

24. MAJOR NON-CASH TRANSACTIONS

During the period, pursuant to agreements entered into among relevant parties and the Group, the amount of approximately RMB338,168,000 receivable on the disposal of Jiangsu Hongsheng was set off with the amount of approximately RMB242,083,000 payable upon the acquisition of subsidiaries.

25. RELATED PARTY DISCLOSURES

(I) Related party transactions

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

			Six months ended	
Name of company	Relationship	Nature of transactions	**30.06.2014 RMB'000 (Unaudited)**	30.06.2013 RMB'000 (Unaudited)
Nanjing Longwin Windpower Equipment Manufacturing Co., Ltd.	Associate	Purchase of goods	**33,924**	6,200
Nanjing High Accurate Construction Equipment Co., Ltd.	Joint venture	Sales of goods	**14,463**	19,108
		Purchase of goods	**109**	641
Shandong Energy Machinery Group Zhong-Chuan Heavy Duty Mine Equipment Manufacturing Co., Ltd.	Joint venture	Sales of goods	**5,790**	5,816
Suzhou Shengchuang Investments Co., Ltd.	Associate	Service fee	**376**	—
Nantong FLW Agricultural Equipment Co., Ltd.	Associate	Other income	**5**	5
		Technology development fee	**—**	3,000
Jiangsu Hongsheng (note)	Joint venture	Purchase of goods	**—**	8,998
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	**500**	603

Note: The Group disposed of its 50.01% equity interest in Jiangsu Hongsheng on 6 January 2014 and therefore Jiangsu Hongsheng ceased to be a related company for the six month ended 30 June 2014. Details of the disposal are set out in note 12.

25. RELATED PARTY DISCLOSURES *(Continued)*

(II) Related party balances

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

At the end of the reporting period, amounts due from joint ventures and amounts due from (to) associates relate to trade balances, except for the amount due to an associate Nanjing E-crystal Energy Co., Ltd, of RMB76,100,000 (31 December 2013: RMB66,613,000) related to purchase of property, plant and equipment. The trade amounts are aged within 120 days and the non-trade amounts are aged within 181 to 365 days. All the amounts are unsecured, interest-free and repayable within 365 days.

(III) Compensation of key management personnel

	Six months ended	
	30.06.2014	30.06.2013
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Fees	**220**	220
Salaries and other emoluments	**7,350**	7,350
	7,570	7,570

26. CONTINGENT LIABILITIES

During the year ended 31 December 2013, the Group entered into an 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 percentage 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 condensed consolidated financial statements at the end of the reporting period.