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

(incorporated in the Cayman Islands with limited liability)

(Stock code: 658)

Announcement
Unaudited interim results
for the six months ended 30 June 2014

FINANCIAL HIGHLIGHTS

	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 summary			
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*

The board of directors (the "Board") of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2014, together with the comparative figures are as follows. The interim financial statements are unaudited, but have been reviewed by the Company's audit committee and Deloitte Touche Tohmatsu, the Company's auditor.

CONDENSED CONSOLIDATED STATEMENT OF 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)*	**30.06.2013** *RMB'000* *(Unaudited)*
Revenue	4	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	5	(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	6	(35,852)	(23,318)
Profit (loss) for the period	7	215,445	(316,353)
Other comprehensive income (expense) for the period:			
Items that may be subsequently reclassified to profit or loss:			
Exchange difference arising on translation of financial statements of foreign operations		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)	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	9		
Basic (RMB)		0.143	(0.212)
Diluted (RMB)		N/A	(0.212)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2014

	NOTE	**30 June 2014** *RMB'000* *(Unaudited)*	**31 December 2013** *RMB'000* *(Audited)*
NON-CURRENT ASSETS			
Property, plant and equipment		7,067,291	6,632,992
Prepaid lease payments		1,042,200	1,034,357
Goodwill		61,945	2,991
Intangible assets		270,196	284,188
Interests in associates		168,802	172,601
Interests in joint ventures		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		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		23,206	22,639
Trade and other receivables	10	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		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

	NOTE	30 June 2014 RMB'000 (Unaudited)	31 December 2013 RMB'000 (Audited)
CURRENT LIABILITIES			
Trade and other payables	11	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	12	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	12	2,798,680	2,338,196
Deferred tax liabilities		36,203	19,574
Deferred income		76,125	74,418
Derivative financial instruments	13	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		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

NOTES

1. GENERAL

The Company is a public limited company incorporated in the Cayman Islands as an exempted company with limited liability on 22 March 2005 and its shares are listed on The Stock Exchange of Hong Kong Limited with effect from 4 July 2007.

2. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with 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).

3. 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.

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		—	

4. REVENUE AND SEGMENTAL INFORMATION

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

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

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

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.

5. OTHER GAINS AND LOSSES

	Six months ended 30.06.2014 RMB'000 (Unaudited)	Six months ended 30.06.2013 RMB'000 (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

6. TAXATION

	Six months ended 30.06.2014 RMB'000 (Unaudited)	Six months ended 30.06.2013 RMB'000 (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.

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.

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.

7. 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

8. 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).

9. 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.

10. TRADE AND OTHER RECEIVABLES

	30.06.2014	31.12.2013
	RMB'000	*RMB'000*
	(Unaudited)	*(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	31.12.2013
	RMB'000	*RMB'000*
	(Unaudited)	*(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

11. TRADE AND OTHER PAYABLES

	30.06.2014	31.12.2013
	RMB'000	*RMB'000*
	(Unaudited)	*(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 15.

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	31.12.2013
	RMB'000	*RMB'000*
	(Unaudited)	*(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

12. 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 15.

13. DERIVATIVE FINANCIAL INSTRUMENTS

	30.06.2014	31.12.2013
	RMB'000	*RMB'000*
	(Unaudited)	*(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%
USD1,237,500	18 April 2014	From LIBOR+2.05% to 2.80%
USD2,887,500	11 April 2014	From LIBOR+2.05% to 2.93%

As at 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.

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)

14. CAPITAL COMMITMENTS

	30.06.2014	**31.12.2013**
	RMB'000	*RMB'000*
	(Unaudited)	*(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

15. 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	**31.12.2013**
	RMB'000	*RMB'000*
	(Unaudited)	*(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

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 in the 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.

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. Sapphire substrate production is the upstream production process of screen and LED industry chain. This process requires key technology and provides the highest added value in the industry chain. The Group maintains a leading position among domestic industry peers in terms of the technology level and production capacity of sapphire substrate production. Currently, the business operates well, 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.

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	**2013**	**Changes**
	RMB'000	*RMB'000*	
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 13 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 15 to the condensed consolidated financial statements, the Group has made no further pledge of assets as at 30 June 2014.

OTHER SUPPLEMENTARY INFORMATION

INTERIM DIVIDEND

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

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

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.

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

EVENTS AFTER THE REPORTING PERIOD

No significant event took place subsequent to 30 June 2014.

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

Hong Kong, 29 August 2014

As at the date of this announcement, the board of directors of the Company comprises seven executive directors, namely Mr. Hu Yueming, Mr. Chen Yongdao, Mr. Lu Xun, Mr. Li Shengqiang, Mr. Liu Jianguo, Mr. Liao Enrong and Mr. Jin Maoji, and four independent non-executive directors, namely Mr. Jiang Xihe, Mr. Zhu Junsheng, Mr. Chen Shimin, and Ms. Jiang Jianhua.

** For identification purposes only*