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 OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2013

PERFORMANCE HIGHLIGHTS

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

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

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

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

The board of directors (the "Board") of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") is pleased to announce the consolidated annual results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013 together with comparative figures as follows. The consolidated annual results have been reviewed by the Company's audit committee.

* *For identification purpose only*

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2013

	NOTES	**2013**	2012
		RMB'000	*RMB'000*
Revenue	3	**6,539,058**	6,368,817
Cost of sales		**(4,908,226)**	(4,815,463)
Gross profit		**1,630,832**	1,553,354
Other income	4	**333,530**	215,192
Other gains and losses		**13,143**	(2,354)
Distribution and selling costs		**(281,246)**	(278,779)
Administrative expenses		**(613,280)**	(502,090)
Research and development costs		**(139,274)**	(137,804)
Other expenses		**(229,330)**	(88,518)
Finance costs	5	**(564,178)**	(523,878)
Share of results of associates		**(7,783)**	(11,742)
Share of results of joint ventures		**(53,985)**	(15,712)
Profit before taxation		**88,429**	207,669
Taxation	6	**(57,272)**	(79,197)
Profit for the year	7	**31,157**	128,472
Other comprehensive income (expense) for the year			
Items that may be reclassified subsequently to profit or loss:			
Exchange difference arising on translation		**(264)**	(261)
Fair value gain(loss) on:			
Available-for-sale financial assets		**89,283**	(59,587)
Hedging instruments designated in cash flow hedges		**—**	(6,496)
Reclassified to profit or loss on			
disposal of available-for-sale financial assets, net of income tax		**(39,142)**	—
partial settlement of cash flow hedges		**4,967**	—
Other comprehensive income (expense) for the year		**54,844**	(66,344)
Total comprehensive income for the year		**86,001**	62,128

	NOTES	2013 RMB'000	2012 RMB'000
Profit (loss) for the year attributable to:			
Owners of the Company		64,573	138,426
Non-controlling interests		(33,416)	(9,954)
		31,157	128,472
Total comprehensive income (expense) attributable to:			
Owners of the Company		119,417	72,082
Non-controlling interests		(33,416)	(9,954)
		86,001	62,128
Earnings per share	8		
Basic (RMB)		0.047	0.102
Diluted (RMB)		0.047	0.102

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2013

	NOTES	**2013**	2012
		RMB'000	*RMB'000*
NON-CURRENT ASSETS			
Property, plant and equipment		**6,632,992**	6,238,143
Prepaid lease payments		**1,034,357**	938,448
Goodwill		**2,991**	17,715
Intangible assets		**284,188**	277,806
Interests in associates		**172,601**	183,324
Interests in joint ventures		**472,587**	612,572
Available-for-sale investments	9	**165,098**	306,658
Deposit for land lease		**280,800**	336,042
Prepayment for acquisition of property, plant and equipment		**123,599**	89,828
Deferred tax assets		**168,062**	68,525
		9,337,275	9,069,061
CURRENT ASSETS			
Inventories		**2,389,806**	1,780,504
Prepaid lease payments		**22,639**	20,330
Trade and other receivables	10	**6,237,694**	4,667,937
Amounts due from associates		**—**	5,507
Amounts due from joint ventures		**33,239**	35,806
Tax asset		**47**	875
Structured bank deposits		**200,000**	—
Pledged bank deposits		**2,514,615**	1,897,712
Bank balances and cash		**2,235,371**	2,404,502
		13,633,411	10,813,173
CURRENT LIABILITIES			
Trade and other payables	11	**3,985,945**	2,945,279
Amounts due to associates		**71,462**	76,476
Amount due to joint ventures		**8,553**	—
Tax liabilities		**145,068**	81,683
Borrowings - due within one year	12	**7,108,698**	7,449,119
Warranty provision		**55,542**	92,239
Obligation under finance leases		**133,333**	—
		11,508,601	10,644,796
NET CURRENT ASSETS		**2,124,810**	168,377
TOTAL ASSETS LESS CURRENT LIABILITIES		**11,462,085**	9,237,438

	NOTES	2013	2012
		RMB'000	*RMB'000*
NON-CURRENT LIABILITIES			
Borrowings - due after one year	12	2,338,196	1,288,238
Deferred tax liabilities		19,574	18,242
Deferred income		74,418	179,899
Derivative financial instruments		1,529	6,496
Obligation under finance leases		266,667	—
		2,700,384	1,492,875
		8,761,701	7,744,563
CAPITAL AND RESERVES			
Share capital		119,218	102,543
Reserves		8,394,659	7,436,895
Equity attributable to owners of the Company		8,513,877	7,539,438
Non-controlling interests		247,824	205,125
		8,761,701	7,744,563

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 (the "Hong Kong Stock Exchange") with effect from 4 July 2007.

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

In preparing the consolidated financial statements, the directors of the Company have given consideration to the future liquidity of the Group. As at 31 December 2013, the Group's borrowings comprising bank loans, short-term unsecured commercial papers, medium-term notes and private placement bond amounted to approximately RMB9,447 million (31 December 2012: RMB8,737 million). At 31 December 2013, in relation to a syndicated loan of RMB232 million (31 December 2012: RMB716 million) (the "Syndicated Loan"), the Company breached certain of the financial covenants of the Syndicate Loan agreement. On discovery of the breach, the Company informed the Syndicate Loan lenders and commenced negotiations for a waiver (the "Waiver"). Up to the date of the issue of the consolidated financial statements, the negotiations are still in progress. The directors of the Company are confident that negotiations with the Syndicate Loan lenders will ultimately reach a successful conclusion. In any event, should the Syndicate Loan lenders call for immediate repayment of the loans, the directors of the Company believe that adequate alternative sources of finance are available to ensure that there is no threat to the continuing operations of the Group. In addition, subsequent to the end of the reporting period, the Group has renewed RMB1,418 millions of existing bank facilities, and is in the process of arranging other sources of finance totalling approximately RMB3,800 million. In January 2014, the Group issued commercial paper of RMB800 million.

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

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

(a) New and revised IFRSs adopted during the year

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

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

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

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

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

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

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

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

Impact of the application of IFRS 10

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

Impact of the application of IFRS 11

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

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

Impact of the application of IFRS 12

IFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of IFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

IFRS 13 Fair Value Measurement

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

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under IFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, IFRS 13 includes extensive disclosure requirements.

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

Amendments to IAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to IAS 1 *Presentation of Items of Other Comprehensive Income* for the first time in the current year. The amendments introduce new terminology, whose use is not mandatory, for the statement of comprehensive income and income statement. Under the amendments to IAS 1, "the statement of comprehensive income" is renamed as "the statement of profit or loss and other comprehensive income" and "the income statement" is renamed as "the statement of profit or loss". The amendments to IAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to IAS 1 require items of other comprehensive income to be grouped into two categories in the other comprehensive income section: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis - the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to IAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

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

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

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

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

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

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

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

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

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

3. REVENUE AND SEGMENTAL INFORMATION

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

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

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

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

Segment revenue and results

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

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

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

Segment assets

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

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

Other segment information

2013

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

2012

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

Revenue from major product and services

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

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

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

Geographical information

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

	Non-current assets	
	2013	2012
	RMB'000	*RMB'000*
PRC	**8,967,063**	8,675,382
USA	**36,869**	17,497
Others	**183**	999
	9,004,115	8,693,878

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

Information about major customers

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

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

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

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

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

4. OTHER INCOME

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

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

5. FINANCE COSTS

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

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

6. TAXATION

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

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

Provision of the USA Federal and Statutory State Corporate Income Tax rates are made at the rates of 34% and 8.84% respectively for NGC Transmission Equipment (America) Inc., which is a 100% owned subsidiary incorporated in the USA. NGC Renewable LLC has not commenced operation and has no assessable profit for tax purpose.

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

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

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

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

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

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

7. PROFIT FOR THE YEAR

	2013	2012
	RMB'000	*RMB'000*
Profit for the year has been arrived at after charging (crediting):		
Total staff costs, including directors' emoluments	**1,116,800**	992,918
Less: staff cost included in research and development costs	**(71,990)**	(64,367)
staff cost included in intangible assets	**(7,710)**	(8,249)
	1,037,100	920,302
Auditor's remuneration	**3,450**	3,110
Write-down of inventories (included in cost of sales)	**222,878**	29,386
Cost of inventories recognised as an expense	**4,681,511**	4,810,083
Depreciation of property, plant and equipment	**551,775**	504,596
Amortisation of prepaid lease payments	**17,254**	14,261
Amortisation of intangible assets	**78,969**	69,040
Net exchange losses (gains)	**(20,116)**	2,354
Loss (gain) on disposal of property, plant and equipment	**46,115**	1,017
Impairment losses on intangible assets (included in other expenses)	**21,065**	2,741
Impairment losses on trade and other receivables (included in other expenses) (note)	**140,541**	85,777
Impairment losses on goodwill (included in other expenses)	**14,724**	—
Impairment losses on interests in a joint venture (included in other expenses)	**53,000**	—

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

8. EARNINGS PER SHARE

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

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

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

The computation of diluted earnings per share for the year ended 31 December 2013 and 31 December 2012 does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares in 2013 and 2012. Accordingly, the diluted earnings per share is same as the basic earnings per share for the year ended 31 December 2013 and 31 December 2012.

9. AVAILABLE-FOR-SALE INVESTMENTS

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

Notes:

(1) On 2 December 2011, the Group entered into a cornerstone agreement ("the Cornerstone Investment Agreement") with, amongst other parties, 國電科技環保集團股份有限公司

Guodian Technology & Environment Group Corporation Limited ("Guodian Tech"), a joint stock limited company incorporated in the PRC with limited liability, to the proposed USD40,000,000 (equivalent to approximately RMB254,879,000) equity investment in Guodian Tech. Upon the listing of Guodian Tech's shares on the Hong Kong Stock Exchange on 30 December 2011, the Cornerstone Investment Agreement is completed and 144,100,000 H shares of Guodian Tech each priced at HKD2.16 are issued to the Group, which accounts for 12.12% of the total issued H share, and 2.42% of the total issued shares of Guodian Tech at 30 December 2011 and at 31 December 2012.

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

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

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

10. TRADE AND OTHER RECEIVABLES

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

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

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

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

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

Ageing of trade receivables which are past due but not impaired

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

Movement in the allowance for doubtful debts for trade receivables

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

Movement in the allowance for doubtful debts for other receivables

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

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

Transfers of financial assets

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

Bills receivable endorsed to suppliers with full recourse

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

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

As at 31 December 2013, the Group's maximum exposure to loss and cash outflow, which is same as the amount payable by the Group to collecting banks or the suppliers in respect of the discounted bills and endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB462,344,000 and RMB803,280,000, respectively (2012:RMB235,548,000 and RMB 487,256,000,respectively).

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

11. TRADE AND OTHER PAYABLES

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

Note: Notes payable are secured by certain of the Group's assets, details of which are set out in note 14.

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

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

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

12. BORROWINGS

	2013	2012
	RMB'000	*RMB'000*
Bank loans	**7,446,894**	7,937,357
Short-term unsecured commercial papers (Note 1)	**700,000**	800,000
Medium-term notes (Note 2)	**500,000**	—
Private placement bond (Note 3)	**800,000**	—
	9,446,894	8,737,357
Secured	**3,700,527**	1,314,341
Unsecured	**5,746,367**	7,423,016
	9,446,894	8,737,357
Carrying amount repayable*:		
Within one year	**6,877,171**	6,732,831
More than one year, but not exceeding two years	**1,382,696**	627,938
More than two years, but not more than five years	**955,500**	660,300
	9,215,367	8,021,069
Carrying amount of an unsecured syndicated loan that is repayable on demand due to breach of covenants (shown under current liabilities)	**231,527**	716,288
	9,446,894	8,737,357
Less: Amounts due within one year shown under current liabilities	**(7,108,698)**	(7,449,119)
Amounts due over one year	**2,338,196**	1,288,238

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

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

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

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

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

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

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

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

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

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

The above secured bank borrowings at the end of the reporting period were secured by pledge of assets, details of which are set out in note 14.

13. CAPITAL COMMITMENTS

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

14. PLEDGE OF ASSETS

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

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

15. EVENTS AFTER THE END OF THE REPORTING PERIOD

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in a wide range of industrial applications. For the year ended 31 December 2013, the Group recorded sales revenue of approximately RMB6,539,058,000 (2012: RMB6,368,817,000), representing an increase of approximately 2.7% from 2012. The gross profit margin was approximately 24.9% (2012: 24.4%). Profit attributable to owners of the Company was approximately RMB64,573,000 (2012: RMB138,426,000), representing a decrease of 53.4% from 2012. Basic and diluted earnings per share attributable to the owners of the Company were both amounted to RMB0.047 (2012: RMB0.102).

Principal business review

1. **Wind gear transmission equipment**

   Development of large and diversified equipment

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

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

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

2. **Marine gear transmission equipment**

Actively expand the domestic market

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

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

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

Achievements in the research and development and promising market potential

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

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

4. **Traditional transmission products**

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

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

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

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

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

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

CNC machine tool products industry

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

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

During the Period under Review, the Group attended the 13th China International Machine Tool Show (CIMT2013) held at the new exhibition room of China International Exhibition Center in Beijing, at which the DVTA25-MC High-accuracy CNC Double-pillar Vertical Turning Center displayed by the Company won recognition from customers for its features of "three highs and one new", being "high" speed (maximum speed of 285r/min for workbenches with a diameter of 2,250mm), "high" accuracy (workbench radial runout of 0.005mm, turret positioning accuracy of 0.015mm and turret repositioning accuracy of 0.005mm), "high" efficiency (automated measurement, automated tool change and automated chip removal), and "new" and practical full protection for machines. By virtue of its design philosophy and high quality derived from world-class manufacturing process, it was a highlight of the exhibition. During the Period under Review, two machine tool companies within the Group were included in the list of "the 2013 second batch of private technology enterprises in Jiangsu Province". During the Period under Review, the Group provided CNC machine tool products to customers through various subsidiaries and recorded sales revenue of approximately RMB238,255,000 (2012: RMB181,306,000), representing an increase of 31.4% over last year.

6. **Diesel engine product industry**

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

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

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

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

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

LOCAL AND EXPORT SALES

During the Period under Review, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. During the Period under Review, the overseas sales amounted to approximately RMB1,302,596,000 (2012: RMB1,462,919,000), representing a decrease of 11.0% over last year. Overseas sales accounted for 19.9% to total sales (2012: 23.0%), representing a decrease of 3.1% to total sales over the previous year. At present, the overseas customer base of the Group is mainly in the U.S. and other countries such as India, Japan and Europe. Although the economies in Europe and the U.S. were yet to be fully recovered during the Period under Review, the Group introduced different types of products in order to extend its coverage to the overseas market.

PROSPECTS

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

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

FINANCIAL PERFORMANCE

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

Revenue

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

REVENUE

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

Gross profit margin and gross profit

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

Other income, other gains and losses

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

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

Distribution and selling costs

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

Administrative expenses

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

Other expenses

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

Finance costs

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

FINANCIAL RESOURCES AND LIQUIDITY

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

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

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

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

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

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

Gearing ratio

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

Capital structure

Placing of shares

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

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

2. Class of shares: ordinary shares

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

4. Offer price: HK$3.98

5. Net price: HK$3.97

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

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

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

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

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

The Group's loans and cash and cash equivalents were mainly denominated in Renminbi, U.S. dollars and Hong Kong dollars. The Group's bank borrowings denominated in Hong Kong dollars and U.S. dollars as at 31 December 2013 amounted to approximately HK$672,500,000 and US$132,420,000 respectively.

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

On 21 May 2013, Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("NGC"), a wholly-owned subsidiary of the Company, completed the issuance of the first batch medium-term notes with a total principal amount of RMB500,000,000 in the PRC. The first batch medium-term notes carry a fixed interest rate of 6.2% per annum with a term of five years, repayable on 21 May 2018. NGC intends to utilise the fund as raised for the repayment of bank loans and as its working capital.

During the Period under Review, the Group used interest rate swap as hedging instrument by converting certain bank borrowings from floating rate to fixed rate in order to control the risk of interest rate fluctuation of such bank borrowings. As at 31 December 2013, interest rate risk of the Group's bank borrowings of HK$262,500,000 and US$4,125,000 was hedged by using interest rate swaps which converted floating interest rate to fixed interest rate.

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

PLEDGE OF ASSETS

Save as disclosed in note 14 to the consolidated financial statements, the Group has made no further pledge of assets as at 31 December 2013.

OTHER SUPPLEMENTARY INFORMATION

FINAL DIVIDEND

The Board did not recommend payment of a final dividend for the year ended 31 December 2013.

FOREIGN EXCHANGE RISK

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

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

The net gain of foreign exchange recorded by the Group during the Period under Review was approximately RMB20,116,000 (2012: a net loss of RMB2,354,000), which was due to the appreciation of Renminbi against major foreign currencies during the Period under Review. In light of the above, the Group will actively manage the net amount of foreign currency assets and liabilities by formulating foreign currency control measures and strategies, with a view to reducing its exposures to exchange risks in 2013.

INTEREST RATE RISK

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

EMPLOYEES AND REMUNERATION

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

SIGNIFICANT INVESTMENT HELD

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

MATERIAL ACQUISITION AND DISPOSAL

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

IMPORTANT EVENTS AFTER THE END OF THE REPORTING PERIOD

Save as disclosed in note 15 to the consolidated financial statements, there are no important events occurred subsequent to 31 December 2013.

CORPORATE GOVERNANCE

The Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Listing Rules during the year ended 31 December 2013 except for the deviation from code provision A.2.1 which states that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual and deviation from code provision A.6.7 which states that non-executive directors should attend general meetings of 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 non-executive Directors, Chairman of the Audit Committee, Chairman of the Remuneration Committee, Chairman of the Nomination Committee and external Auditors have attended the 2012 Annual General Meeting, except Mr. Zhu Junsheng, a non-executive Director, who was absent from the 2012 Annual General Meeting due to other important business engagement.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

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

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

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

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

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income and the related notes thereto for the year ended 31 December 2013 as set out in this announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu in this announcement.

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

Hong Kong, 28 March 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.