CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED
中國航天萬源國際（集團）有限公司*

(Incorporated in Cayman Islands with limited liability)

(Stock Code: 1185)

INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2013

RESULTS

The Board of Directors of China Energine International (Holdings) Limited (the "Company") is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2013 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	NOTES	**1.1.2013 to 30.6.2013** ***HK$'000*** ***(Unaudited)***	1.1.2012 to 30.6.2012 *HK$'000* *(Unaudited)*
Turnover	3	**282,608**	248,062
Cost of sales		**(263,034)**	(246,782)
Gross profit		**19,574**	1,280
Other income		**5,905**	33,873
Other gains and losses	4	**4,628**	17,122
Distribution costs		**(7,870)**	(13,301)
Administrative expenses		**(73,180)**	(76,339)
Finance costs	5	**(47,606)**	(39,666)
Share of results of associates		**4,373**	719
Share of results of joint ventures		**102,660**	114,061
Profit before taxation	6	**8,484**	37,749
Taxation	7	**(1,356)**	(4,701)
Profit for the period		**7,128**	33,048

	NOTES	1.1.2013 to 30.6.2013 HK$'000 (Unaudited)	1.1.2012 to 30.6.2012 HK$'000 (Unaudited)
Other comprehensive income			
Item that will not be reclassified to profit or loss:			
– exchange difference arising on translation to presentation currency		**33,441**	—
Item that may be subsequently reclassified to profit or loss:			
– reclassification adjustment upon sale of available-for-sale financial asset		**14,881**	—
– change in fair value of available-for-sale financial asset		**—**	3,348
Total comprehensive income for the period		**55,450**	36,396
Profit (loss) for the period attributable to:			
Owners of the Company		**9,716**	39,603
Non-controlling interests		**(2,588)**	(6,555)
		7,128	33,048
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		**56,192**	42,951
Non-controlling interests		**(742)**	(6,555)
		55,450	36,396
Earnings per share - Basic	9	**HK0.24 cents**	HK1.00 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2013

	NOTES	**30.6.2013**	31.12.2012
		HK$'000	*HK$'000*
		(Unaudited)	*(Audited)*
Non-current assets			
Property, plant and equipment		**390,939**	501,383
Investment properties		**53,303**	38,725
Deposits paid for acquisition of property, plant and equipment		**8,195**	22,851
Deposits paid for acquisition of investment property		**11,531**	—
Goodwill		**2,004**	2,004
Intangible assets		**6,449**	68,776
Deferred tax assets		**2,050**	3,090
Interests in associates		**481,581**	399,975
Interests in joint ventures		**1,544,307**	1,416,222
Amount due from a joint venture		**113,991**	—
Available-for-sale financial asset		**—**	102,944
		2,614,350	2,555,970
Current assets			
Inventories		**500,892**	482,686
Trade and other receivables	10	**955,161**	879,697
Amounts due from associates		**10,968**	15,448
Amounts due from joint ventures		**33,154**	140,460
Pledged bank deposits		**11,571**	24,947
Bank balances and cash		**364,702**	462,393
		1,876,448	2,005,631

	NOTES	**30.6.2013**	31.12.2012
		HK$'000	*HK$'000*
		(Unaudited)	*(Audited)*
Current liabilities			
Trade and other payables	11	**580,601**	526,986
Amounts due to associates		**105,230**	134,584
Amounts due to joint ventures		**23,044**	22,573
Government grants		**260**	502
Warranty provision		**24,584**	31,218
Taxation payable		**2,368**	489
Bank borrowings - amount due within one year		**430,736**	755,380
Other borrowings - amount due within one year		**313,853**	36,998
		1,480,676	1,508,730
Net current assets		**395,772**	496,901
Total assets less current liabilities		**3,010,122**	3,052,871
Non-current liabilities			
Other borrowings - amount due after one year		**1,050,518**	1,044,324
Deferred tax liabilities		**18,690**	18,823
Government grants		**9,277**	8,531
		1,078,485	1,071,678
Net assets		**1,931,637**	1,981,193
Capital and reserves			
Share capital		**396,900**	396,900
Reserves		**1,443,199**	1,387,007
Equity attributable to owners of the Company		**1,840,099**	1,783,907
Non-controlling interests		**91,538**	197,286
Total equity		**1,931,637**	1,981,193

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for investment properties and available-for-sale financial asset , which is measured at fair value.

Except as described below, the accounting policies and methods 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 revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

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

In the current interim period, the Group has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to these condensed consolidated financial statements as it deals only with separate financial statements.

HKFRS 10 replaces the parts of HKAS 27 "Consolidated and separate financial statements" that deal with consolidated financial statements and HK(SIC) - INT 12 "Consolidation - Special purpose entities". HKFRS 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 HKFRS 10 to explain when an investor has control over an investee.

HKFRS 11 replaces HKAS 31 "Interests in joint ventures", and the guidance contained in a related interpretation, HK(SIC) - INT 13 "Jointly controlled entities - Non-monetary contributions by venturers", has been incorporated in HKAS 28 (as revised in 2011). HKFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified and accounted for. Under HKFRS 11, there are only two types of joint arrangements - joint operations and joint ventures. The classification of joint arrangements under HKFRS 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, HKAS 31 had three types of joint arrangements - jointly controlled entities, jointly controlled operations and jointly controlled assets. The classification of joint arrangements under HKAS 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 application of these five standards in the current interim period and concluded that it has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Amendments to HKAS 1 Presentation of items of other comprehensive income

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 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 HKAS 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 HKAS 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.

Amendments to HKAS 34 Interim financial reporting (as part of the annual improvements to HKFRSs 2009-2011 cycle)

The Group has applied the amendments to HKAS 34 "Interim financial reporting as part of the annual improvements to HKFRSs 2009 - 2011 cycle" for the first time in the current interim period. The amendments to HKAS 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 ("CODM") and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Since there has been no material change from the amounts disclosed in the last annual financial statements for all reportable segments, the Group has not included total assets and total liabilities information as part of segment information.

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

3. **SEGMENT INFORMATION**

The Group currently organises its operations into five reportable and operating segments. They represent five major lines of businesses engaged by the Group. Segment results represent the profit before taxation earned or loss before taxation incurred by each segment, excluding finance costs, share of results of certain joint ventures which cannot be allocated, unallocated other income and corporate expenses such as central administration costs and directors' remuneration. Share of profit of associates of HK$4,373,000 (1.1.2012 to 30.6.2012: HK$719,000) and share of loss of certain joint ventures of HK$2,405,000 (1.1.2012 to 30.6.2012: HK$2,022,000) were allocated to reportable and operating segments. This is the measure reported to the Group's Executive Directors, being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance.

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

Six months ended 30 June 2013

	Wind Energy Related Products	Operation of Wind Farm	Rare-earth Permanent Magnet Motor Products	Trading of materials	Tele-communication	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover						
External sales	165,444	15,669	23,508	63,700	14,287	282,608
Result						
Segment result	(27,163)	15,713	1,950	317	(10,932)	(20,115)
Unallocated other income						7,011
Unallocated corporate expenses						(35,871)
Finance costs						(47,606)
Share of results of joint ventures						105,065
Profit before taxation						8,484

Six months ended 30 June 2012

	Wind Energy Related Products *HK$'000*	Operation of Wind Farm *HK$'000*	Rare-earth Permanent Magnet Motor Products *HK$'000*	Trading of materials *HK$'000*	Tele-communication *HK$'000*	Consolidated *HK$'000*
Turnover						
External sales	128,432	15,827	14,564	73,533	15,706	248,062
Result						
Segment result	(50,737)	10,469	953	70	6,137	(33,108)
Unallocated other income						27,728
Unallocated corporate expenses						(33,288)
Finance costs						(39,666)
Share of results of joint ventures						116,083
Profit before taxation						37,749

4. OTHER GAINS AND LOSSES

	1.1.2013 to 30.6.2013 ***HK$'000***	1.1.2012 to 30.6.2012 *HK$'000*
Gain on disposal of available-for-sale financial asset	**3,633**	—
Net exchange gain recognised	**868**	1,102
Recovery of trade receivables previously impaired	**127**	3,613
Gain on disposal of interests in associates	**—**	11,801
Gain on disposal of property, plant and equipment	**—**	606
	4,628	17,122

5. FINANCE COSTS

	1.1.2013 to 30.6.2013 ***HK$'000***	1.1.2012 to 30.6.2012 *HK$'000*
Interests on bank and other loans:		
– wholly repayable within five years	**45,527**	37,173
– repayable over five years	**2,079**	2,493
	47,606	39,666

6. PROFIT BEFORE TAXATION

	1.1.2013 to 30.6.2013	1.1.2012 to 30.6.2012
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**17,037**	16,038
Amortisation of intangible assets	**3,478**	5,998
Interest income		
– advance to a joint venture	**(1,582)**	(2,302)
– bank balances	**(933)**	(2,851)
Other income		
– gain on disposal of a property development project	**—**	(22,185)

7. TAXATION

	1.1.2013 to 30.6.2013	1.1.2012 to 30.6.2012
	HK$'000	*HK$'000*
The tax charge comprises:		
Current tax:		
PRC Enterprise Income Tax ("EIT")	**793**	4,458
Deferred taxation	**563**	243
	1,356	4,701

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries in Hong Kong have no assessable profit for both periods.

Taxation arising in the PRC is recognised based on EIT rate of 25% (2012: 25%) for the six months ended 30 June 2013.

8. DIVIDENDS

No dividends were paid or declared for both periods. The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2013.

9. EARNINGS PER SHARE - BASIC

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

	1.1.2013 to 30.6.2013	1.1.2012 to 30.6.2012
	HK$'000	*HK$'000*
Profit for the period for the purpose of basic earnings per share – attributable to the owners of the Company	**9,716**	39,603

	Number of shares 2013 & 2012
Number of ordinary shares for the purpose of basic earnings per share	3,968,995,668

No diluted earnings per share has been presented as there were no potential ordinary shares outstanding for both periods.

10. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK$462,631,000 (31.12.2012: HK$493,668,000). The amount of trade receivables at 30 June 2013 included retention receivables for the sales of wind turbines to third parties of HK$57,614,000 (31.12.2012: HK$56,305,000). The balances will be settled upon the completion of warranty period of 2 - 5 years ranging from 2013 to 2017. For the remaining balances of trade receivables, the Group allows credit periods for 90 days on average to its customers for sales of goods mainly wind energy related products. At the discretion of the executive directors, several major customers were allowed to settle their balances beyond the credit terms up to one year. The following is an ageing analysis of trade receivables net of allowances, presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	30.6.2013	31.12.2012
	HK$'000	*HK$'000*
Within 30 days	**122,684**	280,280
Between 31 and 90 days	**8,841**	4,987
Between 91 and 180 days	**4,463**	7,112
Between 181 and 365 days	**260,483**	85,916
Over 1 year	**66,160**	115,373
	462,631	493,668

Included in the Group's other receivables at 30 June 2013 are dividend receivable from a joint venture of HK$12,381,000 (31.12.2012: HK$12,231,000), dividend receivables from associates of HK$11,450,000 (31.12.2012: HK$16,480,000), deposits paid for purchase of inventories for subsidiaries in the PRC of HK$170,790,000 (31.12.2012: HK$88,820,000), VAT recoverable of HK$83,585,000 (31.12.2012: HK$82,714,000) and bills receivables of HK$131,818,000 (31.12.2012: HK$48,032,000) in relation to the settlement of trade receivables. All bills receivable of the Group are aged within 180 days (31.12.2012: 90 days).

11. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$468,599,000 (31.12.2012: HK$419,898,000). The following is an ageing analysis of trade payables based on the invoice dates at the end of each reporting period:

	30.6.2013	31.12.2012
	HK$'000	*HK$'000*
Within 30 days	**138,268**	125,720
Between 31 and 90 days	**95,034**	159,941
Between 91 and 180 days	**151,506**	23,540
Between 181 and 365 days	**25,965**	71,541
Over 1 year	**57,826**	39,156
	468,599	419,898

Included in the Group's other payables at 30 June 2013 are accrual for construction work of HK$6,065,000 (31.12.2012: HK$6,341,000), receipt in advance from customers of HK$52,425,000 (31.12.2012: HK$9,548,000), project guarantee deposits of HK$2,511,000 (31.12.2012: HK$6,166,000), accrued transportation cost of HK$4,342,000 (31.12.2012: HK$3,730,000), office rental payable of HK$4,357,000 (31.12.2012: HK$4,280,000) and bills payables aged within 180 days of HK$6,769,000 (31.12.2012: HK$30,139,000). Dividend payable to non-controlling interests of a subsidiary of HK$3,996,000 at 31 December 2012 was settled during the current period.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS SUMMARY

As of 30 June 2013, the Group's turnover for the first half of 2013 amounted to HK$282.61 million as compared to that of 2012 of HK$248.06 million, representing HK$34.55 million, or 14%, increase in turnover; the profit attributable to the Company's owners for the period amounted to HK$9.72 million as compared to that of 2012 of HK$39.60 million; the profit for the period attributable to the Company's owners decreased by 75%, but the profit attributable to the Company's owners for the period was slightly increased if excluding non-recurring gains on disposals of assets (HK$3.63 million incurred in the first half of 2013, HK$33.99 million incurred in the same period of 2012). The turnover for the period comprised sale of wind energy related products of HK$165.44 million, sale of electricity generated from wind farm of HK$15.67 million, sale of rare-earth permanent magnet motor products of HK$23.51 million, sale of chemical materials of HK$63.70 million and sales of HK$14.29 million related to telecommunication business whereas that of the same period last year comprised sale of wind energy related products of HK$128.43 million, sale of electricity generated from wind farm of HK$15.83 million, sale of rare-earth permanent magnet motor products of HK$14.56 million, sale of chemical materials of HK$73.53 million and sales of HK$15.71 million related to telecommunication business.

BUSINESS REVIEW

Business of Wind Energy

In 2013, the directdrive wind turbine developed by the Group with proprietary intellectual property rights participated in fierce competition in the domestic market which is currently a buyers' market, and was highly recognized by wind farm developers within the industry for its simple structure, high reliability, high efficiency and low operation and maintenance costs. The Group continued to give full play to the advantages of technology, quality and service of CASC directdrive wind turbines. On this basis, the Group capitalised on its products' leading edge and achieved cost control by adopting the strategy of technology enhancement and batch production through research and development, thereby achieving high supply chain performance and enhanced cost effectiveness to proactively address challenges. Through Inner Mongolia Wind Turbine General Assembling Plant, and Gansu Wind Turbine General Assembling Plant, the Group realized mass production of a number of self-developed models (especially 1.5MW excitation magnetic directdrive wind turbine, 2MW permanent magnet directdrive wind turbine and 2MW excitation magnetic directdrive wind turbine), and adopted the strategy of establishing good relationship with several provincial and autonomous regions' governments to gain their supports and leveraging on provincial and autonomous regions' quotas for wind energy to obtain more wind resources in seeking more production orders for wind turbines, thereby increasing our market share. At present, the Group has considerable wind energy resources in various major wind power bases planned by the State, including Wulatehouqi in Inner Mongolia, Jiuquan City and Wuwei City in Gansu, Ningde City in Fujian, Tieling City in Liaoning, Suihua City in Heilongjiang and Tangshan City in Hebei, effective pushing sales of wind turbines and bringing in promising income to the Group continually.

In 2013, the marketing strategy was adjusted. The Group's wind power operations were expanding gradually in scale, while the industrial layout tended to rationalise, with gradual improvements in technology and product series, and performance of products was gradually stabilized. Under such new trends, the strategy of "walking on two legs" was implemented, while exchanging resources for orders, developing and maintaining key areas and key customers, we also participated in market competition on a large scale to expand the sales regions and increase our sales efforts.

The Group had formulated market development strategies for key regions and key customers. As of to date, in terms of customers, the Group has established more stable and secure business relationship with large power companies such as Huadian, Guodian and Datang all of which have become our key customers. In terms of sales regions, the Group has made substantial progress in the key regions of Inner Mongolia, Gansu and Liaoning, paving a solid foundation for future developments.

Since the directdrive wind turbines are characterized by gearless drive, the use of low-speed large-torque generators, full-power convertor and strong resistance to grid voltage fluctuations, their advantages include low wear and tear, high efficiency of electricity generation, small size, light weight, easy to maintain and low operating cost when compared with the traditional wind turbines. As such, the directdrive wind turbines, in particular, the 1.5MW and 2MW excitation magnetic directdrive wind turbines being launched mainly by the Group have visible optimism in the market. In addition, the AC-DC-AC total inverter grid-connection technology employed by directdrive wind turbines can meet the standards under the "Design regulations for grid-connection technology of large-scale wind farms" issued by National Energy Administration in 2011, which provided a series of requirements such as low-voltage ride-through, grid compatibility and power test, bringing rare opportunities to the Group's wind turbine business.

In 2013, the Group is producing 70 sets of 140,000KW 2MW excitation magnetic directdrive wind turbine which are to be delivered in this year and 50 sets of 100,000KW 2MW excitation magnetic directdrive wind turbine to be delivered in the first quarter of next year, including the sales contract for 200,000KW 2MW excitation magnetic wind turbines in Yumen City, Gansu, with Huadian New Energy and the sales contract for 40,000KW 2MW excitation magnetic wind turbines in Xiapu City, Fujian, with Energine Min Jian. In addition, the Group entered into a sales contract for 150 sets of 1.5MW wind turbines in the first half of this year. The wind turbines are being produced, expecting to be delivered in the second half of this year.

In April 2013, the Group, according to strategy of focusing on our Group's main products of 1.5MW and 2MW excitation directdrive wind turbines, reduced resources on development and production of 2MW double-fed wind turbines in reducing appointing 1 director to the board of Suzhou Energine Tepu Wind Energy Technology Co. Ltd. ("Suzhou Tepu"), a 41.28% equity subsidiary to appointing 2 directors, being less than half of the 5-director board. The Group therefore lost its control over Suzhou Tepu. Suzhou Tepu accordingly became an associate of the Group.

Research and Development of Technology

In early 2013, the research on storage technology was established as a project, researching graphene extraction technology in an effort to realize batch production of high-quality graphene and high-performance energy storage battery pack leveraging on their proprietary. Graphene, a kind of new material with singular flake structure composed of carbon atoms, is one of the best conductive materials in the world. The anode material of lithium ion battery made by graphene is able to significantly increase the energy storage capacity and shorten charging time of the battery, thus effectively resolving the bottleneck problem of applying lead-acid battery and traditional lithium ion battery to electric vehicles. The energy storage device of graphene is characterized by extra-long recycling life and high current during the process of charging and discharging, therefore there is huge market room of graphene-based new battery anode material and super capacitor under the research and development. In the meantime, the Company's Research and Development Centre has achieved a breakthrough progress on research and development area relating to energy storage system integration and intelligent power grip, enabling us to obtain market orders shortly in September to October this year.

During the same period, research and development on the 3MW permanent-magnet directdrive wind turbines commenced officially. Currently, the technical development route and concept design plan for the 3MW permanent-magnet wind turbines have been ascertained, and organizing preliminary survey and research on the ancillary market for wind turbine components has been completed.

In June, technical solutions regarding the research and development as well as localisation of production of the 2MW excitation magnetic wind turbine control system have been ascertained, and the design, production and commissioning of the control system prototype hardware for localisation have been initially completed, which will reduce the procurement costs of wind turbines effectively.

In the first half of the year, the Group had put forth improvement and optimization plans for 2MW excitation magnetic wind turbines in tackling low wind speed conditions, the theoretical model of the improved turbine prototype was completed and the adaptability design of the 2MW wind turbine for low wind speed commenced officially.

In the first half of the year, the Group's telecommunication business, as encouraged by China's state policies, invested funds in the research and development of Beidou GPS terminal technology.

Production Management

In 2013, the Group proceeded cost control rigorously with strengthening analyses of wind turbine costs and further reduction of purchasing costs of wind turbines in striving to realize the reduction of the purchasing cost of the localised control systems by no less than 15%. The supply chain relating to wind turbine components were further improved with system on conducting appraisals and dynamic assessments of eligible suppliers, establishing management structure on eligible suppliers.

Trading of Materials

In 2013, Beijing Energine continued the trading business of chemical raw materials.

Wind Farm Operations

The Group's wind farm operations comprise a wind farm controlled and operated by the Group: the CASC Long Yuan (Benxi) wind farm of Liaoning Benxi, installed with 29 sets of 850KW wind turbines with a capacity of 24,650KW; three wind farms invested and constructed by the Group: the Jilin Tongyu wind farm of Jilin Longyuan, installed with 236 sets of 850KW wind turbines with a capacity of 200,000KW; the Jiangsu Rudong wind farm of Jiangsu Longyuan, installed with 100 sets of 1.5MW wind turbines with a capacity of 150,000KW and the Datang Wanyuan Xinghe wind farm of Inner Mongolia Xinghe, installed with 55 sets of 900KW directdrive wind turbines with a capacity of 49,500KW.

In addition, Energine Min Jian New Energy Investment Co., Ltd., the Group's associated company, formally engaging in offshore and land wind power projects in eastern Fujian through its subsidiary, Yingkou Wind Power Generation Co., Ltd., secured market orders for the Group for the purchase of 2MW directdrive wind turbine models produced by the Group.

Business of New Materials

Jiangsu Aerospace Wan Yuan REPM Motor Co., Ltd., controlled and operated by the Group, is a high-tech enterprise which specializes in the research and development, manufacture, and sales of rare-earth permanent-magnet gearless traction machines for elevators. The "航天萬源" branded rare-earth permanent-magnet gearless traction machines and its driving control system researched and developed by the company itself had filled the technological gap of the domestic gearless elevator sector.

Wuxi CASC Energine Xindali Electricity Co., Ltd. ("Wuxi Generator Plant"), the Group's associated company, is engaged in batch production of 900KW and 1.5MW generators. Its self-developed 1.5MW excitation magnetic directdrive wind power generator, with application of many new technologies, was awarded the First Prize of Outstanding Contribution to Science and Technology Progress in 2011 by CALT. Therefore, the Group is equipped with the internal capacity to supply core parts and components of wind turbines, including blades and generators, thereby reducing its reliance on upstream suppliers of the wind turbine supply chain for purchasing generators and controlling the supply risk of the wind turbine supply chain and production cost.

Business of Automotive Component Parts

Automotive engine management systems

Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd, a joint venture, is a leading supplier in the domestic automotive electronic fuel injection market with a stable market share, ranking the second nationwide and supplies to almost all major domestic automobile manufacturers. As for export sales, its products are sold to automobile manufacturers in Europe and North America.

The joint venture recorded sales revenue of HK$1,751.34 million in the first half of 2013, representing an increase of HK$97.59 million period-on-period. Its sales expansion and costs reduction were successfully achieved.

Automotive sealing systems

Beijing Wanyuan-Henniges Sealing Systems Co., Ltd., a joint venture, is a company specializing in manufacturing of medium-to-high class automotive sealing products in the domestic market. Its quality control standards are on par with the international advanced level. The joint venture not only realized the development and ancillary items to the medium-to-high class models in the domestic market, but also attained the system standards applicable to Germany, France, United States, Japan and South Korea with its products.

The joint venture recorded sales revenue of HK$523.67 million in the first half of 2013, representing an increase of HK$189.87 million period-on-period.

PROSPECTS

Looking ahead, the Group will continue to improve the progress in domestic production of wind turbines, focus on the development of 3MW and 5MW wind turbines in line with the Twelfth Five-year Plan to capture the future market share of wind turbines and increase cooperation opportunities with other large-scale power generation groups, primarily develop new markets of graphene energy storage technology devices, refine the batch production of rare-earth motors and secure financing for the Group. We will further expand the scale of energy conservation and environmental protection business as well as strengthen our internal management to ensure the sustainable development of the Group and create greater benefits for shareholders in wealth and good reputation.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2013, the Group had 34 employees (31 December 2012: 33 employees) in the Hong Kong head office and 658 employees (31 December 2012: 674 employees) in the Mainland China offices. Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The Group also provides Mandatory Provident Fund and medical insurance to its employees. In addition, discretionary performance bonus is available at the discretion of the Directors.

FINANCIAL REVIEW

Liquidity and Financial Resources

Total borrowings of the Group as at 30 June 2013 were HK$1,795,107,000 (31 December 2012: HK$1,836,702,000), of which HK$71,295,000 (31 December 2012: HK$530,048,000) was floating-rate borrowing and the remaining was fixed-rate borrowing. All borrowings of the Group were determined at market interest rate. The Group has not issued any financial instruments for hedging or other purposes.

Gearing ratio (total borrowings to shareholders' equity) as at 30 June 2013 was 98% (31 December 2012: 103%).

Exchange and Other Exposures

Most of the Group's business transactions were conducted in Renminbi, Hong Kong dollars and United States dollars. The Group expected that the exposure to exchange rate fluctuation was not significant and therefore has not engaged in any hedging activities.

Contingent Liabilities

As at 30 June 2013, the Group issued guarantees to banks in respect of banking facilities with amounts of HK$22,979,000 (31 December 2012: HK$22,573,000) and HK$25,108,000 (31 December 2012: HK$24,665,000) granted to a third party and an associate respectively, of which HK$25,108,000 (31 December 2012: HK$24,665,000) has been utilised.

CORPORATE GOVERNANCE

Code on Corporate Governance Practices

The Group has complied with all principles as set out in the Code on Corporate Governance Practices in Appendix 14 of the Listing Rules (the "Code") applicable to the Group in respect of the six-month period ended 30 June 2013 under review, and complied with the relevant code provisions in the Code throughout the period, with the exception of one deviation from the Code Provision A.4.1 of the Code which stipulates that Non-executive Directors should be appointed for a specific term subject to re-election.

All of the Non-executive Directors of the Company are not appointed for a specific term, except that Independent Non-executive Directors are of a specific term of 3 years, but are subject to retirement and rotation and re-election at the Company's Annual General Meeting in accordance with the retirement provisions under the Articles of Association of the Company. The Company considers that sufficient measures have been taken in this regard to ensure that the Group's corporate governance practices are no less exacting than those in the Code.

Model Code for Securities Transactions by Directors

Throughout the six-month period ended 30 June 2013, the Group has adopted the Model Code for Securities Transactions by Directors of Listed issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Group by the Directors. Having made specific enquiry, all the Directors confirmed that they have complied with the Model Code.

Independent Non-executive Directors

Throughout the six-month period ended 30 June 2013, the Board at all times met the requirements of the Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules in appointment of a sufficient number of three Independent Non-executive Directors, representing one-third of the Board, one of whom has appropriate professional qualifications, accounting and financial management expertise.

The appointment of Independent Non-executive Directors adheres to the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules. The Group has received in writing confirmations of their independence from each of the Independent Non-executive Director and considers them to be independent of the management and free of any relationship that could materially interfere with the exercise of their independent judgment. The Board considers that each of the Non-executive Director and Independent Non-executive Director brings his own relevant expertise to the Board.

Audit Committee

The Audit Committee of the Company set up comprises all of three Independent Non-executive Directors, Ms. Kan Lai Kuen, Alice, Mr. Wang Dechen and Mr. Gordon Ng and a Non-executive Director, Mr. Fang Shili. The principal duties of the Audit Committee include the review of the Company's financial reporting procedure, internal controls and results of the Group. The unaudited condensed consolidated interim financial statements have been reviewed by the Audit Committee and Deloitte Touche Tohmatsu, the external auditor of the Company.

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

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

By Order of the Board
Han Shuwang
Chairman

Hong Kong, 28 August 2013

As at the date hereof, the Board of the Company comprises Mr. Han Shuwang (Chairman), Mr. Wang Xiaodong (Vice-chairman), Mr. Li Guang and Mr. Wang Lijun as Executive Directors, Mr. Fang Shili and Ms. Zhang Jianhua as Non-executive Directors and Mr. Wang Dechen, Ms. Kan Lai Kuen, Alice and Mr. Gordon Ng as Independent Non-executive Directors.

* *for identification purpose only.*