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 2013

PERFORMANCE HIGHLIGHTS

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

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

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

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

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 2013, 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 2013

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

	NOTES	Six months ended 30.06.2013 RMB'000 (Unaudited)	30.06.2012 RMB'000 (Unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		**(289,274)**	96,162
Non-controlling interests		**(27,079)**	(12,688)
		(316,353)	83,474
Total comprehensive (expense) income attributable to:			
Owners of the Company		**(219,615)**	31,312
Non-controlling interests		**(27,079)**	(12,688)
		(246,694)	18,624
(LOSS) EARNINGS PER SHARE	9		
Basic (RMB)		**(0.212)**	0.071
Diluted (RMB)		**(0.212)**	0.071

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2013

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

	NOTES	**30 June 2013**	31 December 2012
		RMB'000	*RMB'000*
		(Unaudited)	(Audited)
CURRENT LIABILITIES			
Trade and other payables	11	**3,393,423**	2,945,279
Amounts due to associates		**60,191**	76,476
Tax liabilities		**69,609**	81,683
Borrowings - due within one year	12	**7,170,358**	7,449,119
Warranty provision		**76,154**	92,239
		10,769,735	10,644,796
NET CURRENT ASSETS		**101,735**	168,377
TOTAL ASSETS LESS CURRENT LIABILITIES		**9,405,967**	9,237,438
NON-CURRENT LIABILITIES			
Borrowings - due after one year	12	**1,615,114**	1,288,238
Deferred tax liabilities		**18,370**	18,242
Deferred income		**197,487**	179,899
Derivative financial instruments	13	**3,675**	6,496
		1,834,646	1,492,875
		7,571,321	7,744,563
CAPITAL AND RESERVES			
Share capital		**102,543**	102,543
Reserves		**7,219,836**	7,436,895
Equity attributable to owners of the Company		**7,322,379**	7,539,438
Non-controlling interests		**248,942**	205,125
		7,571,321	7,744,563

NOTES

1. GENERAL

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

2. BASIS OF PREPARATION

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

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

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

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

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

3. PRINCIPAL ACCOUNTING POLICIES

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

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

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

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

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

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

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

Impact of the application of HKFRS 11

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

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

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

IFRS 13 *Fair Value Measurement*

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

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

In accordance with the transitional provisions of IFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively.

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

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

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

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 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	
	30.06.2013	30.06.2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Segment revenue		
- PRC	**2,096,620**	2,374,072
- USA	**482,134**	876,238
- Europe	**32,837**	31,738
- Others	**28,760**	10,626
	2,640,351	3,292,674
Segment profit		
- PRC	**288,549**	561,676
- USA	**136,859**	207,307
- Europe	**7,452**	7,509
- Others	**4,608**	2,514
	437,468	779,006

	Six months ended	
	30.06.2013	30.06.2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Other income, gains and losses	**78,031**	15,104
Finance costs	**(286,729)**	(256,654)
Share of results of associates	**(916)**	(6,747)
Share of results of joint ventures	**(22,588)**	(6,525)
Unallocated expenses	**(498,301)**	(358,193)
(Loss) profit before taxation	**(293,035)**	165,991

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

5. OTHER GAINS AND LOSSES

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

6. TAXATION

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

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

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

Under the law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% (2012: 25%).

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

Name of company	**Year end during which approval was obtained**	**Year ending during which approval will expire**
Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed")	31 December 2011	31 December 2013
Nanjing High Accurate Marine Equipment Co., Ltd. ("Nanjing Marine")	31 December 2011	31 December 2013
Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate")	31 December 2011	31 December 2013
Nanjing Gaote Gear Box Manufacturing Co., Ltd. ("Nanjing Gaote")	31 December 2012	31 December 2014
Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd. ("Gaochuan Sky")	31 December 2012	31 December 2014
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd. ("Shougao")	31 December 2012	31 December 2014
Zhenjiang Tongzhou Propeller Co., Ltd. ("Tongzhou")(1)	31 December 2010	31 December 2012

Note:

(1) The approval of Tongzhou expired. As at the report date, Tongzhou are in the process of applying to qualify as the high technology development enterprises and the renewal and extension to enjoy the preferential tax rate at 15%. The subsidiary applied the rate of 25% for the calculation of Enterprise Income Tax for the six months ended 30 June 2013 (2012: 15%).

At 30 June 2013, the Group has unused tax losses of RMB518,827,000 (31 December 2012: RMB312,493,000) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB17,233,000 (31 December 2012: RMB85,427,000) of such losses. No deferred tax asset has been recognised in respect of the remaining RMB501,594,000 (31 December 2012: RMB227,066,000) due to the unpredictability of future profit streams. The unused tax losses can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits.

At 30 June 2013, no deferred tax asset has been recognised in respect of the fair value change of available-for-sale investment held by the Company, due to the fact that the fair value change is not taxable under Hong Kong Profits Tax.

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

7. (LOSS) PROFIT FOR THE PERIOD

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

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

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

8. DIVIDENDS

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

9. (LOSS) EARNINGS PER SHARE

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

	Six months ended	
	30.06.2013	30.06.2012
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
<u>(Loss)/earnings</u>		
(Loss)/earnings for the purposes of basic and diluted (loss)/earnings per share ((Loss)/profit for the period attributable to owners of the Company)	**(289,274)**	96,162
	30.06.2013	30.06.2012
	'000	*'000*
	(Unaudited)	(Unaudited)
<u>Number of shares</u>		
Number of ordinary shares in issue for the purpose of basic and diluted (loss) earnings per share	**1,362,743**	1,362,743

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

10. TRADE AND OTHER RECEIVABLES

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

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

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

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

11. TRADE AND OTHER PAYABLES

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

Note: Notes payable are secured by certain of the Group's assets as set out in note 15.

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

12. BORROWINGS

During the period, the Group obtained new borrowings in the amount of approximately RMB6,523,490,000 (six months ended 30 June 2012: RMB4,699,715,000). The borrowings bear fixed or floating interest at interest rates ranging from 1.59% to 6.90% per annum and are repayable within 1 to 5 years. The Group also repaid borrowings of approximately RMB6,441,506,000 (six months ended 30 June 2012: RMB3,180,823,000) during the period.

Borrowings are secured by certain of the Group's own assets as set out in note 15.

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

13. DERIVATIVE FINANCIAL INSTRUMENTS

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

Since 2012, the Group uses interest rate swaps as hedging instruments in order to manage its exposure to interest rate movements on its bank borrowings, denominated in Hong Kong Dollars (HKD) or in United States Dollars (US$) by swapping a proportion of these borrowings from floating rates to fixed rates. The interest rate swaps and the corresponding bank borrowings have the similar terms and the directors of the Company considered that the interest rate swaps are highly effective hedging instruments. Major terms of the interest rate swaps at 30 June 2013 are set out below:

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

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

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

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

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

14. CAPITAL COMMITMENTS

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

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:

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in a wide range of industrial applications. During the period under review, the Group recorded sales revenue of approximately RMB2,640,351,000 (30 June 2012: RMB3,292,674,000), representing a decrease of 19.8% from the corresponding period of 2012. The gross profit margin recorded for the period was approximately 20.2%. Loss attributable to the owners of the Company was approximately RMB289,274,000 (30 June 2012: profit attributable to the owners of the Company of approximately RMB96,162,000), Basic and diluted loss per share attributable to the owners of the Company amounted to RMB0.212 (30 June 2012: basic and diluted earnings per share of RMB0.071).

Principal business review

1. **Wind gear transmission equipment**

   Development of large and diversified equipment

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

   The Group is a leading supplier of wind gear transmission equipment in the PRC. By leveraging its strong research, design and development capabilities, the Group has achieved good results in terms of its research and development. 1.5MW and 2MW wind gear transmission equipment has been put into mass production and delivered to domestic and overseas customers. The product technology is of international advanced level and is well recognised by our customers. In addition, the Group has started the mass production of 3MW wind gear transmission equipment, which will secure more business for the Group. During the period under review, the Group had already delivered 60 units of 3MW wind power gearbox transmission equipment to its customers.

Furthermore, the Group has successfully developed 5MW wind power gearbox transmission equipment together with some major domestic wind turbine manufacturers, and the development of 6MW wind power gearbox transmission equipment is also at the final stage.

Currently, the Group maintains a strong customer base. The customers of the wind gear transmission equipment of the Group are the major local and overseas renowned integrated wind power equipment manufacturers, such as GE Energy, Nordex, Vestas, REPower, Hitachi, etc. With the Group's enhanced global operation, major overseas wind power equipment manufacturers such as Alstom Wind and Suzlon have also become the Group's overseas customers.

2. **Marine gear transmission equipment**

Actively expanding the domestic market

Marine gear transmission equipment is one of the Group's products in recent years. The Company is a leading enterprise in Asia specialised in research and development, manufacture and services of marine equipment. Its major products are marine propeller and transmission equipment sets including controllable pitch propellers (maximum diameter of 6.8m), fixed pitch propeller (maximum diameter of 11m), azimuth thruster, tunnel thruster, standard marine gear box and non-standard marine gear box, hydraulic coupling, spiral bevel gears and stern tube of various models. The technologies and performance of its products are up to the international advanced level. Various products have made their debuts in the domestic market. Based on its product concept of "all-in-one", the Company provides a full range of product series, including gear box, propeller, coupling, electric control system and hydraulic system. During the period under review, the Company had entered into a strategic partnership framework agreement with Siemens Ltd., China, pursuant to which both parties will form a strategic partnership in relation to the research and development and manufacturing of and provision of services relating to marine equipment, and strive to establish the leading position of both parties in the design and manufacturing of marine equipment and related electric control system and establish a solid foundation for the expansion of the Company's products into the international high-end marine market, by way of the strategic alliance to be formed with their competitive strengths in marine area and their cooperation. In the face of the current global financial crisis, the Company is actively expanding its coverage in the domestic market by diversifying the product portfolio of its marine transmission equipment.

During the period under review, turnover of marine gear transmission equipment was approximately RMB134,154,000 (30 June 2012: RMB87,047,000), representing an increase of 54.1% as compared with the corresponding period last year.

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

Achievements in research and development and promising market potential

The use of high-speed trains, metros and urban light rail systems as environmentally-friendly transportation has become a major global trend. It is believed that the industry has promising potential. The development of intercity transportation in the PRC, one of the most densely populated countries in the world, will provide a tremendous market for manufacturers of high-speed locomotives and urban light rail transportation systems. The high-speed railway transportation network in Europe is expected to expand by twofold by 2020. In order to capture this tremendous business opportunity, the Group previously conducted research and development of transmission equipment for high-speed locomotives, metros and urban light rails. Its products have been installed in the metros of cities such as Beijing, Shanghai, Nanjing and Shenzhen during the period under review. Characterised by their high performance, compact structure, low noise pollution and easy maintenance, the rail transportation products of the Group are well-received and highly recognised by its peers. As such, there was a significant increase in domestic and international orders. The Group will endeavour to further expand the domestic and overseas markets to make it a new motivator for the revenue growth of the Group. In 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.

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

4. **Traditional transmission products**

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

The Group's traditional gear transmission equipment products are mainly provided for customers from various industries including metallurgy, construction materials, traffic, transportation, petrochemicals, aerospace and mining. During the period under review, sales of high speed heavy load gear transmission equipment and other products increased by 5.9% and 45.2% to RMB3,304,000 (30 June 2012: RMB3,121,000) and RMB281,651,000 (30 June 2012: RMB194,035,000), respectively. Sales revenue of gear transmission equipment for bar-rolling, wine-rolling and plate-rolling mills, general purpose gear transmission equipment and gear transmission equipment for construction materials amounted to RMB157,050,000 (30 June 2012: RMB288,261,000), RMB36,200,000 (30 June 2012: RMB52,572,000) and RMB129,331,000 (30 June 2012: RMB243,048,000), representing decreases of 45.5%, 31.1% and 46.8%, respectively.

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

In 2012, the successful trial run of installed metallurgy product series and construction material product series of the Group in Sweden and Turkey respectively speeded up the Group's overseas market expansion. During the period under review, reducers of metallurgy product series have been exported to Africa and South America.

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 market is dominated by few international manufacturers. The Group intends to take the opportunity to develop precise and efficient machine tool products to explore the high-end market and by providing advanced machine tools for equipment manufacturing industry.

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

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

6. **Diesel engine products industry**

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

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

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

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

During the period under review, diesel engine products generated sales revenue of approximately RMB82,382,000 (30 June 2012: RMB90,442,000) for the Group, representing a decrease of 8.9% from the corresponding period last year.

LOCAL AND EXPORT SALES

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

PATENTED PROJECTS

The business of the Group has high entry barriers and requires specific technical know-how. The Group enhances corporate growth by introducing new products and new technology. Various new products have made their debuts in the domestic market under the Group's on-going innovation of products and technology. Leveraging its advanced technology and premium quality, the Group has obtained over 100 national, provincial and municipal technology advancement awards, outstanding new products awards, certification for new products, certification for high and new tech products and certification of high and new tech enterprise. As at 30 June 2013, a total of 230 patents were granted by the State, of which 25 patents were newly granted in the first half of 2013. In addition, 40 patent applications have been submitted and pending for approval. The Group was the first producer to adopt ISO1328 and ISO06336 international standards. It was nominated as an enterprise for the 863 State Plan and a Computer Integrated Manufacturing System (CIMS) Application Model Enterprise by the Ministry of Science and Technology of the PRC. Until now, the Company passed ISO9001:2008 quality management system certification, ISO14001:2004 environmental management system certification and GB/T28001-2001 Occupational Health and Safety Management System Certification. Nanjing Marine, a subsidiary of the Company, has strictly complied with international standards and the requirements of various classification societies in designing and manufacturing marine products. Its products have passed the inspection of and obtained certifications from classification societies such as China Classification Society (CCS), Bureau Veritas (BV) in France, Germanischer Lloyd (GL) in Germany, American Bureau of Shipping (ABS) in the United States, Lloyd's Register of Shipping (LR) in the UK, Registro Italiano Navale (RINA) in Italy, Det Norske Veritas (DNV) in Norway, Russian Maritime Register of Shipping (RMRS) in Russia and Nippon Kaiji Kyokai (NK) in Japan. The wind power products manufactured by Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed"), a subsidiary of the Company, have obtained certifications from China Classification Society (CCS), China General Certification Center (CGC), Technischer Uberwachungs-Verein (TUV), Germanischer Lloyd (GL) and DEWI-OCC Offshore and Certification Centre in Germany, and its rail transportation products have obtained certifications from International Railway Industry Standard (IRIS). The mining machinery products manufactured by China Transmission Heavy Equipment Co., Ltd. ("China Transmission Equipment"), a subsidiary of the Company, have obtained certifications from China Mining Products Safety Approval and Certification Center.

PROSPECTS

In the first half of 2013, the global economy was affected by the eurozone debt crisis. Investors were worried about the global economic outlook and resulted in uncertainties in the global economy including the stock market during the period under review. In addition, in light of the mixed economic data of some fast-growing emerging markets, investors remained concerned that the global economic growth may continue to slow down as the impacts of the dampened eurozone economy are beginning to spread all over the world. Moreover, the Chinese government also lowered its economic growth forecasts, which raised concerns from different sectors over the economic growth momentum in the future.

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

During such industry adjustment, the Group will adhere to its practice of giving top priority to quality and continue the manufacture of large and diversified wind power transmission equipment. The Group aims to consolidate its position in the industry through enhancing its advanced research and development capabilities, producing quality products, expanding its businesses and optimising its product mix. Based on the mainstream development trend of large-scale wind turbine, the Group has successfully developed 5MW wind turbine gearbox transmission equipment aside from providing 3MW wind turbine gearbox transmission equipment to customers, whilst 6MW wind turbine gearbox transmission equipment being at the last stage of development. In addition, we believe the trust and support of its overseas customers will continue to boost the Company’s steady growth in wind power transmission equipment exports for the whole year.

FINANCIAL PERFORMANCE

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

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

Revenue

The Group's sales revenue for the six months ended 30 June 2013 was approximately RMB2,640,351,000, representing a decrease of 19.8% as compared with the corresponding period last year. The decrease was mainly due to the decrease in customer orders for and shipments of wind power gear box products as well as the decrease in average selling prices of certain traditional transmission products. The average selling prices of wind power gear box equipment kept steady during the period under review. Sales revenue decreased from approximately RMB2,238,335,000 for the six months ended 30 June 2012 to approximately RMB1,664,526,000 for the period under review, representing a decrease of 25.6%. During the period under review, sales revenue from traditional transmission products was approximately RMB 607,536,000, representing a derease of 22.2% as compared with the corresponding period last year. Sales revenue of transmission equipment for high-speed locomotives and urban light rails and Diesel Engine products amounted to approximately RMB34,236,000 and RMB82,382,000, representing a derease of 35.4% and 8.9% as compared with the corresponding period last year, respectively. During the period under review, the Group's sales revenue from CNC products and marine gear transmission equipment were approximately RMB117,517,000 (30 June 2012: RMB42,845,000) and RMB134,154,000 (30 June 2012: RMB87,047,000), respectively.

Gross profit margin and gross profit

The Group's consolidated gross profit margin for the six months ended 30 June 2013 was approximately 20.2% (30 June 2012: 26.0%), representing a decrease of 5.8% as compared with the corresponding period last year. The decrease was mainly attributable to the drop in average selling prices of certain traditional transmission products of the Group. Consolidated gross profit for the period under review reached approximately RMB532,782,000 (30 June 2012: RMB857,367,000), representing a decrease of 37.9% as compared with the corresponding period last year.

Other income, other gains and losses

The total amount of other income of the Group for the six months ended 30 June 2013 was approximately RMB105,225,000 (30 June 2012: RMB76,840,000), representing an increase of 36.9% as compared with the corresponding period last year. Other income is mainly comprised of bank interest income, government grants, sales of scraps and materials and investment income.

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

Distribution and selling costs

The distribution and selling costs of the Group for the six months ended 30 June 2013 were approximately RMB132,719,000 (30 June 2012: RMB132,497,000), representing an increase of 0.2% as compared with the corresponding period last year. The increase costs mainly represented product packaging expenses, transportation expenses and staff costs. The percentage of distribution and selling costs to sales revenue for the period under review was 5.0% (30 June 2012: 4.0%), representing an increase of 1.0% to sales revenue as compared with the corresponding period last year.

Administrative expenses

Administrative expenses of the Group increased from approximately RMB267,721,000 for the six months ended 30 June 2012 to approximately RMB301,721,000 for the six months ended 30 June 2013, mainly due to the increase in staff remuneration expenses. The percentage of administrative expenses to sales revenue increased by 3.3% to 11.4% as compared with the corresponding period last year.

Other expenses

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

Finance costs

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

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2013 the equity attributable to owners of the Company amounted to approximately RMB7,322,379,000 (31 December 2012: RMB7,539,438,000). The Group had total assets of approximately RMB20,175,702,000 (31 December 2012: RMB19,882,234,000), representing an increase of approximately RMB293,468,000, or 1.5%, as compared with that at the beginning of the year. Total current assets were approximately RMB10,871,470,000 (31 December 2012: RMB10,813,173,000), representing an increase of 0.5% as compared with that at the beginning of the year and accounting for 53.9% of the total assets (31 December 2012: 54.4%). Total non-current assets were approximately RMB9,304,232,000 (31 December 2012: RMB9,069,061,000), representing an increase of approximately 2.59% as compared with that at the beginning of the year and accounting for 46.1% of the total assets (31 December 2012: 45.6%).

As at 30 June 2013, total liabilities of the Group were approximately RMB12,604,381,000 (31 December 2012: RMB12,137,671,000), representing an increase of RMB466,710,000 as compared with that at the beginning of the year. Total current liabilities were approximately RMB10,769,735,000 (31 December

2012: RMB10,644,796,000), representing an increase of 1.2% as compared with that at the beginning of the year. Total non-current liabilities were approximately RMB1,834,646,000 (31 December 2012: RMB1,492,875,000), representing an increase of 22.9% as compared with that at the beginning of the year.

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

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

As at 30 June 2013, the Group had total bank loans of approximately RMB8,785,472,000 (31 December 2012: RMB8,737,357,000), of which short-term bank loans were RMB7,170,358,000 (31 December 2012: RMB7,449,119,000), accounting for approximately 81.6% (31 December 2012: 85.3%) of the total bank loans. The short-term bank loans are repayable within one year. The fixed and floating interest rates of the Group's bank loans for the first half of 2013 ranged from 1.59% to 6.90% per annum.

Taking into account of the internal financial resources of and the banking facilities available to the Group, and the net current asset of RMB101,735,000, the directors of the Company believe that the Group will have sufficient funds to meet its working capital requirements and foreseeable capital expenditure.

Gearing ratio

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

Capital structure

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

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

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

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

During the period under review, the Group used interest rate swap as hedging instrument by converting certain bank borrowings from floating rate to fixed rate in order to control the risk of interest rate fluctuation of such bank borrowings. On 30 June 2013, the interest rate risk of the Group's bank borrowings of HK$525,000,000 and US$8,250,000 was hedged by using interest rate swaps which converted floating interest rate to fixed interest rate (see Note 13 for details).

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

PLEDGE OF ASSETS

Save as disclosed in note 15 to the financial statements, the Group has made no further pledge of assets as at 30 June 2013.

OTHER SUPPLEMENTARY INFORMATION

INTERIM DIVIDEND

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

EXPOSURE IN EXCHANGE RATE FLUCTUATIONS

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

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

The net gains from foreign exchange recorded by the Group for the period under review were approximately RMB10,211,000 (30 June 2012: net losses of RMB7,717,000), which was due to the appreciation of the Renminbi against major foreign currencies during the period under review. In light of the above, the Group will actively manage the net amount of foreign currency assets and liabilities by formulating foreign currency control measures and strategies, with a view to reducing its exposures to exchange rate risks in 2013.

INTEREST RATE RISK

The loans of the Group are mainly sourced from bank loans, short-term commercial paper and medium term notes. Therefore, the benchmark lending rate announced by the People's Bank of China, the London Interbank Offered Rate and the Hong Kong Interbank Offered Rate will have a direct impact on the Group's cost of debt and future changes in interest rate will also have certain impacts on the Group's cost of debt. The Group will strive to reduce the finance cost by actively monitoring the changes in credit policies, taking pre-emptive actions, strengthening capital management and expanding financing channels. During the period under review, the Group used interest rate swap as hedging instrument by converting certain bank borrowings from floating rate to fixed rate which ranges from 2.80% to 2.93% per annum in order to control the risk of interest rate fluctuation of such bank borrowings.

EMPLOYEES AND REMUNERATION POLICY

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

CORPORATE GOVERNANCE PRACTICES

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

For the six months ended 30 June 2013, the Company has complied with the code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") except for the deviation from code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Mr. Hu Yueming is the Chairman and Chief Executive Officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person is beneficial to the business development and management of the Group. The Board considers that the balance of power and authority under the present arrangement will not be impaired and this arrangement will enable the Company to make and implement decisions promptly and efficiently.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the "Model Code") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the directors. Having made specific enquiries of all directors by the Company, all directors have confirmed that they have complied with the required standard set out in the Model Code during the six months ended 30 June 2013.

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2013.

EVENTS AFTER THE REPORTING PERIOD

No significant event took place subsequent to 30 June 2013.

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

Hong Kong, 23 August 2013

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*