



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)



INTERIM REPORT
2017

* For identification purpose only

CONTENTS

	Page
Corporate Information	2
Financial Highlights	4
Management Discussion and Analysis	5
Corporate Governance and Other Information	19
Interim Condensed Consolidated Financial Statements	
– Interim Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	24
– Interim Condensed Consolidated Statement of Financial Position	26
– Interim Condensed Consolidated Statement of Changes in Equity	28
– Interim Condensed Consolidated Statement of Cash Flows	30
– Notes to the Interim Condensed Consolidated Financial Statements	32

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Yongdao

Mr. Gou Jianhui

Mr. Wang Zhengbing

Mr. Zhou Zhijin

Mr. Hu Jichun (*Chief Executive Officer*)

Ms. Zheng Qing

Non-executive Directors

Mr. Hu Yueming (*Chairman*)

Mr. Yuen Chi Ping

Independent non-executive Directors

Dr. Chan Yau Ching, Bob

Ms. Jiang Jianhua

Mr. Jiang Xihe

Mr. Nathan Yu Li

AUDIT COMMITTEE

Mr. Jiang Xihe (*Chairman*)

Dr. Chan Yau Ching, Bob

Mr. Nathan Yu Li

REMUNERATION COMMITTEE

Dr. Chan Yau Ching, Bob (*Chairman*)

Mr. Jiang Xihe

Mr. Chen Yongdao

NOMINATION COMMITTEE

Mr. Hu Yueming (*Chairman*)

Mr. Jiang Xihe

Mr. Nathan Yu Li

REGISTERED OFFICE

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103 South Church Street

George Town

Grand Cayman KY1-1002

Cayman Islands

AUDITOR

Ernst & Young

LEGAL ADVISER

Li & Partners

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1302

13th Floor

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No.262 Gloucester Road

Causeway Bay

Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited

3rd Floor, Royal Bank House

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P.O. Box 1586

Grand Cayman KY1-1110

Cayman Islands

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Mr. Hu Yueming
Mr. Lui Wing Hong, Edward

PRINCIPAL BANKERS

China Construction Bank
ICBC
China Minsheng Bank
China Merchants Bank
SPD Bank
Citibank
Australia and New Zealand Bank
BNP Paribas

WEBSITE

www.chste.com

PLACE OF LISTING

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

FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2017 RMB' 000 (Unaudited)	Six months ended 30 June 2016 RMB' 000 (Unaudited and restated)	Change
Continuing operations			
Revenue	3,812,217	4,379,200	-12.9%
Gross profit	1,193,744	1,545,036	-22.7%
Continuing operations and discontinued operations			
Profit for the period attributable to the owners of the Company	586,695	575,843	1.9%
Basic earnings per share (RMB)	0.359	0.352	2.0%
	30 June 2017 RMB' 000 (Unaudited)	31 December 2016 RMB' 000 (Audited)	Change
Total assets	27,502,879	26,295,600	4.6%
Total liabilities	16,114,078	15,055,252	7.0%
Net assets	11,388,801	11,240,348	1.3%
Net assets per share (RMB)	7.0	6.9	1.4%
Gearing ratio* (%)	58.6	57.3	1.3 percentage points

* Gearing ratio = total liabilities/total assets

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

China High Speed Transmission Equipment Group Co., Ltd. (the “Company”) and its subsidiaries (the “Group”) is principally engaged in research, design, development, manufacture and distribution of various types of mechanical transmission equipment for a broad range of applications in wind power generation and industrial use. During the six months ended 30 June 2017 (the “Period under Review”), the Group recorded sales revenue from its continuing operations of approximately RMB3,812,217,000 (30 June 2016: RMB4,379,200,000), representing a decrease of approximately 12.9% as compared with the corresponding period of 2016, and the gross profit margin was approximately 31.3% (30 June 2016: 35.3%). Profit attributable to the owners of the Company from continuing and discontinued operations was approximately RMB586,695,000 (30 June 2016: RMB575,843,000), representing an increase of 1.9% as compared with the corresponding period of 2016, and basic earnings per share were RMB0.359 (30 June 2016: RMB0.352), representing an increase of 2.0% as compared with the corresponding period of 2016.

Principal businesses review

1. Gear segment

(i) *Wind gear transmission equipment*

Diversified, large-scale and overseas development

The wind gear transmission equipment is a major product that has been developed by the Group. During the Period under Review, sales revenue of wind gear transmission equipment business decreased by approximately 16.9% to approximately RMB3,208,896,000 (30 June 2016: RMB3,863,558,000) as compared with the corresponding period last year. The decrease in revenue was mainly due to the fact that wind power industry is still in a state of callback and downstream customers are cautious about the new installed capacity during the Period under Review.

The Group is a leading supplier of wind gear transmission equipment in the PRC. By leveraging its strong research, design and development capabilities, the Group has a range of products including 750KW, 1.5MW, 2MW and 3MW wind power transmission equipment which have been provided to domestic and overseas customers in bulk. The product technology has reached an internationally advanced technical level and is well recognised by customers in general. In addition to the provision of diversified large wind power gear boxes to customers, the Group has also successfully developed 5MW and 6MW wind power gear box with a technological level comparable to its international peers, thus enabling us to have the capability and technology to produce those products.

MANAGEMENT DISCUSSION AND ANALYSIS

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 Renewable Energy, Nordex, Senvion, Unison, Suzlon, Inox Wind, etc. With our quality products and good services, the Group has also received a wide range of recognition and trust from customers at home and abroad. The Group has wholly-owned subsidiaries in the USA, Germany, Singapore, Canada and India to support the sustainable development strategy of the Group and strive to have closer communication and discussion with potential overseas customers, and has newly set up a wholly-owned subsidiary in Vietnam to grasp opportunities in the emerging market, with a view to providing further diversified services for global customers.

(ii) Industrial gear transmission equipment

Enhance market competitiveness through changes in production mode and sales strategies

The Group's traditional gear transmission equipment products are mainly supplied to customers in industries such as metallurgy, construction materials, traffic, transportation, petrochemical, aerospace and mining.

The equipment industry in the PRC remained in overcapacity during the Period under Review, the Group therefore adjusted the development strategy for traditional industrial gear transmission equipment. Above all, by leveraging its self-developed technologies, the Group focused on the development of energy-saving and environmentally-friendly products, and facilitated sales growth by standardizing and modularizing its products. Meanwhile, the Group strengthened its efforts to provide and sell parts and components of relevant products to its customers, helping them enhance their current production efficiency without increasing capital expenditure, thereby maintaining its position as a major supplier in the traditional industrial transmission product market.

In respect of transmission equipment for high-speed rails, metro lines, urban train and tram segments, the Group has obtained 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. Currently the products have been successfully applied to rail transportation transmission equipment in Beijing, Shanghai, Shenzhen, Nanjing, Qingdao, Dalian, Suzhou, Lanzhou, Nanchang, Shijiazhuang, Fuzhou, Jinan, Wenzhou, Hong Kong, Singapore, Brazil, India, Mexico and Australia. The Group will continue to actively extend the transmission equipment business into high-speed rails, metro lines, urban train and tram segments, and accelerate the research and development of rail transportation gear equipment products. During the Period under Review, the Group has received orders of 1,040 gear boxes for High Capacity Metro Trains (HCMT) in Melbourne, Australia. Last year, the Group also received orders of metro gear boxes for North West Rail Link (NWRL) in Sydney, Australia.

MANAGEMENT DISCUSSION AND ANALYSIS

The metro gear box that used in the metro of Shanghai, Hong Kong and Melbourne is PDM385 type two-stage metro gear box, which was developed by the Group on the basis of the assimilation of domestic and foreign standards and customer specifications and several years' experience in design and manufacturing. PDM385 type two-stage metro gear box is characterized by its compacted structure, low noise, and easy maintenance, etc. With a 1.2 million km, or 10-year maintenance-free life span, the key components can endure for a period of 35 years.

During the Period under Review, the industrial gear business segment generated sales revenue of approximately RMB525,783,000 for the Group (30 June 2016: RMB399,731,000), representing an increase of 31.5% as compared with the corresponding period last year.

2. 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. The Group intends to take the opportunity to develop heavy, precise and efficient machine tool products to provide advanced machine tools for the equipment manufacturing industry.

During the Period under Review, the equipment industry continued to see oversupply. As a result, the machine tool products business of the Group faced difficulties.

During the Period under Review, the Group provided CNC machine tool products to customers through various subsidiaries and recorded sales revenue of approximately RMB25,309,000 (30 June 2016: RMB49,096,000), representing a decrease of 48.4% as compared with the corresponding period last year.

3. Diesel engine products

In order to optimise the application of marine transmission equipment, the Group acquired Nantong Diesel Engine Co., Ltd. (“Nantong Diesel”) in 2011, which is located in Nantong city of Jiangsu province that lies in the developed Yangtze delta area.

The products of Nantong Diesel cover a wide range of models, including marine diesel engines, diesel engines for power generation and gas engines. Its products are widely used in fishing vessels, inland river vessels, generating units, engineering machinery, agricultural irrigation and drainage facilities, air compression equipment and other ancillary machines.

Nantong Diesel 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”.

MANAGEMENT DISCUSSION AND ANALYSIS

Recovery in shipping industry was faltered because the global economy remained uncertain. As such, the sales of the Group's diesel engine products were also affected.

During the Period under Review, the Group's sales revenue from diesel engines products amounted to approximately RMB52,229,000 (30 June 2016: RMB66,815,000), representing a decrease of 21.8% as compared with the corresponding period last year.

4. Discontinued operations

During the Period under Review, the Group continued its strategy to divest the loss-making business to enhance its overall performance. The marine gear transmission equipment business was sold to two independent third parties on 27 February 2017 and 18 April 2017 respectively, and the LED product business was sold to an independent third party on 20 April 2017. Details of results and gains on disposal of the discontinued businesses are set out in notes 18 and 19 to the condensed consolidated financial statements respectively.

Marine gear transmission equipment

During the period from 1 January 2017 to the date of disposal, marine gear transmission equipment recorded sales revenue of approximately RMB23,573,000 (six months ended 30 June 2016: RMB100,707,000) and the business recorded operating loss (after tax) of RMB16,013,000 (six months ended 30 June 2016: RMB35,501,000). During the Period under Review, gain on disposal of this discontinued operation (after tax) was approximately RMB64,134,000.

LED products

Nanjing Jingjing Photoelectric Science & Technology Co., Ltd.* (南京京晶光电科技有限公司) is principally engaged in the sales, manufacturing and design of digital products, transistor, chips and LED products. During the period from 1 January 2017 to the date of disposal, the business recorded sales revenue of approximately RMB58,417,000 (six months ended 30 June 2016: RMB52,547,000) and operating loss (after tax) of RMB12,958,000 (six months ended 30 June 2016: RMB53,713,000). During the Period under Review, gain on disposal of this discontinued business (after tax) was approximately RMB60,421,000. Further details are set out in the announcement on discloseable transaction of the Company dated 27 April 2017.

* for identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS

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 RMB1,525,736,000 (30 June 2016: RMB1,566,910,000), representing a decrease of 2.6% as compared with the corresponding period last year. Overseas sales accounted for 40.0% of total sales (30 June 2016: 35.8%), representing an increase of 4.2 percentage points over the corresponding period last year. At present, the overseas customers of the Group are based mainly in the U.S. and other countries and regions such as Europe, India and Japan. 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 markets.

PATENTED PROJECTS

The business of the Group has high entry barriers and requires specific technical know-how. The Group enhances corporate growth by introducing new products and new technology. Various new products have made their debuts in the domestic market under the Group's on-going innovation of products and technology. Leveraging its advanced technology and premium quality, the Group has obtained over 100 national, provincial and municipal technology advancement awards, outstanding new products awards, certification for new products, certification for high and new tech products and certification of high and new tech enterprise. As of 30 June 2017, a total of 249 patents were granted by the PRC. In addition, 52 patent applications have been submitted and pending for approval. The Group was the first producer to adopt ISO1328 and ISO06336 international standards. It was nominated as an enterprise for the 863 State Plan and a Computer Integrated Manufacturing System (CIMS) Application Model Enterprise by the Ministry of Science and Technology of the PRC. Until now, the Company has successively passed ISO9001:2008 Quality Management System Certification, ISO14001:2004 Environmental Management System Certification and GB/T28001-2001 Occupational Health and Safety Management System Certification. The wind power products manufactured by Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed"), a wholly-owned subsidiary of the Company, have obtained certifications from China Classification Society (CCS), China General Certification Center (CGC), Technischer Überwachungs-Verein (TUV), Det Norske Veritas - Germanischer Lloyd (DNVGL) and DEWI-OCC Offshore and Certification Centre (DEWI-OCC) in Germany, CE and ETL. Its rail transportation products have obtained certifications from International Railway Industry Standard (IRIS).



MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Looking back to the first half of 2017, as for international market, the global economy continued to improve. The overall stable recovery presented in the developed economies, with general economic recovery in the USA, the Eurozone and Japan. The USA entered into recovery track earlier among the developed economies, its labor market is currently close to full employment status, and its personal consumption spending which accounts for about 70% of its economy experienced strong growth. Although the growth momentum of the Eurozone economy was weaker than the USA, its growth rate has been restored to the pre-global financial crisis level, which was the best performance for nearly a decade. In emerging economies, due to continuous optimization of economic structure, China's economy grew by 6.9% in the first quarter of 2017, up 0.2 percentage points over the corresponding period last year, with the main economic indicators better than expected, and continued to lead the growth in the global economy.

In the period of the 13th Five-Year Plan, the PRC actively promoted the development of renewable energy through the energy structure reform policy. Regardless of the formulation of "Energy 13th Five-Year" policy or the issue of "Green Power Certificate", the energy structure was gradually moving towards renewable energy. Under the guidance of the policies of the national ministries and commissions, various regions have actively promoted the consumption work of new energy such as wind power, and the problem of the wind power curtailment has been alleviated. The wind power industry is moving towards the stage of emphasis on both efficiency and quality.

In the first half of 2017, the Group followed the wind power development strategy of the PRC and continued to supply quality wind gear transmission equipment to customers, actively facilitated research and development of wind power transmission equipment and optimized the production technical process to strengthen the development of wind power equipment business. The Group continued to lead domestic wind power equipment industry by focusing on customers' need, keeping up with market demand, and optimizing product mix and enhancing cost control to sharpen its core competitive edge.

In order to follow the national development wave of wind power, as the world's leading manufacturer of wind power transmission equipment, the Group not only provided customers with large-scale wind power gear boxes, but also further optimized 5MW and 6MW wind power gear box transmission equipment. Our product technology standards have been in sync with international competitors, and the Group launched the main gear box and pitch and yaw driven series product platform – NGC StanGear for the first time in the world, and introduced wind power gear box status monitoring system to lead the industry development.



MANAGEMENT DISCUSSION AND ANALYSIS

Meanwhile, with our quality products and good services, the Group has received a wide range of recognition and trust from customers at home and abroad, and established good cooperation with renowned domestic and international wind turbine manufacturers, including GE Renewable Energy, Nordex, Senvion, Unison, Suzlon, Inox Wind, Guodian United (國電聯合), Guangdong Mingyang (廣東明陽), Windey (運達風電), Shanghai Electric (上海電氣), Envision Energy (遠景能源), Dongfang Electric (東方電氣) and Goldwind (金風科技). The Group has wholly-owned subsidiaries in the USA, Germany, Singapore, Canada and India to support the sustainable development strategy of the Group and strive to have closer communication and discussion with potential overseas customers, and has newly set up a wholly-owned subsidiary in Vietnam to grasp opportunities in the emerging market, with a view to providing further diversified services for global customers.

With the large-scale development and utilization of the onshore quality wind resources, the countries around the world have to eye on the offshore wind power market. In the face of the huge development potential of the market, the Group actively undertakes the key technology research and development of 7MW grade wind power gear box and mainshaft bearing industrialization in the national science and technology support project, and has mastered core design methods for light weight, modularization and serialization of the high-power wind power gear box, developed several innovative technologies such as design, manufacturing and testing of high-power offshore wind power gear box transmission system and mainshaft bearing to expand production chain of the traditional industrial gear transmission equipment and seize market opportunities with an aim to maintain our position as a supplier of the most premium gears in the world.

Looking forward the second half of the year, the wind power industry was in the state of “seeking progress in stability”. According to the documents issued by the National Energy Administration, the planned construction scale of new projects will reach 25 million kilowatts in 2017 with the new installed capacity of 20 million kilowatts and acceleration of the development and utilization of offshore wind power will be required, this is evidenced by the PRC’s emphasis on the adjustment of energy structure. Meanwhile, the PRC has continuously stressed the optimization of distribution of wind power construction and development, and strictly control new on-grid projects in the areas with serious wind power curtailment and tried to optimize and rationalize the national wind power distribution from a macro perspective. The Group will continue to follow movements in the product market closely, adapt to the new form of economic development actively, enhance product quality and economies of scale, as well as to enlarge market shares in the international markets at the same time, boosting profitability of the Group’s core business to a new high level.

MANAGEMENT DISCUSSION AND ANALYSIS

INTERIM DIVIDEND

The board (the “Board”) of directors (the “Directors”) of the Company did not recommend payment of an interim dividend for the six months ended 30 June 2017.

FINANCIAL PERFORMANCE (CONTINUING OPERATIONS)

Sales revenue of the Group for the Period under Review decreased by 12.9% to approximately RMB3,812,217,000.

	Revenue		
	Six months ended 30 June		
	2017	2016	Change
	RMB' 000	RMB' 000	
Continuing operations			
Gear Segment	3,734,679	4,263,289	-12.4%
– Wind Gear Transmission Equipment	3,208,896	3,863,558	-16.9%
– Industrial Gear Transmission Equipment	525,783	399,731	31.5%
CNC Machine Tool Products	25,309	49,096	-48.4%
Diesel Engine Products	52,229	66,815	-21.8%
Total	3,812,217	4,379,200	-12.9%

Revenue

During the Period under Review, the Group’s sales revenue was approximately RMB3,812,217,000, representing a decrease of 12.9% as compared with the corresponding period last year. The decrease was mainly due to the slowdown of the overall growth rate of domestic wind power industry in 2017 and the adverse effect of the sluggish economic recovery to the Group’s certain business other than wind powers.

During the Period under Review, sales revenue from wind gear transmission equipment was approximately RMB3,208,896,000 (30 June 2016: RMB3,863,558,000), representing a decrease of 16.9% as compared with the corresponding period last year; sales revenue from industrial gear transmission equipment was approximately RMB525,783,000 (30 June 2016: RMB399,731,000), representing an increase of 31.5% as compared with the corresponding period last year. During the Period under Review, the Group’s sales revenue from CNC machine tool products and diesel engine products were approximately RMB25,309,000 and RMB52,229,000 (30 June 2016: RMB49,096,000 and RMB66,815,000), representing a decrease of 48.4% and 21.8% as compared with the corresponding period last year, respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Gross profit margin and gross profit

During the Period under Review, the Group's consolidated gross profit margin was approximately 31.3% (30 June 2016: 35.3%), representing a decrease of 4.0 percentage points as compared with the corresponding period last year. Consolidated gross profit for the Period under Review amounted to approximately RMB1,193,744,000 (30 June 2016: RMB1,545,036,000), representing a decrease of 22.7% as compared with the corresponding period last year. During the Period under Review, the decrease in consolidated gross profit margin was mainly due to the squeezing pressure derived from both lower prices in response to the costumers' demand and higher costs along the supply chain and the adjustment in our product portfolio. The decrease in consolidated gross profit was mainly due to the decrease in sales revenue and gross profit margin.

Other income and net gains

During the Period under Review, the Group's other income was approximately RMB85,717,000 (30 June 2016: RMB105,305,000), representing a decrease of 18.6% as compared with the corresponding period last year. Other income is mainly comprised of bank interest income, investment income and income from sales of scraps and material. The decrease was mainly due to the decrease in bank interest income.

During the Period under Review, other gains and losses recorded a net gain of approximately RMB162,096,000 (30 June 2016: RMB30,881,000), mainly comprised of a gain from land resumption.

Selling and distribution expenses

During the Period under Review, the Group's selling and distribution expenses were approximately RMB162,057,000 (30 June 2016: RMB128,210,000), representing an increase of 26.4% as compared with the corresponding period last year. Selling and distribution expenses mainly comprised of product packaging expenses, transportation expenses, staff costs and technical services fee. The percentage of selling and distribution expenses to sales revenue for the Period under Review was 4.3% (30 June 2016: 2.9%), representing an increase of 1.4 percentage points as compared with the corresponding period last year.

Administrative expenses

During the Period under Review, the Group's administrative expenses were approximately RMB323,566,000 (30 June 2016: RMB280,822,000), representing an increase of 15.2% as compared with the corresponding period last year, which was mainly due to the increase in professional fee and bank charges. The percentage of administrative expenses to sales revenue increased by 2.1 percentage points to 8.5% as compared with the corresponding period last year.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

During the Period under Review, the Group's finance costs were approximately RMB235,435,000 (30 June 2016: RMB270,998,000), representing a decrease of 13.1% as compared with the corresponding period last year, which was mainly due to the decrease in the average bank loan balance during the Period under Review.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2017, the equity attributable to owners of the Company amounted to approximately RMB11,228,660,000 (31 December 2016: RMB11,053,873,000). The Group had total assets of approximately RMB27,502,879,000 (31 December 2016: RMB26,295,600,000), representing an increase of 4.6% as compared with the beginning of the year. Total current assets were approximately RMB18,658,098,000 (31 December 2016: RMB17,381,918,000), representing an increase of 7.3% as compared with the beginning of the year and accounting for 67.8% of total assets (31 December 2016: 66.1%). Total non-current assets were approximately RMB8,844,781,000 (31 December 2016: RMB8,913,682,000), representing a decrease of 0.8% as compared with the beginning of the year and accounting for 32.2% of the total assets (31 December 2016: 33.9%).

As at 30 June 2017, total liabilities of the Group were approximately RMB16,114,078,000 (31 December 2016: RMB15,055,252,000), representing an increase of approximately RMB1,058,826,000, or 7.0%, as compared with the beginning of the year. Total current liabilities were approximately RMB14,360,468,000 (31 December 2016: RMB13,495,451,000), representing an increase of 6.4% as compared with the beginning of the year, whereas total non-current liabilities were approximately RMB1,753,610,000 (31 December 2016: RMB1,559,801,000), representing an increase of 12.4% as compared with the beginning of the year.

As at 30 June 2017, the net current assets of the Group were approximately RMB4,297,630,000 (31 December 2016: RMB3,886,467,000), representing an increase of approximately RMB411,163,000, or 10.6%, as compared with the beginning of the year.

As at 30 June 2017, total cash and bank balances of the Group were approximately RMB5,361,041,000 (31 December 2016: RMB5,485,418,000), representing a decrease of approximately RMB124,377,000, or 2.3%, as compared with the beginning of the year. Total cash and bank balances included pledged bank deposits of RMB3,214,341,000 (31 December 2016: pledged bank deposits of RMB2,531,395,000 and structured bank deposits of RMB209,000,000).

MANAGEMENT DISCUSSION AND ANALYSIS

As at 30 June 2017, the Group had total borrowings of approximately RMB6,752,205,000 (31 December 2016: RMB6,501,813,000), representing an increase of approximately RMB250,392,000, or 3.9%, as compared with the beginning of the year, of which borrowings within one year were RMB5,308,866,000 (31 December 2016: RMB5,273,847,000), accounting for approximately 78.6% (31 December 2016: 81.1%) of the total borrowings. The fixed or floating interest rates of the Group's borrowings for the Period under Review ranged from 1.05% to 9.77% per annum.

Taking into account the internal financial resources of and the banking facilities available to the Group, and the net current assets of RMB4,297,630,000, the Directors 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) increased from 57.3% as at 31 December 2016 to 58.6% as at 30 June 2017, mainly due to the increase in trade and bills payables, and bank and other borrowings.

Capital structure

The Group's operations were financed mainly by shareholders' equity, banking and other 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, Euro and U.S. dollars. The Group's bank borrowings denominated in Euro and U.S. dollars as at 30 June 2017 amounted to €29,785,000 and USD13,750,000 respectively.

During the Period under Review, the Group's borrowings with fixed interest rates accounted for approximately 86.1% of total borrowings.

PLEDGE OF ASSETS

Save as disclosed in note 21 to the condensed consolidated financial statements, the Group has made no further pledge of assets as at 30 June 2017.

CONTINGENT LIABILITIES

Save as disclosed in note 20 to the condensed consolidated financial statements, as at 30 June 2017, the Directors were not aware of any other material contingent liabilities.



MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENTS

As at 30 June 2017, the Group had capital commitments contracted for but not provided in the condensed consolidated financial statements in respect of acquisition of land and buildings, acquisition of plant and machinery, capital contribution payable to an investment fund and capital contribution payable to an associate of approximately RMB1,292,470,000 (31 December 2016: RMB423,853,000). Details are set out in note 22 to the condensed consolidated financial statements respectively.

FOREIGN EXCHANGE RISK

The Group's operations are mainly conducted in the PRC. With the exception of export sales and imported equipment which are transacted in U.S. dollars and Euro, the Group's domestic revenue and expenses are denominated in Renminbi. Therefore, the Board 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 Euro and U.S. dollars as at 30 June 2017 amounted to €29,785,000 (equivalent to approximately RMB231 million) and USD13,750,000 (equivalent to approximately RMB93 million). Therefore, the Group may be exposed to certain foreign exchange rate risks.

The net loss of foreign exchange recorded by the Group during the Period under Review was approximately RMB10,707,000 (30 June 2016: net gain of RMB33,269,000). The foreign exchange loss was primarily due to the appreciation of Renminbi against U.S. dollars during the Period under Review which resulted in a loss in export business transactions denominated in U.S. dollars. 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 2017.

INTEREST RATE RISK

During the Period under Review, the loans of the Group are mainly sourced from bank loans, medium-term notes and corporate bonds. 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.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2017, the Group employed approximately 6,956 employees (30 June 2016: 8,247 employees). Staff costs of the Group for the first half of 2017 amounted to approximately RMB517,874,000 (30 June 2016: RMB750,600,000). The costs included basic salaries, discretionary bonus and staff benefits such as medical and insurance plans, pension scheme, unemployment insurance plan, etc.

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

In determining the Directors' remuneration, the Group takes into consideration factors including but not limited to salaries paid by comparable companies, time commitment and responsibilities of the Directors, employment conditions elsewhere in the Group and desirability of performance-based remuneration.

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

The Group has adopted incentive programmes (including a share option scheme, which has expired on 8 June 2017) to encourage employee performance and a range of training programmes for the development of its staff.

PENSION SCHEME

The employees of the Group in Mainland China are members of state-managed pension scheme operated by the local government in China. The Group is required to contribute a specific percentage of their payroll costs to the pension scheme for the funding of the scheme. The sole responsibility of the Group in respect of this pension scheme is making specific contribution to this scheme. The Group also operates a Mandatory Provident Fund Scheme for all employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees.

MANAGEMENT DISCUSSION AND ANALYSIS

SIGNIFICANT INVESTMENT DURING THE PERIOD UNDER REVIEW

On 17 April 2017, Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd.* (南京高精傳動設備製造集團有限公司) (“Nanjing Drive”), a wholly owned subsidiary of the Company, entered into a limited partnership agreement with thirty-four other partners in respect of, among other matters, the establishment of an investment fund in the PRC and the subscription of interest therein the (“Limited Partnership Agreement”). Pursuant to the Limited Partnership Agreement, the total capital commitment to the investment fund is RMB65.91 billion, among which, RMB2 billion is to be contributed by Nanjing Drive as a limited partner. Details are set out in the Company’s announcement dated 18 April 2017 published on the Hong Kong Stock Exchange’s website (www.hkex.com.hk) and the Company’s website (www.chste.com).

Save as disclosed above and in note 12 to the condensed consolidated financial statements, there were no other significant investments held by the Group during the Period under Review.

MATERIAL ACQUISITION AND DISPOSAL

On 20 April 2017, Nanjing Drive entered into a sale and purchase agreement with Jiangsu Shiji Yuntong Technology Co., Ltd.* (江蘇世紀運通科技有限公司) to sell the entire equity interest of Nanjing Jingjing Photoelectric Science & Technology Co., Ltd.* (南京京晶光電科技有限公司) (the “Disposal Company”) at a consideration of RMB155,176,000 (the “Disposal”). The Disposal Company is a company incorporated in PRC with limited liability and is principally engaged in the sales, manufacturing and design of digital products, transistor, chips and LED products. The business of the Disposal Company is loss-making as a result of unfavourable market conditions in the relevant industry. The Disposal represents a continuation of the Group’s strategy to strip loss-making business, streamline its businesses and increase its overall performance and prospects. The Directors are of the view that the Disposal will enhance the cash position and working capital of the Group, and thus allow the Group to restructure its strategic business position and focus in pursuing the development of its core businesses.

Save as disclosed above, during the Period under Review, the Group had no material acquisition or disposal of subsidiaries and associated companies.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

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

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in note 26 to the condensed consolidated financial statements, the Group has no other significant event occurred subsequent to 30 June 2017.

* for identification purposes only

CORPORATE GOVERNANCE AND OTHER INFORMATION

CORPORATE GOVERNANCE

During the Period under Review, the Company has complied with the code provisions set out in the Corporate Governance Code (“Corporate Governance Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “Listing Rules”), except for the deviation from code provision A.6.7 which states that independent non-executive Directors and other non-executive Directors should attend general meetings of shareholders of the Company.

During the Period under Review, some of the executive Directors, non-executive Directors and independent non-executive Directors, chairman of the audit committee of the Company, and external auditors have attended the 2016 annual general meeting of the Company, except Mr. Hu Yueming (Chairman of the Board and non-executive Director and chairman of the nomination committee of the Company), Dr. Chan Yau Ching, Bob (independent non-executive Director and chairman of the remuneration committee of the Company) and Mr. Nathan Yu Li (independent non-executive Director), who were absent from the 2016 annual general meeting of the Company due to other important matters.

BOARD OF DIRECTORS

Mr. Chen Yongdao, Mr. Wang Zhengbing, Ms. Zheng Qing, Mr. Hu Yueming, Mr. Yuen Chi Ping, Dr. Chan Yau Ching, Bob, Ms. Jiang Jianhua and Mr. Nathan Yu Li were re-elected as Directors by shareholders at the 2016 annual general meeting of the Company held on 19 May 2017.

As at the date of this report, the members of the Board were as follows:

Executive Directors

Mr. Chen Yongdao

Mr. Gou Jianhui

Mr. Wang Zhengbing

Mr. Zhou Zhijin

Mr. Hu Jichun (*Chief Executive Officer*)

Ms. Zheng Qing

Non-executive Directors

Mr. Hu Yueming (*Chairman*)

Mr. Yuen Chi Ping

Independent non-executive Directors

Dr. Chan Yau Ching, Bob

Ms. Jiang Jianhua

Mr. Jiang Xihe

Mr. Nathan Yu Li

CORPORATE GOVERNANCE AND OTHER INFORMATION

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 contained 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 Period under Review. The Company will continue to ensure compliance with the Model Code.

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

In November 2014, the Company issued 8.3% bonds due 19 November 2017 of a total principal amount of RMB650,000,000 with a listing on the Hong Kong Stock Exchange (the “Bonds”). As at 31 December 2015 and 31 December 2016, the outstanding principals of the Bonds amounted to RMB264,630,000.

On 30 November 2016, the Company issued an announcement to holders of the Bonds in relation to the occurrence of a relevant event. The relevant event was the change of control occurred on the Company on 29 November 2016. After the occurrence of the relevant event, a holder of the Bonds will have the right, at the option of such holder of the Bonds, to require the Company to redeem all, but not some only, of such bondholder’s Bonds on 12 January 2017 at 101% of their principal amount together with accrued interest to 12 January 2017. As at 12 January 2017, the Company received valid put exercise notices from those holders of the Bonds holding such Bonds in the aggregate principal amount of RMB151,590,000 (the “Redeemed Bonds”). Settlement of the Redeemed Bonds (the “Redemption”) was completed on 12 January 2017 (i.e., the Put Settlement Date) and the Redeemed Bonds were canceled on the same date. The aggregate amount of consideration paid by the Company in relation to the Redemption was RMB154,898,000. Subsequent to the cancellation of the Redeemed Bonds on the Put Settlement Date, the principal amount of Bonds remains outstanding is RMB113,040,000, and such outstanding Bonds remain listed on the Hong Kong Stock Exchange.

Save as disclosed above, the Group has not purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2017.

AUDIT COMMITTEE

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

The audit committee comprises three members, namely Mr. Jiang Xihe, Dr. Chan Yau Ching, Bob and Mr. Nathan Yu Li, all of them are independent non-executive Directors. Mr. Jiang Xihe is the chairman of the audit committee.

The Group’s 2017 interim report and unaudited condensed consolidated financial statements for the six months ended 30 June 2017 have been reviewed by the audit committee. The audit committee considered that the financial statements are in compliance with the applicable accounting standards and legal requirements, and that adequate disclosures have been made.

CORPORATE GOVERNANCE AND OTHER INFORMATION

REMUNERATION COMMITTEE

The Company established the remuneration committee on 8 June 2007. The remuneration committee comprises three members, namely Dr. Chan Yau Ching, Bob, Mr. Jiang Xihe and Mr. Chen Yongdao, two of them are independent non-executive Directors. Dr. Chan Yau Ching, Bob, an independent non-executive Director, is the chairman of the remuneration committee.

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

NOMINATION COMMITTEE

The Company has established the nomination committee with effect from 1 April 2012. The nomination committee comprises three members, namely Mr. Hu Yueming, Mr. Jiang Xihe and Mr. Nathan Yu Li, majority of them are independent non-executive Directors. Mr. Hu Yueming, Chairman of the Board, is the chairman of the nomination committee.

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

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

As at 30 June 2017, none of the Directors or the chief executive of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance) which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the Securities and Futures Ordinance (including interests or short positions in which they were taken or deemed to have under such provisions of the Securities and Futures Ordinance) or which would be required, pursuant to Section 352 of the Securities and Futures Ordinance, to be recorded in the register referred to therein, or which would be required to be notified to the Company and the Hong Kong Stock Exchange, pursuant to the Model Code contained in the Listing Rules.

As at 30 June 2017, none of the Directors and the chief executive of the Company or any of their associates had any interest in the securities of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance). None of the Directors and the chief executive of the Company or their spouses or children under the age of 18 had any right to subscribe securities of the Company or had exercised any such right.

At no time during the Period under Review was the Company or its holding companies or any of its subsidiaries a party to any arrangements to enable the Directors or the chief executive of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

CORPORATE GOVERNANCE AND OTHER INFORMATION

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

As at 30 June 2017, the following persons (other than the Directors or the chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance or which would be required, pursuant to section 336 of the Securities and Futures Ordinance, to be entered in the register referred to therein:

Name	Nature of interests	Number of securities held	Approximate percentage of shareholding (%)
Five Seasons XVI Limited (Note)	Beneficial owner	1,208,577,693 (Long Position)	73.91 (Long Position)

Note: The issued share capital of Five Seasons XVI Limited, a company incorporated in the British Virgin Islands, is owned as to 100% by Fullshare Holdings Limited (Stock Code: 607 ("Fullshare"), a company incorporated in the Cayman Islands) while the issued share capital of Fullshare is owned as to 46.58% by Magnolia Wealth International Limited, a company incorporated in the British Virgin Islands, whose entire issued share capital is in turn beneficially owned by Mr. Ji Changqun. Glorious Time Holdings Limited, a company incorporated in the British Virgin Islands, is interested in 17,890,000 shares of the Company, representing approximately 1.09% of the entire issued share capital of the Company while the entire issued share capital of Glorious Time Holdings Limited is beneficially owned by Mr. Ji Changqun. Accordingly, Mr. Ji Changqun is interested in 1,226,467,693 shares of the Company, representing approximately 74.99% of the entire issued share capital of the Company.

Save as disclosed above and so far as the Directors are aware of, as at 30 June 2017, there was no other person, other than the Directors or the chief executive of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance, or which would be required, pursuant to section 336 of the Securities and Futures Ordinance, to be entered in the register referred to therein.

CORPORATE GOVERNANCE AND OTHER INFORMATION

SHARE OPTION SCHEME

The Company adopted a share option scheme on 8 June 2007 pursuant to the written resolutions of all shareholders of the Company, which has expired on 8 June 2017. The share option scheme is a share incentive scheme and is established to recognize and reward the eligible participants who have had or may have made contributions to the Group. The share option scheme will provide the eligible participants an opportunity to have a personal stake in the Company with the view to (i) motivating the eligible participants to optimize their performance and efficiency for the benefit of the Group; and (ii) attracting and retaining or otherwise maintaining on-going business relationships with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

Options granted must be taken up within 12 months from the date of grant, upon payment of HK\$1 per option. Options may be exercised at any time prior to the expiry of 10 years from the date of acceptance. The exercise price is determined by the Directors, and must be at least the higher of (i) the closing price of the Company's shares on the date of grant; (ii) the average closing price of the shares for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's share. Share options do not confer rights to the holders to receive dividends or vote at shareholder's meetings.

The share option scheme has expired on 8 June 2017. The Company did not grant any share option during the Period under Review. As at 30 June 2017, the Company had no outstanding share option.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Notes	For the six months ended 30 June	
		2017 (Unaudited) RMB' 000	2016 (Unaudited and restated) RMB' 000
Continuing operations			
Revenue	4	3,812,217	4,379,200
Cost of sales		(2,618,473)	(2,834,164)
Gross profit		1,193,744	1,545,036
Other income and net gains	4	247,813	136,186
Selling and distribution expenses		(162,057)	(128,210)
Administrative expenses		(323,566)	(280,822)
Research and development costs		(105,183)	(121,370)
Other expenses		(133,902)	(66,532)
Finance costs	6	(235,435)	(270,998)
Share of profits and losses of:			
Joint ventures		35,990	2,101
Associates		(6,924)	3,178
Profit before tax from continuing operations	5	510,480	818,569
Income tax expense	7	(44,831)	(178,337)
Profit for the period from continuing operations		465,649	640,232
Discontinued operations			
Profit/(loss) for the period from discontinued operations	18	95,584	(89,214)
Profit for the period		561,233	551,018

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME *(continued)*

For the six months ended 30 June 2017

	Note	For the six months ended 30 June	
		2017 (Unaudited) RMB' 000	2016 (Unaudited and restated) RMB' 000
Other comprehensive expense			
<i>Other comprehensive (expense)/income to be reclassified to profit or loss in subsequent periods:</i>			
Available-for-sale investments:			
Change in fair value		(106,895)	—
Income tax effect on change in fair value		26,723	—
		(80,172)	—
Exchange differences on translation of foreign operations		551	(396)
Other comprehensive expense for the period, net of tax		(79,621)	(396)
Total comprehensive income for the period		481,612	550,622
Profit/(loss) for the period attributable to:			
Owners of the Company		586,695	575,843
Non-controlling interests		(25,462)	(24,825)
		561,233	551,018
Total comprehensive income/(expense) for the period attributable to:			
Owners of the Company		507,199	575,447
Non-controlling interests		(25,587)	(24,825)
		481,612	550,622
Earnings per share attributable to ordinary equity holders of the Company:		RMB	RMB
Basic and diluted	9		
– For profit for the period		0.359	0.352
– For profit from continuing operations		0.300	0.405

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2017

	Notes	30 June 2017 (Unaudited) RMB' 000	31 December 2016 (Audited) RMB' 000
NON-CURRENT ASSETS			
Property, plant and equipment	10	4,495,527	5,111,201
Prepaid land lease payments	10	676,488	702,842
Goodwill		2,991	2,991
Other intangible assets		96,268	138,564
Interests in joint ventures		1,018,707	1,008,254
Interests in associates		134,846	142,187
Prepayment for acquisition of property, plant and equipment	14	3,332	3,332
Other receivable	11	69,707	551,524
Available-for-sale investments	12	1,982,692	870,090
Deposit for land lease		116,800	191,800
Deferred tax assets		247,423	190,897
Total non-current assets		8,844,781	8,913,682
CURRENT ASSETS			
Inventories		2,370,299	2,311,574
Prepaid land lease payments	10	15,373	16,250
Trade and bills receivables	13	6,495,532	6,964,944
Prepayments, deposits and other receivables	14	3,849,454	2,603,732
Tax prepaid		1,399	—
Available-for-sale investments	12	565,000	—
Structured bank deposits		—	209,000
Pledged bank deposits		3,214,341	2,531,395
Bank balances and cash		2,146,700	2,745,023
Total current assets		18,658,098	17,381,918

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 30 June 2017

	Notes	30 June 2017 (Unaudited) RMB' 000	31 December 2016 (Audited) RMB' 000
CURRENT LIABILITIES			
Trade and bills payables	15	7,284,153	6,570,740
Other payables and accruals	16	952,247	903,490
Receipts in advance and deposits received		539,331	418,698
Interest-bearing bank and other borrowings	17	5,308,866	5,273,847
Taxation payable		181,481	220,421
Finance lease payables		—	7,007
Warranty provision		94,390	101,248
Total current liabilities		14,360,468	13,495,451
NET CURRENT ASSETS		4,297,630	3,886,467
TOTAL ASSETS LESS CURRENT LIABILITIES		13,142,411	12,800,149
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	17	1,443,339	1,227,966
Deferred tax liabilities		227,013	238,095
Deferred income		83,258	93,740
Total non-current liabilities		1,753,610	1,559,801
Net assets		11,388,801	11,240,348
EQUITY			
Equity attributable to owners of the Company			
Share capital		119,218	119,218
Reserves		11,109,442	10,934,655
		11,228,660	11,053,873
Non-controlling interests		160,141	186,475
Total equity		11,388,801	11,240,348

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Notes	Attributable to owners of the Company											Total equity RMB' 000
		Share capital RMB' 000	Share premium* RMB' 000	Deemed capital contribution reserve* RMB' 000	Statutory surplus reserve* RMB' 000	Capital reserve* RMB' 000	Investment revaluation reserve* RMB' 000	Other reserve* RMB' 000	Exchange reserve* RMB' 000	Retained profits* RMB' 000	Total RMB' 000	Non- controlling interests RMB' 000	
At 1 January 2017 (audited)		119,218	4,691,197	77,651	704,256	150,208	505,438	52,335	(1,604)	4,755,174	11,053,873	186,475	11,240,348
Profit (loss) for the period		—	—	—	—	—	—	—	—	586,695	586,695	(25,462)	561,233
Other comprehensive (expense) income for the period		—	—	—	—	—	(80,047)	—	551	—	(79,496)	(125)	(79,621)
Total comprehensive (expense) income for the period		—	—	—	—	—	(80,047)	—	551	586,695	507,199	(25,587)	481,612
Disposal of subsidiaries	19	—	—	—	—	—	—	—	—	—	—	1,153	1,153
Capital contributions by non-controlling shareholder of a subsidiary		—	—	—	—	—	—	—	—	—	—	2,500	2,500
Acquisition of additional interest in a subsidiary		—	—	—	—	—	—	—	—	—	—	(4,400)	(4,400)
Dividends	8	—	(332,412)	—	—	—	—	—	—	—	(332,412)	—	(332,412)
At 30 June 2017 (unaudited)		119,218	4,358,785	77,651	704,256	150,208	425,391	52,335	(1,053)	5,341,869	11,228,660	160,141	11,388,801

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(continued)*

For the six months ended 30 June 2017

Attributable to owners of the Company												
	Share capital	Share premium*	Deemed Capital contribution reserve*	Statutory surplus reserve*	Capital reserve*	Investment revaluation reserve*	Other reserve*	Exchange reserve*	Retained profits*	Total	Non- controlling interests	Total equity
Note	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000	RMB' 000
At 1 January 2016 (audited)	119,218	5,010,141	77,651	366,458	150,148	—	52,335	(826)	3,983,977	9,759,102	215,636	9,974,738
Profit (loss) for the period	—	—	—	—	—	—	—	—	575,843	575,843	(24,825)	551,018
Other comprehensive expense for the period	—	—	—	—	—	—	—	(396)	—	(396)	—	(396)
Total comprehensive (expense) income for the period	—	—	—	—	—	—	—	(396)	575,843	575,447	(24,825)	550,622
Dividends	8	(318,944)	—	—	—	—	—	—	—	(318,944)	—	(318,944)
At 30 June 2016 (unaudited)	119,218	4,691,197	77,651	366,458	150,148	—	52,335	(1,222)	4,559,820	10,015,605	190,811	10,206,416

* These reserve accounts comprise the consolidated reserves of RMB11,109,442,000 (31 December 2016: RMB10,934,655,000) in the consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Note	For the six months ended 30 June	
		2017 (Unaudited) RMB' 000	2016 (Unaudited) RMB' 000
Operating activities			
Profit/(loss) before tax:			
From continuing operations		510,480	818,569
From discontinued operations		108,418	(88,675)
Adjustments to reconcile profit before tax to net cash flow		173,022	695,214
Total working capital adjustments		25,358	701,713
Cash generated from operations		817,278	2,126,821
Income tax paid		(148,589)	(244,963)
Net cash flows from operating activities		668,689	1,881,858
Investing activities			
Purchases of property, plant and equipment		(259,077)	(152,394)
Expenditure on other intangible assets		—	(6,520)
Purchase of available-for-sale investments		(1,784,781)	(300,000)
Expenditure on prepaid lease payments		—	(47,881)
Placement of pledged bank deposits		(3,803,510)	(7,097,111)
Withdrawal of pledged bank deposits		3,107,008	4,890,966
Capital injection in an associate		(12,000)	—
Interest received		31,621	59,142
Other investment income received		3,863	—
Loans to third parties		(2,048,038)	—
Repayment from third parties		1,950,000	—
Proceeds from disposal of property, plant and equipment		302,344	17,984
Inflow from disposal of associates		19,475	—
Dividends received from a joint venture		1,000	—
Inflow/(outflow) from disposal of subsidiaries	19	579,298	(2,459)
Acquisition of assets and liabilities through acquisition of subsidiaries		(149,031)	—
Consideration for land resumption received		600,000	—
Placement of structured bank deposits		—	(370,600)
Withdrawal of structured bank deposits		209,000	1,753,600
Net cash flows used in investing activities		(1,252,828)	(1,255,273)

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(continued)*

For the six months ended 30 June 2017

	For the six months ended 30 June	
	2017 (Unaudited) RMB' 000	2016 (Unaudited) RMB' 000
Financing activities		
New bank and other borrowings raised	4,465,451	5,421,023
Repayment of bank and other borrowings	(3,905,059)	(3,844,169)
Interest paid	(233,333)	(293,143)
Repayment of obligation under finance leases	(6,931)	(78,899)
Dividends paid	(332,412)	—
Capital contribution by non-controlling shareholder	2,500	—
Acquisition of additional interest in a subsidiary	(4,400)	—
Settlement of financial liabilities at fair value through profit or loss	—	(596,656)
Net cash flows (used in)/from financing activities	(14,184)	608,156
Net (decrease)/increase in cash and cash equivalents	(598,323)	1,234,741
Cash and cash equivalents at beginning of period	2,745,023	2,121,873
Cash and cash equivalents at end of period	2,146,700	3,356,614

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

1. CORPORATE AND GROUP INFORMATION

China High Speed Transmission Equipment Group Co., Ltd. (the “Company”) is a limited liability company incorporated in the Cayman Islands as an exempted company 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 registered office of the Company is located at 4th Floor, Harbour Place, 103 South Church Street, George Town, Grand Cayman KY1-1002, Cayman Islands. The head office and principal place of business in Hong Kong is located at Room 1302, 13th Floor, COFCO Tower, No.262 Gloucester Road, Causeway Bay, Hong Kong.

During the period, the Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that is used in wind power and a wide range of industrial appliances.

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP’S ACCOUNTING POLICIES

2.1 Basis of preparation

The interim condensed consolidated financial statements for the six months ended 30 June 2017 have been prepared in accordance with International Accounting Standard (“IAS”) 34 Interim Financial Reporting issued by the International Accounting Standards Board.

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual financial statements for the year ended 31 December 2016.

2.2 New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2016, except for the adoption of new standards effective as of 1 January 2017. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these amendments apply for the first time in 2017, they do not have a material impact on the interim condensed consolidated financial statements of the Group. The nature and the impact of each amendment is described below.

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). On initial application of the amendment, entities are not required to provide comparative information for preceding periods. The Group is not required to provide additional disclosures in its interim condensed consolidated financial statements, but will disclose additional information in its annual consolidated financial statements for the year ending 31 December 2017.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

2. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES *(Continued)*

2.2 New standards, interpretations and amendments adopted by the Group *(Continued)*

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, on initial application of the amendments, the change in the opening equity of the earliest comparative period may be recognised in opening retained earnings (or in another component of equity, as appropriate), without allocating the change between opening retained earnings and other components of equity. Entities applying this relief must disclose that fact.

The Group applied the amendments retrospectively. However, their application has no effect on the Group's financial position and performance as the Group has no deductible temporary differences or assets that are in the scope of the amendments.

Annual Improvements Cycle - 2014-2016

Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity's interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale.

The application of the amendments to IFRS 12 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. OPERATING SEGMENT INFORMATION

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

3. OPERATING SEGMENT INFORMATION (Continued)

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

During the period ended 30 June 2017, the Group ceased the operation in manufacturing and sales of marine gear transmission equipment and light emitting diode (the "LED") products, upon the completion of disposal of a group of subsidiaries as described in notes 18 and 19. Accordingly, the results of the related operations for the period ended 30 June 2017 have been separately presented as discontinued operations in the condensed consolidated statement of profit or loss and other comprehensive income. The presentation of comparative financial information for the period ended 30 June 2016 has been represented to conform the current period's presentation.

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2017 and 2016, respectively.

	For the six months ended 30 June 2017				Total (Unaudited) RMB' 000
	PRC RMB' 000	USA RMB' 000	Europe RMB' 000	Other countries RMB' 000	
Segment revenue:					
Sales to external customers	2,286,481	1,229,369	211,104	85,263	3,812,217
Intersegment sales	1,083,165	61,042	—	13,845	1,158,052
<i>Reconciliation:</i>					
Elimination of intersegment sales					(1,158,052)
Revenue from continuing operations					3,812,217
Segment results	673,710	309,569	18,340	12,066	1,013,685
<i>Reconciliation:</i>					
Unallocated other income and net gains					217,792
Other expenses					(133,902)
Finance costs					(235,435)
Share of results of joint ventures					35,990
Share of results of associates					(6,924)
Corporation and other unallocated expenses					(380,726)
Profit before tax from continuing operations					510,480

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

3. OPERATING SEGMENT INFORMATION (Continued)

For the six months ended 30 June 2016

	PRC	USA	Europe	Other	Total
	RMB' 000	RMB' 000	RMB' 000	countries	(Unaudited
				RMB' 000	and restated))
					RMB' 000
Segment revenue:					
Sales to external customers	2,812,290	1,121,819	420,178	24,913	4,379,200
Intersegment sales	1,251,391	18,413	—	—	1,269,804
<i>Reconciliation:</i>					
Elimination of intersegment sales					(1,269,804)
Revenue from continuing operations					4,379,200
Segment results	778,946	506,899	146,184	2,799	1,434,828
<i>Reconciliation:</i>					
Unallocated other income and net gains					118,184
Other expenses					(66,532)
Finance costs					(270,998)
Share of results of joint ventures					2,101
Share of results of associates					3,178
Corporation and other					
unallocated expenses					(402,192)
Profit before tax from					
continuing operations					818,569

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

4. REVENUE AND OTHER INCOME AND NET GAINS

Revenue represents the net invoiced value of goods sold, after allowances for returns and trade discounts.

An analysis of revenue and other income and net gains is as follows:

	For the six months ended	
	30 June	
	2017 (Unaudited) RMB' 000	2016 (Unaudited and restated) RMB' 000
Revenue		
Sale of goods	3,812,217	4,379,200
Other income		
Bank interest income	31,621	58,736
Gross rental income	779	9,801
Government grants*	9,840	2,938
Sale of scraps and material	20,181	15,064
Investment income	19,688	10,299
Others	3,608	8,467
	85,717	105,305
Net gains		
Gain from Land Resumption (note 27)	174,005	—
Loss on disposal of property, plant and equipment, net	(1,260)	(83)
Loss on disposal of a subsidiary (note 19)	—	(2,305)
Gain on disposal of an associate	58	—
Foreign exchange differences, net	(10,707)	33,269
	162,096	30,881
	247,813	136,186

* There are no unfulfilled conditions or contingencies relating to these grants.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

5. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

The Group's profit before tax from continuing operations is arrived at after charging/(crediting):

	For the six months ended	
	30 June	
	2017	2016
	(Unaudited)	(Unaudited and restated)
	RMB' 000	RMB' 000
Cost of inventories sold	2,536,154	2,768,270
Depreciation of property, plant and equipment	247,606	242,155
Amortisation of technical know-how (included in administrative expenses)	1,514	1,125
Amortisation of development costs (included in administrative expenses)	12,638	16,051
Amortisation of prepaid land lease payments	6,485	6,187
Write-down of inventories to net realisable value (included in cost of sales)	82,319	65,894
Items included in other expenses:		
Impairment loss of property, plant and equipment	1,600	—
Impairment loss of other intangible assets	5,697	5,094
Impairment loss of available-for-sale investments	—	10,861
Impairment loss of trade and bills receivables, net	79,039	50,577
Impairment loss of other receivables	13,761	—

6. FINANCE COSTS

	For the six months ended	
	30 June	
	2017	2016
	(Unaudited)	(Unaudited and restated)
	RMB' 000	RMB' 000
Interest on finance leases	163	3,941
Interest on bank and other borrowings	235,272	267,057
	235,435	270,998

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

7. INCOME TAX EXPENSE

Income tax expense has been calculated at the rates of tax prevailing in the relevant tax jurisdictions in which the Group operates. The major components of income tax expense recognised in profit or loss are:

	For the six months ended 30 June	
	2017 (Unaudited) RMB' 000	2016 (Unaudited and restated) RMB' 000
Current - PRC		
Charge for the period	96,045	139,761
Under provision in respect of prior period	—	12,924
Deferred tax		
(Credit)/charge for the period	(51,214)	25,652
Total tax charge for the period	44,831	178,337

PRC corporate income tax has been provided at the rate of 25% (six months ended 30 June 2016: 25%) on the taxable profits of the Group's PRC subsidiaries for the six months ended 30 June 2017.

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 company	Year ended during which approval was obtained	Year ended/ending during which approval will expire/ expired
Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed")	31 December 2014	31 December 2016 (Note)
Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate")	31 December 2014	31 December 2016 (Note)
Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd.	31 December 2015	31 December 2017
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd.	31 December 2015	31 December 2017

Note: The approval of Nanjing High Speed and Nanjing High Accurate was issued on 31 October 2014. As the preferential tax rate of 15% for 3 years became effective from the date of approval and up to October 2017, the subsidiaries applied the rate of 15% for the calculation of Enterprise Income Tax for the six months ended 30 June 2017. As at the reporting date, Nanjing High Speed and Nanjing High Accurate are in the process of applying to renew the qualification of the high technology development enterprises.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

7. INCOME TAX EXPENSE (Continued)

Hong Kong profits tax

No provision for Hong Kong profits tax has been made as the Group did not generate any assessable profits arising in Hong Kong during the period (six months ended 30 June 2016: nil).

Singapore corporate income tax

No provision for Singapore corporate income tax has been made as the Group did not generate any assessable profits arising in Singapore during the period (six months ended 30 June 2016: nil).

Withholding tax

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to 5% withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008. The aggregate amount of temporary differences associated with investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totalled approximately RMB6,230 million at 30 June 2017 (31 December 2016: RMB5,881 million), in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

8. DIVIDENDS

2016 final dividend amounting to Hong Kong 23 cents (approximately RMB20.3 cents) per share was proposed by the directors of the Company on 31 March 2017, and subsequently approved at the annual general meeting on 19 May 2017. The aggregated amount of the 2016 final dividend declared amounted to approximately RMB332,412,000 and recognised as distribution during the period ended 30 June 2017.

2015 final dividend amounting to Hong Kong 23 cents (approximately RMB19.5 cents) per share was proposed by the directors of the Company on 18 March 2016, and subsequently approved at the annual general meeting on 17 June 2016. The aggregated amount of the 2015 final dividend declared amounted to approximately RMB318,944,000 and recognised as distribution during the period ended 30 June 2016.

The directors of the Company have determined that no dividend will be declared in respect of the interim period (six months ended 30 June 2016: nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

9. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the period attributable to ordinary equity holders of the Company.

The calculations of basic and diluted earnings per share are based on:

	For the six months ended 30 June	
	2017 (Unaudited) RMB' 000	2016 (Unaudited and restated) RMB' 000
Earnings		
Earnings for the purpose of the basic and diluted earnings per share calculation:		
Profit for the period from continuing operations attributable to ordinary equity holders of the Company	490,369	661,956
Profit/(loss) for the period from discontinued operations attributable to ordinary equity holders of the Company	96,326	(86,113)
	586,695	575,843

	For the six months ended 30 June	
	2017 (Unaudited) ' 000	2016 (Unaudited) ' 000
Shares		
Number of ordinary shares for the purpose of basic and diluted earnings per share calculation	1,635,291	1,635,291

No adjustment is made to the diluted earnings per share for the six months ended 30 June 2017 and 2016 as there is no potential dilutive shares in issue.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

10. PROPERTY, PLANT AND EQUIPMENT AND PREPAID LAND LEASE PAYMENTS

During the six months ended 30 June 2017, the Group acquired property, plant and equipment and prepaid land lease payments with a cost of RMB1,101,907,000 and RMB112,790,000 respectively (six months ended 30 June 2016: property, plant and equipment of RMB140,410,000).

Other than the disposal of subsidiaries (as detailed in note 19) and the derecognition of assets related to Land Resumption (as defined and detailed in note 27), property, plant and equipment with a net book value of RMB19,480,000 were disposed of by the Group during the six months ended 30 June 2017 (six months ended 30 June 2016: RMB18,067,000), resulting in a net loss on disposal of RMB1,260,000 (six months ended 30 June 2016: RMB83,000).

At 30 June 2017, the Group is in the process of obtaining property certificates for the buildings and land use rights certificates in respect of medium-term land use rights located in the PRC with carrying amount of RMB879,940,000 and RMB268,575,000 respectively (31 December 2016: RMB1,207,690,000 and RMB317,876,000).

11. OTHER RECEIVABLE

	30 June 2017 (Unaudited) RMB' 000	31 December 2016 (Audited) RMB' 000
Other receivable	69,707	551,524

At 31 December 2016, the amount of RMB551,524,000 represented an advance made to an insurance company in the PRC, which will mature in June 2018, and carries interest at an annualised fixed rate of 6.33% per annum. Interest and the principal amount are repayable at the maturity date. It is reclassified to current asset at 30 June 2017.

During the period ended 30 June 2017, the Group entered into an agreement with 南京市雨花經濟開發管委會 Nanjing Yuhua Economic Development Zone Management Committee (the "Management Committee"), and the Management Committee agreed to return the land lease deposit previously paid by the Group of RMB75,000,000 in two years, which carries no interest. Accordingly, imputed interest of RMB5,293,000 is recognised in profit or loss in current period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

12. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2017 (Unaudited) RMB' 000	31 December 2016 (Audited) RMB' 000
Listed equity investments, at fair value (Note a)	674,329	781,508
Unlisted equity investments, at cost (Note b)	1,873,363	88,582
	2,547,692	870,090
For reporting purpose:		
Current portion	565,000	—
Non-current portion	1,982,692	870,090
	2,547,692	870,090

The above investments consist of investments in equity securities which were designated as available-for-sale financial assets and have no fixed maturity date or coupon rate.

Notes:

- (a) At 30 June 2017, the balance includes the Group's investment in 50,093,000 H shares of 國電科技環保集團股份有限公司 Guodian Technology & Environment Group Corporation Limited of RMB23,912,000 (31 December 2016: RMB24,197,000), 16,962,000 shares of 日月重工股份有限公司 Riyue Heavy Industry Co., Ltd. of RMB601,128,000 (31 December 2016: RMB706,461,000) and 4,593,000 shares of 江蘇銀行股份有限公司 Bank of Jiangsu Co., Ltd. of RMB49,289,000 (31 December 2016: RMB50,850,000).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

12. AVAILABLE-FOR-SALE INVESTMENTS (Continued)

Notes: (Continued)

- (b) (i) On 17 April 2017, a wholly owned subsidiary of the Company, 南京高精傳動設備製造集團有限公司 Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. (“**Nanjing Drive**”) entered into a limited partnership agreement with thirty-four other partners in respect of, among other matters, the establishment of an investment fund in the PRC and the subscription of interest therein. The general partner and executive partner of the investment fund is 寧波錢潮涌鑫投資管理合夥企業(有限合夥) Ningbo Qianchao Yongxin Investment Management LLP, a limited partnership established in the PRC. The objective of the investment fund is to invest in businesses arising from government’s economic reform especially in Zhejiang region. The Group considers that such investment could result in more investment opportunities and better investment returns by leveraging on the other partners’ advantageous resources or experience in investment management. Pursuant to the limited partnership agreement, the total capital commitment to the investment fund is RMB65.91 billion, among which, RMB2 billion is to be contributed by Nanjing Drive as a limited partner. As at 30 June 2017, RMB1 billion has been paid up by Nanjing Drive to the investment fund with the remaining RMB1 billion settled during July 2017.
- (ii) On 20 March 2017, Nanjing Drive entered into a trust investment agreement (“**Trust Investment Agreement**”) with 寧波眾邦金控投資有限公司 Ningbo Zhongbang Jinkong Investment Co., Ltd. (“**Ningbo Zhongbang**”), in relation to a portfolio of financial products to be invested and managed by Ningbo Zhongbang for a trust period of one year ending 19 March 2018. During the period ended 30 June 2017, an initial investment fund made by Nanjing Drive in accordance with the Trust Investment Agreement amounted to RMB550,000,000.
- (iii) On 26 April 2017, a wholly owned subsidiary of the Company, China Transmission Holdings Limited entered into a subscription agreement to subscribe for 32,000 class A shares attributable to a segregated portfolio (the “**Portfolio**”) created by Green Asia Restructure Fund SPC (“**Green Asia**”) at a total subscription price of USD32,000,000, equivalent to approximately RMB219 million. The investment objective of the Portfolio is capital appreciation and is managed by Long Asia Asset Management Limited, the manager appointed by Green Asia. The class A shares owned by the Group do not carry any voting rights in the Portfolio or Green Asia, and are redeemable at the Group’s own discretion at a redemption price by reference to the net asset value of the Portfolio at the valuation day immediately preceding the redemption day.
- (iv) The remaining amount includes 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

13. TRADE AND BILLS RECEIVABLES

	30 June 2017 (Unaudited) RMB' 000	31 December 2016 (Audited) RMB' 000
Trade receivables	4,152,494	4,154,615
Bills receivable	2,891,735	3,286,299
Impairment	(548,697)	(475,970)
	6,495,532	6,964,944

The Group generally allows a credit period of 180 days to its trade customers. The Group seeks to maintain strict control over its outstanding receivables and has a credit control department to minimise credit risk. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

An aging analysis of the trade and bills receivables as at the end of the reporting period, based on the invoice date and the date of issuance of the bills and net of provisions, is as follows:

	30 June 2017 (Unaudited) RMB' 000	31 December 2016 (Audited) RMB' 000
0 - 90 days	3,127,128	3,547,209
91 - 120 days	634,256	455,908
121 - 180 days	393,327	911,817
181 - 365 days	1,814,816	1,490,468
1 - 2 years	348,630	391,738
Over 2 years	177,375	167,804
	6,495,532	6,964,944

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

14. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2017 (Unaudited) RMB' 000	31 December 2016 (Audited) RMB' 000
Prepayments	1,597,974	1,274,066
Deposits and other receivables	2,027,834	297,142
Value-added tax recoverable	157,833	131,684
Amounts due from the Group's joint ventures	26,156	191,156
Amounts due from the Group's associates	42,989	713,016
	3,852,786	2,607,064
For reporting purpose:		
Current portion	3,849,454	2,603,732
Non-current portion	3,332	3,332
	3,852,786	2,607,064

The financial assets included in the above balances relate to receivables for which there was no recent history of default. None of the above assets is either past due or impaired. All the amounts due from the Group's joint ventures and associates are unsecured, interest-free and repayable on demand.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

15. TRADE AND BILLS PAYABLES

	30 June 2017 (Unaudited) RMB' 000	31 December 2016 (Audited) RMB' 000
Trade payables	2,380,005	1,906,234
Bills payable	4,904,148	4,664,506
	7,284,153	6,570,740

An aging analysis of the trade and bills payables as at the end of the reporting period, based on the invoice date and the date of issuance of the bills, is as follows:

	30 June 2017 (Unaudited) RMB' 000	31 December 2016 (Audited) RMB' 000
0 - 30 days	1,652,202	723,379
31 - 60 days	1,316,245	1,463,639
61 - 180 days	2,560,614	3,966,120
181 - 365 days	1,539,258	156,224
Over 365 days	215,834	261,378
	7,284,153	6,570,740

As at 30 June 2017, included in the trade and bills payables are trade payables of RMB176,000 (31 December 2016: RMB91,770,000) due to the Group's associates and RMB8,475,000 (31 December 2016: RMB194,000) due to the Group's joint ventures which are repayable on demand.

The trade payables are non-interest-bearing and are normally settled on terms of 90 to 180 days.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

16. OTHER PAYABLES AND ACCRUALS

	30 June 2017 (Unaudited) RMB' 000	31 December 2016 (Audited) RMB' 000
Deferred income	10,326	10,326
Accruals	144,161	146,082
Amounts due to the Group's joint ventures	30,000	31,096
Amounts due to the Group's associates	28,610	28,208
Other tax payables	59,584	85,708
Purchase of property, plant and equipment	187,165	140,008
Payroll and welfare payables	56,739	156,559
Receipt from government for Land Resumption (note 27)	—	180,728
Other payables	435,662	124,775
	952,247	903,490

All the amounts due to the Group's joint ventures and associates are unsecured, interest-free and repayable on demand.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

17. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2017		31 December 2016	
	Effective Interest rate (%)	RMB' 000 (Unaudited)	Effective interest rate (%)	RMB' 000 (Audited)
Current				
Bank loans – unsecured	1.05~5.66	3,941,397	4.57~6.40	2,699,123
Bank loans – secured	2.38~6.00	758,967	1.48~6.55	2,314,030
Guaranteed listed bonds	9.77	108,502	9.77	260,694
Medium-term notes – unsecured	6.20	500,000	—	—
		<u>5,308,866</u>		<u>5,273,847</u>
Non-current				
Bank loans – secured	5.78	47,966	5.78~6.15	227,966
Corporate bonds - unsecured	6.47	895,373		—
Medium-term notes – unsecured	8.50	500,000	6.20~8.50	1,000,000
		<u>1,443,339</u>		<u>1,227,966</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

17. INTEREST-BEARING BANK AND OTHER BORROWINGS (Continued)

	30 June 2017 RMB' 000 (Unaudited)	31 December 2016 RMB' 000 (Audited)
Analysed into:		
Bank loans repayable:		
Within one year	4,700,364	5,013,153
In the second year	25,000	226,841
In the third to fifth years, inclusive	22,966	1,125
	4,748,330	5,241,119
Other borrowings repayable:		
Within one year	608,502	260,694
In the second year	500,000	500,000
In the third to fifth years, inclusive	895,373	500,000
	2,003,875	1,260,694
	6,752,205	6,501,813

The secured borrowings at the end of the reporting period were secured by pledge of assets, details of which are set out in note 21.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

18. DISCONTINUED OPERATIONS

On 23 February 2017 and 27 March 2017, the Group entered into two equity transfer agreements with two independent third parties to dispose of its entire equity interests in 南京高精船用設備有限公司 Nanjing High Accurate Marine Equipment Co., Ltd. (“**Nanjing Marine**”) and 鎮江同舟螺旋槳有限公司 Zhenjiang Tongzhou Propeller Co., Ltd. (“**Zhenjiang Tongzhou**”) (collectively the “**Marine Disposal Group**”) at an aggregate cash consideration of RMB607,000,000, and to assign a shareholder loan due from Zhenjiang Tongzhou at its carrying value of RMB245,312,000. The Marine Disposal Group is engaged in the manufacturing and sales of marine gear transmission equipment. These disposals were completed on 27 February 2017 and 18 April 2017 respectively.

On 20 April 2017, the Group entered into an equity transfer agreement with an independent third party to dispose of its entire equity interests in 南京京晶光電科技有限公司 Nanjing Jingjing Photoelectric Science & Technology Co., Ltd. (“**Nanjing Jingjing**”) and its subsidiaries (collectively the “**LED Disposal Group**”) at a cash consideration of RMB155,176,000. The LED Disposal Group is engaged in the manufacturing and sales of LED products. The disposal was completed on 20 April 2017.

Details of the assets and liabilities disposed of, and the calculation of the gain on disposal of subsidiaries, are disclosed in note 19.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

18. DISCONTINUED OPERATIONS (Continued)

The results from the discontinued operations included in the profit for the period are set out below:

	Marine Disposal Group		LED Disposal Group	
	1 January 2017 to the date of disposal (Unaudited) RMB' 000	1 January 2016 to 30 June 2016 (Unaudited) RMB' 000	1 January 2017 to the date of disposal (Unaudited) RMB' 000	1 January 2016 to 30 June 2016 (Unaudited) RMB' 000
Profit/(loss) for the period from discontinued operations:				
Revenue	23,573	100,707	58,417	52,547
Cost of sales	(23,459)	(88,739)	(54,438)	(78,726)
Other income and net gains	1,884	3,477	5,187	3,434
Selling and distribution expenses	(4,044)	(10,177)	(3,548)	(4,441)
Administrative expenses	(6,104)	(23,654)	(9,712)	(11,400)
Research and development costs	(4,658)	(9,011)	(3,593)	(6,401)
Other expenses	—	(984)	(5,062)	—
Finance costs	(3,190)	(7,075)	(209)	(8,232)
Loss before tax	(15,998)	(35,456)	(12,958)	(53,219)
Income tax expense	(15)	(45)	—	(494)
Loss from operating activities, net of tax	(16,013)	(35,501)	(12,958)	(53,713)
Gain on disposal of discontinued operations (note 19)	76,953	—	60,421	—
Tax attributable to gain on disposal	(12,819)	—	—	—
Gain on disposal of discontinued operations, net of tax	64,134	—	60,421	—
Profit/(loss) for the period from discontinued operations	48,121	(35,501)	47,463	(53,713)
Attributable to:				
Owners of the Company	49,642	(33,026)	46,684	(53,087)
Non-controlling interests	(1,521)	(2,475)	779	(626)
	48,121	(35,501)	47,463	(53,713)
Cash flows from/(used in) discontinued operations:				
Operating activities	(66,266)	(23,887)	29,113	30,935
Investing activities	(2,719)	(44,025)	334,565	72,848
Financing activities	70,753	69,228	(366,297)	(21,989)
Net cash inflow/(outflow)	1,768	1,316	(2,619)	81,794

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

19. DISPOSAL OF SUBSIDIARIES

During the period ended 30 June 2017

Save as disclosed in note 18, the net assets of Marine Disposal Group and LED Disposal Group at the date of disposal and the resulting gain on disposal recognised were as follows:

	Marine Disposal Group RMB' 000	LED Disposal Group RMB' 000	Total RMB' 000
Net assets disposed of:			
Property, plant and equipment	594,054	507,243	1,101,297
Prepaid land lease payments	95,690	23,419	119,109
Interest in a joint venture	—	537	537
Other intangible assets	21,059	—	21,059
Deferred tax assets	262	—	262
Inventories	248,753	96,842	345,595
Pledged bank deposits	5,725	9,803	15,528
Bank balances and cash	12,262	58,475	70,737
Trade and bills receivables	210,513	261,574	472,087
Prepayments and other receivables	68,635	150,341	218,976
Trade and bills payables	(84,512)	(206,639)	(291,151)
Other payables and accruals	(288,764)	(477,070)	(765,834)
Receipts in advance and deposits received	(353,184)	(9,262)	(362,446)
Interest-bearing bank and other borrowings	—	(310,000)	(310,000)
Taxation payable	(148)	(467)	(615)
Deferred tax liabilities	(3,280)	—	(3,280)
Deferred income	(1,700)	(6,512)	(8,212)
	525,365	98,284	623,649
Non-controlling interests	4,682	(3,529)	1,153
Gain on disposal recognised in profit or loss	76,953	60,421	137,374
Net consideration	607,000	155,176	762,176
Satisfied by:			
Cash	607,000	31,035	638,035
Deferred cash consideration (Note)	—	124,141	124,141
	607,000	155,176	762,176

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

19. DISPOSAL OF SUBSIDIARIES (Continued)

During the period ended 30 June 2017 (Continued)

Note: For the disposal of LED Disposal Group, the deferred consideration is agreed to be settled in two instalments by 120 and 160 working days after signing of the agreement respectively.

An analysis of the net inflow of cash and cash equivalents in respect of the disposal of subsidiaries is as follows:

	Marine Disposal Group RMB' 000	LED Disposal Group RMB' 000	Total RMB' 000
Cash consideration	607,000	31,035	638,035
Bank balances and cash disposed of	(12,262)	(58,475)	(70,737)
Net inflow of cash and cash equivalents in respect of the disposal of subsidiaries	594,738	(27,440)	567,298

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

19. DISPOSAL OF SUBSIDIARIES (Continued)

During the period ended 30 June 2016

During the six months ended 30 June 2016, Nanjing High Speed entered into an agreement with an independent third party to dispose of the Group's entire equity interest in 南京寧宏建機械有限公司 Nanjing Ninghongjian Machinery Co., Ltd. ("Nanjing Ninghongjian"). The disposal was completed on 30 April 2016.

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

	RMB' 000
Net assets disposed of:	
Property, plant and equipment	36,949
Prepaid land lease payments	1,648
Bank balances and cash	9,459
Prepayments and other receivables	16,446
Other payables and accruals	(39,297)
	25,205
Non-controlling interests	—
Loss on disposal recognised in profit or loss	(2,305)
Net consideration	22,900
Satisfied by:	
Cash	7,000
Deferred cash consideration (Note)	15,900
	22,900

Note: For the disposal of Nanjing Ninghongjian, the deferred consideration is expected to be settled on or before 31 December 2017.

An analysis of the net outflow of cash and cash equivalents in respect of disposal of Nanjing Ninghongjian is as follows:

	RMB' 000
Cash consideration	7,000
Bank balances and cash disposed of	(9,459)
Net outflow of cash and cash equivalents in respect of disposal of Nanjing Ninghongjian	(2,459)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

20. CONTINGENT LIABILITIES

The Group entered into an agreement (the “**Agreement**”) effective from 1 January 2013 with a third party (the “**Subcontractor**”), pursuant to which, the Group assigns the Subcontractor and the Subcontractor agrees to repair certain of the wind gear products sold for the Group at a fixed fee at certain percentage of annual sales of those wind gear products of the Group (the “**Fixed Fee**”). The Group is not liable for any additional cost incurred by the Subcontractor in relation to the repair of those wind gear products, other than the Fixed Fee.

The Subcontractor however has not entered into any agreements with the customers of the wind gear products for the repair services. In the event of closure, liquidation, or inability of the Subcontractor to provide those repair services, the Group is still liable for such repair obligations should those customers claim for that against the Group. In the opinion of the directors, based on their experience, the financial position of the Subcontractor and their assessment of the current economic environment, the possibility of the default or inability by the Subcontractor to carry out the obligation is remote. Accordingly, no provision for the repair obligation of wind gear products has been made in the Group’s financial statements at the end of the reporting period.

21. PLEDGE OF ASSETS

At the end of the reporting period, certain assets of the Group were pledged to secure certain banking facilities granted to the Group as follows:

	30 June 2017 (Unaudited) RMB’ 000	31 December 2016 (Audited) RMB’ 000
Trade receivables	83,912	239,583
Bills receivable	535,908	953,070
Property, plant and equipment	184,133	114,750
Prepaid land lease payments	46,373	178,482
Pledged bank deposits	3,214,341	2,531,395
	4,064,667	4,017,280

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

22. CAPITAL COMMITMENTS

	30 June 2017 (Unaudited) RMB' 000	31 December 2016 (Audited) RMB' 000
Contracted, but not provided for:		
Land and buildings	13,600	90,277
Plant and machinery	219,610	274,316
Capital contribution payable to an investment fund classified as available-for-sale investment	1,000,000	—
Capital contributions payable to an associate	59,260	59,260
	1,292,470	423,853

23. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in the interim condensed consolidated financial statements, the Group had the following material transactions with related parties during the six months ended 30 June 2017 and 2016:

	Notes	For the six months ended 30 June	
		2017 (Unaudited) RMB' 000	2016 (Unaudited) RMB' 000
Associates:			
Purchases of products	(ii)	(15,690)	(78,359)
Sales of property, plant and equipment		466	—
Joint ventures:			
Sales of products	(i)	1,249	4,201
Purchases of products	(ii)	—	(430)
Other income		426	—
Holding company of a non-controlling shareholder of a subsidiary:			
Rental expenses	(iii)	(600)	(600)

Notes:

- (i) The sales to the joint ventures were made according to the published prices and conditions offered to the major customers of the Group, except that a longer credit period of up to six months is normally granted.
- (ii) The purchases from the associates and joint ventures were made according to the published prices and were agreed by both parties.
- (iii) The rental expense arose from the rental transaction which was carried out at terms agreed by the Group and the counterparty.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

23. RELATED PARTY TRANSACTIONS (Continued)

(b) Other transactions with related parties:

At 30 June 2017, the Group provided guarantees to an associate, 南京高傳機電自動控制設備有限公司 Nanjing Gaochuan Electrical & Mechanical Auto Control Equipment Co., Ltd. (“Nanjing Gaochuan”) in favour of Nanjing Gaochuan’s bank loans of RMB70,000,000 (31 December 2016: RMB236,000,000), which will be matured on or before 31 October 2017.

(c) Compensation of key management personnel of the Group:

	For the six months ended	
	30 June	
	2017 (Unaudited) RMB' 000	2016 (Unaudited) RMB' 000
Fees	638	275
Salaries and other emoluments	7,180	8,285
	7,818	8,560

24. FINANCIAL INSTRUMENTS BY CATEGORY

Set out below is an overview of financial assets held by the Group at the end of the reporting period:

	30 June 2017 (Unaudited) RMB' 000	31 December 2016 (Audited) RMB' 000
Loans and receivables:		
Trade and bills receivables	6,495,532	6,964,944
Financial assets included in prepayments, deposits and other receivables	2,108,168	1,728,150
Structured bank deposits	—	209,000
Pledged bank deposits	3,214,341	2,531,395
Bank balances and cash	2,146,700	2,745,023
Available-for-sale investments:		
Listed equity investments	674,329	781,508
Unlisted equity investments	1,873,363	88,582
Total	16,512,433	15,048,602

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

24. FINANCIAL INSTRUMENTS BY CATEGORY (Continued)

Set out below is an overview of financial liabilities held by the Group at the end of the reporting period:

	30 June 2017 (Unaudited) RMB' 000	31 December 2016 (Audited) RMB' 000
Financial liabilities at amortised cost:		
Trade and bills payables	7,284,153	6,570,740
Financial liabilities included in other payables and accruals	638,432	510,889
Interest-bearing bank and other borrowings	6,752,205	6,501,813
Finance lease payables	—	7,007
Total	14,674,790	13,590,449

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The directors of the Company consider that the carrying amounts of all trade and bills receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals, interest-bearing bank and other borrowings, finance lease payables are measured at amortised cost approximated to their fair values as at the end of the reporting period.

The carrying amounts and fair values of the Group's financial instruments are as follows:

	Carrying amounts		Fair values	
	30 June 2017 (Unaudited) RMB' 000	31 December 2016 (Audited) RMB' 000	30 June 2017 (Unaudited) RMB' 000	31 December 2016 (Audited) RMB' 000
Financial assets				
Available-for-sale investments	674,329	781,508	674,329	781,508

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS (Continued)

Fair value hierarchy

The following tables illustrate the fair value measurement hierarchy of the Group's financial instruments:

Assets measured at fair value:

As at 30 June 2017

	Fair value measurement using			Total (Unaudited) RMB' 000
	Quoted prices in active markets (Level 1) (Unaudited) RMB' 000	Significant observable inputs (Level 2) (Unaudited) RMB' 000	Significant unobservable inputs (Level 3) (Unaudited) RMB' 000	
Available-for-sale investments:				
Listed equity investments	674,329	—	—	674,329

As at 31 December 2016

	Fair value measurement using			Total (Audited) RMB' 000
	Quoted prices in active markets (Level 1) (Audited) RMB' 000	Significant observable inputs (Level 2) (Audited) RMB' 000	Significant unobservable inputs (Level 3) (Audited) RMB' 000	
Available-for-sale investments:				
Listed equity investments	781,508	—	—	781,508

During the six months ended 30 June 2017 and 2016, there were no transfers of fair value measurements between Level 1 and Level 2 and no transfers into or out of Level 3 for both financial assets and financial liabilities.

26. EVENT AFTER THE REPORTING PERIOD

On 12 July 2017, Nanjing Drive issued a corporate bond of RMB1,020,000,000, which carries an interest rate of 6.50% per annum with a term of not more than 5 years.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2017

27. OTHER MATTER

On 14 March 2015, Nanjing High Speed entered into an agreement (the “Land Resumption Agreement”) with the local district government of Jiangning (the “Jiangning Government”). Pursuant to the Land Resumption Agreement, Nanjing High Speed will return and the Jiangning Government will resume the land (together as the “Land Resumption”) on which one of the plants currently owned by Nanjing High Speed is located (the “Resumed Land”) by the end of 2016 in consideration for amount of RMB1.3 billion payable by the Jiangning Government to the Group. The amount will be payable by three instalments, with the first instalment of RMB300 million payable on or before 25 March 2015, the second instalment of RMB400 million payable on or before 30 September 2015, and the last instalment of RMB600 million payable when the Resumed Land is successfully sold by auction, subsequent to the resumption by the Jiangning Government.

During the year ended 31 December 2015, the Group collected an aggregate RMB700 million from the Jiangning Government, representing the full amount of the first instalment and the second instalment. The RMB700 million is principally to compensate for the costs incurred in relation to and as a result of the Land Resumption and was accounted for as government grant for compensation of expenses or losses. During the current period, the Land Resumption was completed and the Group collected the last instalment of RMB600 million from the Jiangning Government.

	RMB' 000
Receipt from the Jiangning Government	700,000
Release and credited to related costs	(192,505)
Balance at 31 December 2015 (audited)	507,495
Release and credited to related costs	(326,767)
Balance at 31 December 2016 (audited)	180,728
Receipt from the Jiangning Government	600,000
Release and credited to related costs	(311,304)
Release and set-off with the related property, plant and equipment	(281,501)
Release and set-off with the related prepaid land lease payments	(13,918)
Gain from Land Resumption	(174,005)
Balance at 30 June 2017 (unaudited)	—

28. APPROVAL OF THE UNAUDITED INTERIM FINANCIAL INFORMATION

The unaudited interim financial information was approved and authorised for issue by the board of directors on 31 August 2017.