



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

2018

* For identification purpose only



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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Yongdao
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

4th Floor, Harbour Place
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
COFCO Tower
No. 262 Gloucester Road
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited
3rd Floor, Royal Bank House
24 Shedden Road
P.O. Box 1586
Grand Cayman KY1-1110
Cayman Islands



CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

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 2018 RMB' 000 (Unaudited)	Six months ended 30 June 2017 RMB' 000 (Unaudited and restated)	Change
Revenue	3,466,794	3,894,207	-11.0%
Gross profit	799,501	1,197,837	-33.3%
Profit for the period attributable to owners of the Company	179,331	586,695	-69.4%
Basic earnings per share (RMB)	0.110	0.359	-69.4%
	As at 30 June 2018 RMB' 000 (Unaudited)	As at 31 December 2017 RMB' 000 (Audited)	Change
Total assets	28,767,615	27,438,175	4.8%
Total liabilities	17,859,638	16,462,174	8.5%
Net assets	10,907,977	10,976,001	-0.6%
Net assets per share (RMB)	6.7	6.7	—
Gearing ratio* (%)	62.1	60.0	2.1 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”) are 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 2018 (the “Period under Review”), the Group recorded sales revenue of approximately RMB3,466,794,000 (30 June 2017: RMB3,894,207,000), representing a decrease of approximately 11.0% as compared with the corresponding period of 2017, and the gross profit margin was approximately 23.1% (30 June 2017: 30.8%). Profit attributable to the owners of the Company was approximately RMB179,331,000 (30 June 2017: RMB586,695,000), representing a decrease of 69.4% as compared with the corresponding period of 2017, and basic earnings per share was RMB0.110 (30 June 2017: RMB0.359), representing a decrease of 69.4% as compared with the corresponding period of 2017.

Principal Business Review

1. Gear Segment

(i) *Wind gear transmission equipment*

Large, diversified and overseas market 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 14.4% to approximately RMB2,746,132,000 (30 June 2017: RMB3,208,896,000) as compared with the corresponding period last year. The decrease in revenue was mainly due to the decline in deliveries of wind gear transmission equipment 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 gear 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 it 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, 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 Group adjusted the development strategy for traditional industrial gear transmission equipment. Above all, with the focus on energy-saving and environmentally-friendly products, the Group self-developed standardized and modular products which are internationally competitive, in order to facilitate the change in sales strategies and explore new markets and new industries; at the same time, the Group strengthened its efforts to provide and sell parts and components of relevant products as well as system solutions to its customers, helping them enhance their current production efficiency without increasing capital expenditure, thereby maintaining the Company's 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, Xi'an, Wuhan, Hong Kong, Singapore, Brazil, India, Mexico, Tunisia 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.

MANAGEMENT DISCUSSION AND ANALYSIS

The metro gear box that are 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 RMB601,515,000 for the Group (30 June 2017: RMB525,783,000), representing an increase of 14.4% as compared with the corresponding period last year.

2. Computer numerical controlled (“CNC”) machine tool products

CNC machine tool products industry

CNC machine tool is the core equipment of the equipment manufacturing industry. Due to the sophistication of the application of machine tools in heavy equipments, the international markets of machine tools are dominated by a few manufacturers. Despite the Group's relentless efforts on developing advanced and efficient machine tools in order to establish a presence in the heavy and high-end equipment manufacturing markets, the Group reported consecutive decrease in revenue of CNC machine tool business since the financial year ended 31 December 2014.

During the Period under Review, CNC machine tool products generated sales revenue of approximately RMB24,561,000 (30 June 2017: RMB25,309,000), representing a decrease of 3.0% as compared with the corresponding period last year.

3. Diesel engine products

The Group's diesel engine products business is operated by Nantong Diesel Engine Co., Ltd. (“**Nantong Diesel**”).

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.

During the Period under Review, the Group's sales revenue from diesel engine products amounted to approximately RMB52,457,000 (30 June 2017: RMB52,229,000), representing an increase of 0.4% as compared with the corresponding period last year.

LOCAL AND EXPORT SALES

During the Period under Review, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. During the Period under Review, the overseas sales amounted to approximately RMB1,145,584,000 (30 June 2017: RMB1,525,736,000), representing a decrease of 24.9% as compared with the corresponding period last year. Overseas sales accounted for 33.0% of total sales (30 June 2017: 39.2%), representing a decrease of 6.2 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 at 30 June 2018, a total of 267 patents were granted by the nation. In addition, 60 patent applications have been submitted and pending for approval. The Group was the first producer to adopt ISO1328 and ISO06336 international standards. It was nominated as an enterprise for the 863 State Plan and a Computer Integrated Manufacturing System (CIMS) Application Model Enterprise by the Ministry of Science and Technology of the PRC. Until now, the Company passed ISO9001:2015 quality management system certification, ISO14001:2015 environmental management system certification and OHSAS18001: 2007 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), Germanischer Lloyd (DNVGL), Offshore and Certification Centre of Deutsches Windenergie-Institut (DEWI-OCC), CE and ETL, and its rail transportation products have obtained International Railway Industry Standard (IRIS) certifications.



MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

Looking back to the first half of 2018, as for the international market, the global economy continued to recover albeit at divergent paces, as challenges for economic cooperation are evident. Among major economies, the U.S. economy posted strong half year performance benefiting from tax reduction and fiscal stimuluses, among others. Growth momentum of the Eurozone economy weakens as affected by political uncertainties. The performance of the UK economy was also unimpressive. This year is the 40th anniversary of China's reform and opening up, the Chinese government launched a new round of reforms and deregulation measures during the first half year. Market entry thresholds have been greatly reduced for many industries and enormous opportunities have emerged. In the first half of the year, GDP grew by 6.8% compared to the same period last year, making China a major growth driver of the global economy.

For the first half of 2018, due to the energy structure reform promoted by the nation, newly installed grid-connected wind power capacity reached 7.94 million kW, growing by approximately 30% over the same period last year. Total wind power generation of China reached 191.7 billion kWh, up by 28.7% compared to the corresponding period last year. 1,143 average utilization hours or an increase of 159 hours over the same period last year were reported. The acceleration of offshore wind power installation was significant. The cumulative grid-connected installed capacity was 2.70 million kW. At the same time, under the guidance of the policies of the national ministries and commissions and together with the introduction of multiple policies to protect consumption of wind power and other new energies, there has been continuous improvement in wind power curtailment. For the first half year, the national wind power curtailment amounted to 18.2 billion kWh, decreasing by 22.55% compared to the corresponding period last year.

As a global leader of wind gear transmission equipment, the Group is keen to procure business upgrade, transformation and high-quality growth. As a result, the Group secured one of the largest market shares in the global wind power equipment market. By leveraging its strong research, design and development capabilities, the Group has a range of products including 750kW, 1.5MW, 2MW and 3MW wind gear transmission equipment, and a wide variety of products are supplied to customers in China and other countries on a large scale with their technical standards reaching advanced international level. 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. Apart from that, during the Period under Review, the Group also launched to the market Gear-Sight 3000 product series in the wind power gear box status monitoring system category, which can accurately assess the operating status and condition of gear box.

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 gained extensive 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.



MANAGEMENT DISCUSSION AND ANALYSIS

While consolidating the established leading position in the wind power generation area, the Group applied its strengths in manufacturing and R&D to industrial gear transmission equipment so as to optimize the overall profit model. During the Period under Review, the Group managed to develop high-speed satellite gear box which is an integrated transmission system incorporating motor starter, gear box, clutch, lubrication and cooling system and monitoring system on its own. Various tests and verifications were gone through and satisfactory performance was achieved at the very first trial operation.

The Group's self-developed vertical dual planetary gear reducers with power grades from 3,300kW to 6,000kW are running smoothly in China, Southeast Asia and the Middle East. In 2018, the Group successfully developed and delivered MLXSS700M dual planetary vertical mill reducer with a designed power level of 6800kW, which is the M series vertical mill gear box with the highest power level so far developed by the Group.

As we look ahead to the second half year, we should note that in the Guiding opinions on 2018 Energy Tasks released early this year, the National Energy Administration called for steady construction of wind power projects with plans to build additional power-generating capacity of about 25 million kW and newly installed capacity of about 20 million kW for the year. At the same time, as shown in the 2018 Wind Power Investment Monitoring and Early Warning Results issued by the National Energy Administration, the number of "red alert" regions subject to wind power investment restriction has been reduced from six provinces to three provinces, as Inner Mongolia, Heilongjiang and Ningxia have been taken off from the "red alert" list. The wind power industry is expected to enter a rapid development phase with the support of the favorable national policy. According to the wind power development plan under the "Thirteenth Five-Year Plan", the national scale of offshore wind power construction will reach 10 million kW and the cumulative grid-connected capacity will be over 5 million kW by 2020. According to the relevant data, by early 2018, total planned offshore wind power-generating installed capacity across the country has exceed 100 million kW, far more than the target of 15 million kW for construction of offshore wind power-generating capacity by 2020 as stated in the wind power development plan under the "Thirteenth Five-Year Plan". The development speed of offshore wind power business will be geared up to a new level in the future. The Group will continue to stay current with the product market, proactively adapt to the new normal of economic development, enhance product quality and economies of scale, enlarge market shares in the international markets, with a view to boosting profitability of the Group's core business.

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 2018.

FINANCIAL PERFORMANCE

During the Period under Review, the Group’s sales revenue decreased by 11.0% to approximately RMB3,466,794,000.

	Revenue		
	Six months ended 30 June		
	2018	2017	Change
	(unaudited)	(unaudited and restated)	
	RMB' 000	RMB' 000	
Gear Segment	3,347,647	3,734,679	-10.4%
– Wind Gear Transmission Equipment	2,746,132	3,208,896	-14.4%
– Industrial Gear Transmission Equipment	601,515	525,783	14.4%
Marine Gear Transmission Equipment *	—	23,573	N/A
CNC Machine Tool Products	24,561	25,309	-3.0%
Diesel Engine Products	52,457	52,229	0.4%
Others	42,129	58,417	-27.9%
Total	3,466,794	3,894,207	-11.0%

* The disposal of marine gear transmission equipment business was completed prior to 30 June 2017.

Revenue

During the Period under Review, the Group’s sales revenue was approximately RMB3,466,794,000, representing a decrease of 11.0% as compared with the corresponding period last year. The decrease was mainly due to the decline in deliveries of wind gear transmission equipment.

During the Period under Review, sales revenue from wind gear transmission equipment was approximately RMB2,746,132,000 (30 June 2017: RMB3,208,896,000), representing a decrease of 14.4% as compared with the corresponding period last year; sales revenue from industrial gear transmission equipment was approximately RMB601,515,000 (30 June 2017: RMB525,783,000), representing an increase of 14.4% 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 RMB24,561,000 and RMB52,457,000 (30 June 2017: RMB25,309,000 and RMB52,229,000), representing a decrease of 3.0% and an increase of 0.4% 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 23.1% (30 June 2017: 30.8%), representing a decrease of 7.7 percentage points as compared with the corresponding period last year. Consolidated gross profit for the Period under Review amounted to approximately RMB799,501,000 (30 June 2017: RMB1,197,837,000), representing a decrease of 33.3% 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 decline in selling price of certain products, increase in cost of sales and effect from change in product mix of sales. 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 RMB213,151,000 (30 June 2017: RMB90,185,000), representing an increase of 136.3% as compared with the corresponding period last year. Other income mainly comprised of bank interest income, investment income and income from sales of scraps and materials. The increase was mainly due to the increase in investment income.

During the Period under Review, the Group's net gains was approximately RMB74,144,000 (30 June 2017: RMB302,074,000), mainly comprised of the fair value changes on financial assets at fair value through profit or loss.

Selling and distribution expenses

During the Period under Review, the Group's selling and distribution expenses were approximately RMB150,597,000 (30 June 2017: RMB169,650,000), representing a decrease of 11.2% 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. Selling and distribution expenses represented 4.3% (30 June 2017: 4.4%) of sales revenue for the Period under Review, about the same level as the corresponding period last year.

Administrative expenses

During the Period under Review, the Group's administrative expenses were approximately RMB303,630,000 (30 June 2017: RMB339,382,000), representing a decrease of 10.5% as compared with the corresponding period last year, which was mainly due to the decrease in salary and welfare, and bank charges arising from the issuance of corporate bonds. Administrative expenses as a percentage of sales revenue increased by 0.1 percentage point to 8.8% as compared with the corresponding period last year.

Other expenses

During the Period under Review, the Group's other expenses amounted to approximately RMB3,316,000 (30 June 2017: RMB138,964,000), primarily comprised of expenses for termination of employees' contracts.

MANAGEMENT DISCUSSION AND ANALYSIS

Finance costs

During the Period under Review, the Group's finance costs were approximately RMB341,515,000 (30 June 2017: RMB238,834,000), representing an increase of 43.0% as compared with the corresponding period last year, which was mainly due to the increase in bank loans and corporate bonds during the Period under Review.

FINANCIAL RESOURCES AND LIQUIDITY

As at 30 June 2018, the equity attributable to owners of the Company amounted to approximately RMB10,843,954,000 (31 December 2017: RMB10,904,962,000). The Group had total assets of approximately RMB28,767,615,000 (31 December 2017: RMB27,438,175,000), representing an increase of 4.8% as compared with the beginning of the year. Total current assets were approximately RMB18,762,704,000 (31 December 2017: RMB18,013,876,000), representing an increase of 4.2% as compared with the beginning of the year. Total non-current assets were approximately RMB10,004,911,000 (31 December 2017: RMB9,424,299,000), representing an increase of 6.2% as compared with the beginning of the year.

As at 30 June 2018, total liabilities of the Group were approximately RMB17,859,638,000 (31 December 2017: RMB16,462,174,000), representing an increase of approximately RMB1,397,464,000, or 8.5%, as compared with the beginning of the year. Total current liabilities were approximately RMB14,846,739,000 (31 December 2017: RMB13,441,242,000), representing an increase of 10.5% as compared with the beginning of the year, mainly due to the increase in trade payables, and bank and other borrowings. Total non-current liabilities were approximately RMB3,012,899,000 (31 December 2017: RMB3,020,932,000), representing a decrease of 0.3% as compared with the beginning of the year.

As at 30 June 2018, the net current assets of the Group were approximately RMB3,915,965,000 (31 December 2017: RMB4,572,634,000), representing a decrease of approximately RMB656,669,000, or 14.4%, as compared with the beginning of the year.

As at 30 June 2018, total cash and bank balances of the Group were approximately RMB6,340,537,000 (31 December 2017: RMB7,031,364,000), representing a decrease of approximately RMB690,827,000, or 9.8%, as compared with the beginning of the year. Total cash and bank balances included pledged bank deposits of RMB3,655,024,000 (31 December 2017: pledged bank deposits of RMB2,892,955,000 and structured bank deposits of RMB108,000,000).

As at 30 June 2018, the Group had total borrowings of approximately RMB8,627,559,000 (31 December 2017: RMB7,786,901,000), representing an increase of approximately RMB840,658,000, or 10.8%, as compared with the beginning of the year, of which borrowings with maturity within one year were RMB5,868,486,000 (31 December 2017: RMB5,030,608,000), accounting for approximately 68.0% (31 December 2017: 64.6%) 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 8.50% per annum.



MANAGEMENT DISCUSSION AND ANALYSIS

Taking into account the internal financial resources of and the banking facilities available to the Group, and the net current assets of RMB3,915,965,000 as at 30 June 2018, 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 60.0% as at 31 December 2017 to 62.1% as at 30 June 2018, mainly due to the increase in 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 2018 amounted to approximately €34,290,000 and USD74,000,000, respectively.

During the Period under Review, the Group's borrowings with fixed interest rates accounted for approximately 96.2% 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 2018.

CONTINGENT LIABILITIES

Save as disclosed in note 20 to the condensed consolidated financial statements, as at 30 June 2018, the Directors were not aware of any other material contingent liabilities.

CAPITAL COMMITMENTS

As at 30 June 2018, 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 associates and capital contribution payable to financial assets at fair value through other comprehensive income of approximately RMB308,342,000 (31 December 2017: RMB395,418,000). Details are set out in note 22 to the condensed consolidated financial statements.

MANAGEMENT DISCUSSION AND ANALYSIS

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 the impact of significant exchange rate risks. The Group does not need 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 2018 amounted to €34,290,000 (equivalent to approximately RMB262,369,000) and USD74,000,000 (equivalent to approximately RMB489,628,000). Therefore, the Group may be exposed to certain exchange rate risks in this regard.

The net gain of foreign exchange recorded by the Group during the Period under Review was approximately RMB5,295,000 (30 June 2017: net loss of RMB10,740,000). The foreign exchange gain was due to the fluctuation in the exchange rates of Renminbi against U.S. dollars during the Period under Review which resulted in a gain 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 rate risks in 2019.

INTEREST RATE RISK

During the Period under Review, the loans of the Group are mainly sourced from bank loans, corporate bonds and medium-term notes. Therefore, the benchmark lending rate announced by the People's Bank of China and the LIBOR will have a direct impact on the Group's cost of debt and future changes in interest rates will also have certain impact on the Group's cost of debt. The Group will strive to reduce the finance costs by actively monitoring the changes in credit policies, taking pre-emptive actions, strengthening capital management and expanding financing channels.

EMPLOYEES AND REMUNERATION POLICY

As at 30 June 2018, the Group employed 6,619 employees (30 June 2017: 6,956 employees). Staff costs of the Group for the first half of 2018 amounted to approximately RMB629,844,000 (30 June 2017: RMB517,874,000). 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 executive Directors and senior management and the remuneration of non-executive Directors.



MANAGEMENT DISCUSSION AND ANALYSIS

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 remuneration levels of employees are generally determined by reference to the employees' positions, responsibilities and performance as well as the Group's financial results. In addition to remuneration, the Group provides housing allowances to some of its employees. The Group also offers incentive programs to encourage its employees to take initiatives in innovation and changes 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 corporate management.

The Group has various training programs in place to promote staff development.

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.

SIGNIFICANT INVESTMENT DURING THE PERIOD UNDER REVIEW

The Group did not conduct any significant investment during the Period under Review.

SIGNIFICANT ACQUISITION AND DISPOSAL DURING THE PERIOD UNDER REVIEW

The Group did not conduct any significant acquisition or disposal of subsidiaries and associates during the Period under Review.

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, no other significant event has occurred in the Group subsequent to 30 June 2018.

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, and the Company’s Chairman and chairman of the nomination committee, the chairman of the audit committee, the chairman of the remuneration committee and the external auditors of the Company have attended the 2017 annual general meeting of the Company. Mr. Yuen Chi Ping, a non-executive Director, and Mr. Nathan Yu Li, an independent non-executive Director, were absent from the 2017 annual general meeting due to other important matters.

BOARD OF DIRECTORS

Mr. Zhou Zhijin, Mr. Hu Jichun, Ms. Zheng Qing and Mr. Jiang Xihe were re-elected as Directors by shareholders at the 2017 annual general meeting of the Company held on 18 May 2018.

Due to other work-related reason, Mr. Gou Jianhui resigned as an executive Director with effect from 16 January 2018.

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

Executive Directors

Mr. Chen Yongdao

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

Changes in the particulars of Directors during their term of office

For the six months ended 30 June 2018, changes have occurred in the directorship held in other public listed companies or in other key appointments held by the following Directors:

Mr. Yuen Chi Ping, a non-executive director, ceased to act as the chief operating officer of Fullshare Holdings Limited (stock code: 607) (“Fullshare”) during the Period under Review, and acted as an executive director, the vice-chairman of the board and the co-chief executive officer of LongiTech Smart Energy Holding Limited (stock code: 1281) since April 2018.

Save as disclosed above, no other changes in the particulars of Directors have to be disclosed pursuant to Rule 13.51(B) of the Listing Rules.

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 on 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 the compliance with the Model Code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

The Group has not purchased, sold or redeemed any of the Company’s listed securities during the six months ended 30 June 2018.

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 2018 interim report and unaudited condensed consolidated financial statements for the six months ended 30 June 2018 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, the 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 EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE COMPANY'S ISSUED SHARES

As at 30 June 2018, none of the Directors or the chief executives 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 2018, none of the Directors and the chief executives 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 executives of the Company or their spouses or children under the age of 18 had any right to subscribe for securities of the Company or had exercised any such right.

At no time during the Period under Review was the Company or its holding company or any of its subsidiaries a party to any arrangement to enable the Directors or the chief executives of the Company to obtain benefits through 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 2018, the following persons (other than the Directors or the chief executives 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 interest	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 (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 2018, there was no other person, other than the Directors or the chief executives 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.

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

For the six months ended 30 June 2018

	Notes	For the six months ended 30 June	
		2018 (Unaudited) RMB' 000	2017 (Unaudited and restated) RMB' 000
Revenue	4	3,466,794	3,894,207
Cost of sales		(2,667,293)	(2,696,370)
Gross profit		799,501	1,197,837
Other income and net gains	4	287,295	392,259
Selling and distribution expenses		(150,597)	(169,650)
Administrative expenses		(303,630)	(339,382)
Research and development costs		(120,008)	(113,434)
Other expenses		(3,316)	(138,964)
Finance costs	6	(341,515)	(238,834)
Share of profits and losses of:			
Joint ventures		9,496	35,990
Associates		929	(6,924)
Profit before tax	5	178,155	618,898
Income tax expense	7	(5,430)	(57,665)
Profit for the period		172,725	561,233

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

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018 (Unaudited) RMB' 000	2017 (Unaudited and restated) RMB' 000
Other comprehensive expense		
<i>Other comprehensive income (expense) 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	1,754	551
	1,754	(79,621)
<i>Other comprehensive expense not to be reclassified to profit or loss in subsequent periods:</i>		
Financial assets at fair value through other comprehensive income:		
Change in fair value	(75,706)	—
Income tax effect on change in fair value	18,045	—
	(57,661)	—
Other comprehensive expense for the period, net of tax	(55,907)	(79,621)
Total comprehensive income for the period	116,818	481,612
Profit/(loss) for the period attributable to:		
Owners of the Company	179,331	586,695
Non-controlling interests	(6,606)	(25,462)
	172,725	561,233

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

For the six months ended 30 June 2018

	Note	For the six months ended 30 June	
		2018 (Unaudited) RMB' 000	2017 (Unaudited and restated) RMB' 000
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		123,834	507,199
Non-controlling interests		(7,016)	(25,587)
		116,818	481,612
Earnings per share attributable to ordinary equity holders of the Company:			
Basic and diluted (RMB)	9	0.110	0.359

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2018

	Notes	30 June 2018 (Unaudited) RMB' 000	31 December 2017 (Audited) RMB' 000
NON-CURRENT ASSETS			
Property, plant and equipment	10	4,476,872	4,409,741
Prepaid land lease payments	10	664,119	669,236
Goodwill		2,991	2,991
Other intangible assets		29,138	37,875
Interests in joint ventures		109,454	99,958
Interests in associates		284,466	158,014
Prepayment for acquisition of property, plant and equipment	15	5,306	4,795
Other receivable	11	500,000	71,429
Financial assets at fair value through other comprehensive income	12	2,594,431	—
Financial assets at fair value through profit or loss	12	783,462	—
Available-for-sale investments	13	—	3,612,278
Deposit for land lease		301,590	116,800
Deferred tax assets		253,082	241,182
Total non-current assets		10,004,911	9,424,299
CURRENT ASSETS			
Inventories		2,990,113	2,415,777
Prepaid land lease payments	10	11,786	14,860
Trade and bills receivables	14	4,351,882	6,515,259
Financial assets at fair value through other comprehensive income	12	2,285,301	—
Prepayments, deposits and other receivables	15	1,629,516	2,036,616
Financial assets at fair value through profit or loss	12	1,153,569	—
Structured bank deposits		—	108,000
Pledged bank deposits		3,655,024	2,892,955
Bank balances and cash		2,685,513	4,030,409
Total current assets		18,762,704	18,013,876

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

As at 30 June 2018

	Notes	30 June 2018 (Unaudited) RMB' 000	31 December 2017 (Audited) RMB' 000
CURRENT LIABILITIES			
Trade and bills payables	16	7,396,643	6,637,045
Other payables and accruals	17	948,973	986,772
Receipts in advance and deposits received		—	542,429
Contract liabilities and deposits received		417,089	—
Interest-bearing bank and other borrowings	18	5,868,486	5,030,608
Taxation payable		104,547	123,724
Warranty provision		111,001	120,664
Total current liabilities		14,846,739	13,441,242
NET CURRENT ASSETS		3,915,965	4,572,634
TOTAL ASSETS LESS CURRENT LIABILITIES		13,920,876	13,996,933
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	18	2,759,073	2,756,293
Deferred tax liabilities		168,631	178,981
Deferred income		85,195	85,658
Total non-current liabilities		3,012,899	3,020,932
Net assets		10,907,977	10,976,001
EQUITY			
Equity attributable to owners of the Company			
Share capital		119,218	119,218
Reserves		10,724,736	10,785,744
		10,843,954	10,904,962
Non-controlling interests		64,023	71,039
Total equity		10,907,977	10,976,001

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

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	Capital reserve* RMB' 000	Investment revaluation reserve* RMB' 000	Statutory surplus reserve* RMB' 000	Other reserve* RMB' 000	Exchange reserve* RMB' 000	Retained profits* RMB' 000	Total RMB' 000	Non- controlling interests RMB' 000	
At 31 December 2017 (audited)	119,218	4,358,785	77,651	143,249	247,644	835,564	52,335	(5,049)	5,075,565	10,904,962	71,039	10,976,001
Impact of adopting IFRS 9 (Note 2.2)	—	—	—	—	(15,738)	—	—	—	69,998	54,260	—	54,260
Restated balance at 1 January 2018 (unaudited)	119,218	4,358,785	77,651	143,249	231,906	835,564	52,335	(5,049)	5,145,563	10,959,222	71,039	11,030,261
Profit (loss) for the period	—	—	—	—	—	—	—	—	179,331	179,331	(6,606)	172,725
Other comprehensive (expense) income for the period	—	—	—	—	(57,251)	—	—	1,754	—	(55,497)	(410)	(55,907)
Total comprehensive (expense) income for the period	—	—	—	—	(57,251)	—	—	1,754	179,331	123,834	(7,016)	116,818
Dividends	8	(239,102)	—	—	—	—	—	—	—	(239,102)	—	(239,102)
At 30 June 2018 (unaudited)	119,218	4,119,683	77,651	143,249	174,655	835,564	52,335	(3,295)	5,324,894	10,843,954	64,023	10,907,977

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

For the six months ended 30 June 2018

	Note	Attributable to owners of the Company										Total equity	
		Share capital	Share premium*	Deemed capital contribution reserve*	Capital reserve*	Investment revaluation reserve*	Statutory surplus reserve*	Other reserve*	Exchange reserve*	Retained profits*	Total		Non-controlling interests
		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 2017 (audited)		119,218	4,691,197	77,651	150,208	505,438	704,256	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 shareholders of subsidiaries		—	—	—	—	—	—	—	—	—	—	2,500	2,500
Acquisition of additional interest in subsidiaries		—	—	—	—	—	—	—	—	—	—	(4,400)	(4,400)
Dividends	8	—	(332,412)	—	—	—	—	—	—	—	(332,412)	—	(332,412)
At 30 June 2017 (unaudited)		119,218	4,358,785	77,651	150,208	425,391	704,256	52,335	(1,053)	5,341,869	11,228,660	160,141	11,388,801

Notes:

- * These reserve accounts comprise the consolidated reserves of RMB10,724,736,000 (31 December 2017: RMB10,785,744,000) in the consolidated statement of financial position.

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018 (Unaudited) RMB' 000	2017 (Unaudited) RMB' 000
Operating activities		
Profit before tax	178,155	618,898
Adjustments to reconcile profit before tax to net cash flow	327,472	173,022
Total working capital adjustments	(131,680)	25,358
Cash generated from operations	373,947	817,278
Income tax paid	(46,899)	(148,589)
Net cash flows from operating activities	327,048	668,689
Investing activities		
Purchases of property, plant and equipment	(228,772)	(259,077)
Purchase of available-for-sale investments	—	(1,784,781)
Purchase of financial assets at fair value through other comprehensive income	(5,000)	—
Purchase of financial assets at fair value through profit or loss	(1,029,120)	—
Purchases of other investment	(500,000)	—
Prepayment for acquisition of property, plant and equipment	(511)	—
Deposit paid for land lease	(184,790)	—
Proceeds on disposal of financial assets at fair value through profit or loss	269,500	—
Withdrawal of other investment	500,000	—
Placement of pledged bank deposits	(3,438,989)	(3,803,510)
Withdrawal of pledged bank deposits	2,676,920	3,107,008
Capital injection in an associate	(127,205)	(12,000)
Interest received	19,565	31,621
Other investment income received	138,862	3,863
Loans to third parties	(630,107)	(2,048,038)
Repayment from third parties	594,000	1,950,000
Loans to an associate	(88,641)	—
Proceeds from disposal of property, plant and equipment	1,661	302,344
Inflow from disposal of associates	—	19,475
Dividends received from a joint venture	—	1,000
Inflow from disposal of subsidiaries	6,000	579,298
Inflow from disposal of a joint venture	39,419	—

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

For the six months ended 30 June 2018

	For the six months ended 30 June	
	2018 (Unaudited) RMB' 000	2017 (Unaudited) RMB' 000
Acquisition of assets and liabilities through acquisition of subsidiaries	—	(149,031)
Consideration for land resumption received	—	600,000
Withdrawal of structured bank deposits	—	209,000
Proceeds from government grant	5,503	—
Net cash flows used in investing activities	(1,981,705)	(1,252,828)
Financing activities		
New bank and other borrowings raised	4,504,713	4,465,451
Repayment of bank and other borrowings	(3,664,055)	(3,905,059)
Interest paid	(291,795)	(233,333)
Repayment of obligation under finance leases	—	(6,931)
Dividends paid	(239,102)	(332,412)
Capital contribution by non-controlling shareholders	—	2,500
Acquisition of additional interests in subsidiaries	—	(4,400)
Net cash flows from (used in) financing activities	309,761	(14,184)
Net decrease in cash and cash equivalents	(1,344,896)	(598,323)
Cash and cash equivalents at beginning of period	4,030,409	2,745,023
Cash and cash equivalents at end of period	2,685,513	2,146,700



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 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 2018 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 2017.

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 2017, except for the adoption of new standards, interpretations and amendments to International Financial Reporting Standards (“IFRSs”), which are mandatory effective for the annual periods beginning on or after 1 January 2018. The Group has not early adopted any other standards, interpretation or amendments that have been issued but are not yet effective.

Except for the impacts from IFRS 15 and IFRS 9 as described below, the application of the other interpretations and amendments to IFRSs, which are mandatory effective for the annual period beginning on or after 1 January 2018, has had no material impact on the Group’s financial performance and positions for the current and prior periods and/or on the disclosures set out in these interim condensed consolidated financial statements. The nature and the effect of these changes are disclosed below.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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)*

IFRS 15 Revenue from Contracts with Customers

IFRS 15 supersedes IAS 11 Construction Contracts, IAS 18 Revenue and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The analysis of the effect of adopting IFRS 15 is as follows:

(a) Sale of goods

The Group's contract with customers for the sale of mechanical transmission goods and other products generally include one performance obligation. The Group has concluded that revenue from sale of mechanical transmission goods and other products should be recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods. Therefore, the Group concluded that the adoption of IFRS 15 did not have an impact on the timing of revenue recognition.

(b) Warranty obligations

The Group generally provides warranties for general repairs of defects which are assurance-type warranties under IFRS 15, and accounts for under IAS 37 Provisions, Contingent Liabilities and Contingent Assets, consistent with its practice prior to the adoption of IFRS 15. Therefore, the Group concluded that the adoption of IFRS 15 did not have an impact on the accounting for its warranties.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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)*

IFRS 15 Revenue from Contracts with Customers *(Continued)*

(c) Advances received from customers

The Group receives advances from its customers for the goods sold. Prior to the adoption of IFRS 15, the Group presented these advances as receipts in advance in the consolidated statement of financial position. No interest was accrued on these advances received under the previous accounting policy.

Under IFRS 15, the Group applies the practical expedient of not adjusting the promised amount of the consideration for the effects of a financing component in contracts, where the Group expects, at contract inception, that the payment between the payment by the customer and the transfer of the promised goods or services is less than one year.

Under IFRS 15, these advances, which previously included in “receipts in advance and deposits received”, are recorded as “contract liabilities and deposits received” before relevant revenue is recognised.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment, and hedge accounting. The impacts arising from the adoption of IFRS 9 are summarised as follows:

(a) Classification and measurement

Under IFRS 9, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs.

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss (“FVTPL”), amortised cost, or fair value through other comprehensive income (“FVTOCI”). The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent ‘solely payments of principal and interest’ on the principal amount outstanding (the “SPPI criterion”).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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)*

IFRS 9 Financial Instruments *(Continued)*

(a) Classification and measurement *(Continued)*

The new classification and measurement of the Group's financial assets are, as follows:

- Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows that meet the SPPI criterion. This category includes the Group's trade receivables, financial assets included in prepayments, deposits and other receivables, pledged bank deposits, bank balances and cash.
- Debt instruments at FVTOCI, with gains or losses recycled to profit or loss on derecognition. Financial assets in this category are the Group's bills receivable that meet the SPPI criterion and are held within a business model both to collect cash flows and to sell.
- Equity instruments at FVTOCI, with no recycling of gains or losses to profit or loss on derecognition. This category only includes quoted and unquoted equity instruments, which the Group intends to hold for the foreseeable future and which the Group has irrevocably elected to so classify upon initial recognition or transition. Equity instruments at FVTOCI are not subject to an impairment assessment under IFRS 9. Under IAS 39, the Group's quoted and unquoted equity instruments were classified as available-for-sale investments.
- Financial assets at FVTPL comprise debt instruments whose cash flow characteristics fail the SPPI criterion or are not held within a business model whose objective is either to collect contractual cash flows, or to both collect contractual cash flows and sell. Under IAS 39, these instruments were classified as available-for-sale investments.

The assessment of the Group's business models was made as of the date of initial application, 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group's financial liabilities remains the same as it was under IAS 39.



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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)*

IFRS 9 Financial Instruments *(Continued)*

(b) Impairment

The adoption of IFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss approach with a forward-looking expected credit loss ("ECL") approach.

IFRS 9 requires the Group to record an allowance for ECLs for debt financial assets not held at FVTPL.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset's original effective interest rate.

For trade receivables, the Group has applied the standard's simplified approach and has calculated ECLs based on lifetime expected credit losses. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECL is based on the 12-month ECL. The 12-month ECL is the portion of lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the end of the reporting period. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECL.

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. The Group concluded that the adoption of the ECL requirements of IFRS 9 consideration do not result in any significant impact on the amounts reported in the statement of consolidated financial position on 1 January 2018 and the financial information during the six months ended 30 June 2018.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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)*

IFRS 9 Financial Instruments *(Continued)*

(c) Summary of effects arising from initial application of IFRS 9

The Group has applied IFRS 9 in accordance with the transition provision set out in IFRS 9 and elected not to restate comparative information for 2017 for financial instruments. Therefore, the comparative information for 2017 is reported under IAS 39 and is not comparable to the information presented for 2018. The difference between carrying amounts of financial instruments as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in opening equity as at 1 January 2018.

A reconciliation between the carrying amounts under IAS 39 to the balances reported under IFRS 9 as of 1 January 2018 is as follows:

	31 December 2017 (Audited) RMB' 000	Reclassification RMB' 000	Remeasurement RMB' 000	1 January 2018 (Restated) RMB' 000
Non-current assets				
Available-for-sale investments	3,612,278	(3,612,278)	—	—
Financial assets at FVTPL	—	1,010,431	9,056	1,019,487
Financial assets at FVTOCI	—	2,601,847	63,291	2,665,138
Current assets				
Trade and bills receivables	6,515,259	(2,853,321)	—	3,661,938
Structured bank deposits	108,000	(108,000)	—	—
Financial assets at FVTPL	—	108,000	—	108,000
Financial assets at FVTOCI	—	2,853,321	—	2,853,321
Non-current liabilities				
Deferred tax liabilities	—	—	18,087	18,087
Equity				
Investment revaluation reserve	247,644	(63,206)	47,468	231,906
Retained profits	5,075,565	63,206	6,792	5,145,563

NOTES TO THE INTERIM 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.

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.

The following tables present revenue and profit information for the Group's operating segments for the six months ended 30 June 2018 and 2017, respectively.

For the six months ended 30 June 2018

	PRC RMB' 000	USA RMB' 000	Europe RMB' 000	Other countries RMB' 000	Total (Unaudited) RMB' 000
Segment revenue:					
Sales to external customers	2,321,210	553,964	257,349	334,271	3,466,794
Intersegment sales	1,703,922	78,818	11,790	812,830	2,607,360
<i>Reconciliation:</i>					
Elimination of intersegment sales					(2,607,360)
Revenue					3,466,794
Segment results	436,169	124,521	58,392	52,951	672,033
<i>Reconciliation:</i>					
Unallocated other income and net gains					264,166
Other expenses					(3,316)
Finance costs					(341,515)
Share of results of joint ventures					9,496
Share of results of associates					929
Corporation and other unallocated expenses					(423,638)
Profit before tax					178,155

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

3. OPERATING SEGMENT INFORMATION *(Continued)*

For the six months ended 30 June 2017

	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	2,368,471	1,229,369	211,104	85,263	3,894,207
Intersegment sales	1,083,165	61,042	—	13,845	1,158,052
<i>Reconciliation:</i>					
Elimination of intersegment sales					(1,158,052)
Revenue					3,894,207
Segment results	720,474	309,569	18,340	12,066	1,060,449
<i>Reconciliation:</i>					
Unallocated other income and net gains					359,997
Other expenses					(138,964)
Finance costs					(238,834)
Share of results of joint ventures					35,990
Share of results of associates					(6,924)
Corporation and other					
unallocated expenses					(452,816)
Profit before tax					618,898

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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	
	2018 (Unaudited) RMB' 000	2017 (Unaudited and restated) RMB' 000
Revenue		
Sale of goods	3,466,794	3,894,207
Other income		
Bank interest income	44,403	31,632
Gross rental income	1,006	1,398
Government grants*	5,503	12,011
Sale of scraps and material	17,626	20,251
Investment income	106,991	20,270
Others	37,622	4,623
	213,151	90,185
Net gains		
Gain from land resumption	—	174,005
(Loss)/gain on disposal of property, plant and equipment, net	(1,987)	1,377
Gain on disposal of a subsidiary	—	137,374
(Loss)/gain on disposal of an associate	(583)	58
Foreign exchange differences, net	5,295	(10,740)
Fair value changes on financial assets at FVTPL	51,005	—
Reversal of impairment loss of trade receivables, net	19,048	—
Reversal of impairment loss of other receivables	1,366	—
	74,144	302,074
	287,295	392,259

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

5. PROFIT BEFORE TAX

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

	For the six months ended 30 June	
	2018 (Unaudited) RMB' 000	2017 (Unaudited and restated) RMB' 000
Cost of inventories sold	2,655,688	2,614,051
Depreciation of property, plant and equipment	240,712	265,585
Amortisation of technical know-how (included in administrative expenses)	486	1,611
Amortisation of development costs (included in administrative expenses)	8,251	13,929
Amortisation of prepaid land lease payments	8,191	6,994
Write-down of inventories to net realisable value (included in cost of sales)	11,605	82,319
Items included in other expenses:		
Impairment loss of property, plant and equipment	—	1,600
Impairment loss of other intangible assets	—	5,697
Impairment loss of trade and bills receivables, net	—	84,101
Impairment loss of other receivables	—	13,761
Items included in other income and net gains:		
Reversal of impairment loss of trade receivables, net	(19,048)	—
Reversal of impairment loss of other receivables	(1,366)	—

6. FINANCE COSTS

	For the six months ended 30 June	
	2018 (Unaudited) RMB' 000	2017 (Unaudited and restated) RMB' 000
Interest on finance leases	—	163
Interest on bank and other borrowings	341,515	238,671
	341,515	238,834

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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	
	2018 (Unaudited) RMB' 000	2017 (Unaudited and restated) RMB' 000
Current - PRC		
Charge for the period	34,671	108,879
Over provision in respect of prior period	(23,376)	—
Current – Hong Kong		
Charge for the period	5,312	—
Deferred tax		
Credit for the period	(11,177)	(51,214)
Total tax charge for the period	5,430	57,665

PRC corporate income tax has been provided at the rate of 25% (six months ended 30 June 2017: 25%) on the taxable profits of the Group's PRC subsidiaries for the six months ended 30 June 2018.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. INCOME TAX EXPENSE *(Continued)*

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.	31 December 2017	31 December 2019
Nanjing High Speed & Accurate Gear (Group) Co., Ltd.	31 December 2017	31 December 2019
Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd. (“Nanjing Gaochuan Sky”)	31 December 2015	31 December 2017 (note)
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd. (“CHSTE (Beijing) Shougao”)	31 December 2015	31 December 2017 (note)
Nanjing High Accurate Rail Transportation Equipment Co., Ltd.	31 December 2017	31 December 2019

Note: The approval of Nanjing Gaochuan Sky and CHSTE (Beijing) Shougao was issued on 31 October 2015. As the preferential tax rate of 15% for 3 years became effective from the date of approval and up to October 2018, the subsidiaries applied the rate of 15% for the calculation of Enterprise Income Tax for the six months ended 30 June 2018. As at the reporting date, Nanjing Gaochuan Sky and CHSTE (Beijing) Shougao are in the process of applying to renew the qualification of the high technology development enterprises.

Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the six months ended 30 June 2018. No provision for Hong Kong profits tax had been made during the six months ended 30 June 2017.

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 2017: nil).



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

7. INCOME TAX EXPENSE *(Continued)*

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 RMB6,606 million at 30 June 2018 (31 December 2017: RMB6,327 million), in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

8. DIVIDENDS

2017 final dividend amounting to Hong Kong 18 cents (approximately RMB14.6 cents) per share was proposed by the directors of the Company on 29 March 2018, and subsequently approved at the annual general meeting on 18 May 2018. The aggregated amount of the 2017 final dividend declared amounted to approximately RMB239,102,000 and recognised as distribution during the period ended 30 June 2018.

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.

The directors of the Company have determined that no dividend will be declared in respect of the current interim period (six months ended 30 June 2017: nil).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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	
	2018 (Unaudited) RMB' 000	2017 (Unaudited and restated) RMB' 000
Earnings		
Profit attributable to ordinary equity holders of the Company, used in the basic earnings per share calculation	179,331	586,695

	Number of shares For the six months ended 30 June	
	2018 (Unaudited) ' 000	2017 (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 2018 and 2017 as there is no potential dilutive shares in issue.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

During the six months ended 30 June 2018, the Group acquired property, plant and equipment with a cost of RMB311,491,000 (six months ended 30 June 2017: property, plant and equipment and prepaid land lease payments of RMB1,101,907,000 and RMB112,790,000 respectively).

Property, plant and equipment with a net book value of RMB3,648,000 were disposed of by the Group during the six months ended 30 June 2018 (six months ended 30 June 2017: RMB19,480,000), resulting in a net loss on disposal of RMB1,987,000 (six months ended 30 June 2017: net gain of RMB1,377,000).

At 30 June 2018, the Group is in the process of obtaining property certificates for the buildings and land use rights certificates in respect of land use rights located in the PRC with carrying amount of RMB909,727,000 and RMB183,982,000 respectively (31 December 2017: RMB835,423,000 and RMB185,940,000).

11. OTHER RECEIVABLE

	30 June 2018 (Unaudited) RMB' 000	31 December 2017 (Audited) RMB' 000
Insurance products	500,000	—
Land lease deposits	—	71,429
	500,000	71,429

During the year ended 31 December 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. It is reclassified to current asset at 30 June 2018.

The insurance products represented an advance made to an insurance company in the PRC, which will mature at 2023, and carries interest at an annualised fixed rate at 6.50% per annum. Interest and the principal amount are repayable at the maturity date. It is stated at amortised cost less impairment, if any, at the end of the reporting period.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	30 June 2018 (Unaudited) RMB' 000	31 December 2017 (Audited) RMB' 000
Financial assets at FVTOCI		
Non-current:		
Listed equity investments (note a)	364,889	—
Unlisted equity investments (note b)	2,229,542	—
	2,594,431	—
Current:		
Bills receivable	2,285,301	—
	4,879,732	—
Financial assets at FVTPL		
Non-current:		
Unlisted debt investments (note c)	783,462	—
Current:		
Unlisted debt investments (note d)	1,153,569	—
	1,937,031	—

Notes:

- (a) At 30 June 2018, 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 RMB18,582,000 (31 December 2017: RMB22,110,000), 16,962,000 shares of 日月重工股份有限公司 Riyue Heavy Industry Co., Ltd. of RMB317,695,000 (31 December 2017: RMB380,794,000) and 4,593,000 shares of 江蘇銀行股份有限公司 Bank of Jiangsu Co., Ltd. of RMB28,612,000 (31 December 2017: RMB33,756,000).



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME AND FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

Notes: *(Continued)*

- (b) (i) On 17 April 2017, 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 named “浙江浙商產融股權投資基金合夥企業 (有限合夥) Zhejiang Zheshang Chanrong Equity Investment Fund L.P.” 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 L.P., 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 full capital contribution to the investment fund is RMB50.38 billion, among which, RMB2 billion is to be contributed by Nanjing Drive as a limited partner. During the year ended 31 December 2017, RMB2 billion had been paid up by Nanjing Drive to the investment fund.
- (ii) The remaining amount includes the unlisted equity investments with individual amount less than RMB500,000,000.
- (c) (i) On 31 August 2017, Nanjing Drive entered into a limited partnership agreement with Ningbo Zhongbang Chanrong Holding Co., Ltd. (寧波眾邦產融控股有限公司) and Ningbo Jingbang Asset Management Co., Ltd. (寧波靖邦資產管理有限公司) in respect of the establishment of an investment fund in the PRC named Shanghai Guiman Enterprise Management L.P. (上海圭蔓企業管理合夥企業 (有限合夥)) (the “Guiman Fund”). Nanjing Drive is a limited partner and has invested RMB500,000,000 in the Guiman Fund.
- (ii) The remaining amount includes the unlisted debt investments with individual amount less than RMB500,000,000.
- (d) The amount represented the Group’s investments in financial products issued by certain banks and other financial institutions as at 30 June 2018.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

13. AVAILABLE-FOR-SALE INVESTMENTS

	30 June 2018 (Unaudited) RMB' 000	31 December 2017 (Audited) RMB' 000
Listed equity investments	—	436,660
Unlisted equity investments	—	3,175,618
	—	3,612,278
For reporting purpose:		
Current portion	—	—
Non-current portion	—	3,612,278
	—	3,612,278

The Group has reclassified available-for-sale investments to financial assets at FVTOCI or financial assets at FVTPL at 1 January 2018 upon the adoption of IFRS 9 (see notes 2.2 and 12).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

14. TRADE AND BILLS RECEIVABLES

	30 June 2018 (Unaudited) RMB' 000	31 December 2017 (Audited) RMB' 000
Trade receivables	4,908,933	4,238,036
Bills receivable	—	2,853,321
Impairment	(557,051)	(576,098)
	4,351,882	6,515,259

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 ageing analysis of the trade receivables (31 December 2017: 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 2018 (Unaudited) RMB' 000	31 December 2017 (Audited) RMB' 000
0 - 90 days	2,636,124	3,609,544
91 - 120 days	300,894	479,238
121 - 180 days	722,182	958,477
181 - 365 days	330,422	963,645
1 - 2 years	206,392	344,473
Over 2 years	155,868	159,882
	4,351,882	6,515,259

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

15. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	30 June 2018 (Unaudited) RMB' 000	31 December 2017 (Audited) RMB' 000
Prepayments	528,536	516,239
Deposits and other receivables (note)	871,561	1,497,101
Value-added tax recoverable	159,660	80,104
Amounts due from the Group's joint ventures	13,230	14,126
Amounts due from the Group's associates	150,198	23,569
Impairment	(88,363)	(89,728)
	1,634,822	2,041,411
For reporting purpose:		
Current portion	1,629,516	2,036,616
Non-current portion	5,306	4,795
	1,634,822	2,041,411

Note: As at 31 December 2017, included in the above deposits and other receivables, RMB583,174,000 represented an advance made to an insurance company in the PRC. During the current interim period, interest and the principal amount are repaid in full at the maturity date.

16. TRADE AND BILLS PAYABLES

	30 June 2018 (Unaudited) RMB' 000	31 December 2017 (Audited) RMB' 000
Trade payables	2,444,693	1,855,137
Bills payable	4,951,950	4,781,908
	7,396,643	6,637,045

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

16. TRADE AND BILLS PAYABLES *(Continued)*

An ageing 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 2018 (Unaudited) RMB' 000	31 December 2017 (Audited) RMB' 000
0 - 30 days	1,770,314	1,753,609
31 - 60 days	654,877	1,889,929
61 - 180 days	3,517,859	2,031,427
181 - 365 days	1,261,885	729,339
Over 365 days	191,708	232,741
	7,396,643	6,637,045

As at 30 June 2018, included in the trade and bills payables are trade payables of RMB7,074,000 (31 December 2017: RMB4,244,000) due to the Group's associates and RMB352,000 (31 December 2017: RMB178,000) 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

17. OTHER PAYABLES AND ACCRUALS

	30 June 2018 (Unaudited) RMB' 000	31 December 2017 (Audited) RMB' 000
Deferred income	4,070	6,239
Accruals	313,759	307,156
Amounts due to the Group's joint ventures	30,000	30,000
Amounts due to the Group's associates	1,251	1,350
Amount due to a fellow subsidiary	8,000	8,000
Other tax payables	7,468	68,700
Purchase of property, plant and equipment	205,003	122,284
Payroll and welfare payables	114,438	137,743
Financial guarantee liability	10,009	11,108
Other payables	254,975	294,192
	948,973	986,772

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. INTEREST-BEARING BANK AND OTHER BORROWINGS

	30 June 2018		31 December 2017	
	Effective interest rate (%)	RMB' 000 (Unaudited)	Effective interest rate (%)	RMB' 000 (Audited)
Current				
Bank loans – unsecured	1.05~5.80	4,403,759	1.05~5.80	4,250,763
Bank loans – secured	3.20~6.30	964,727	2.80~5.78	279,845
Medium-term notes – unsecured	8.50	500,000	6.20	500,000
		<u>5,868,486</u>		<u>5,030,608</u>
Non-current				
Bank loans – secured	2.94~5.78	347,270	2.94~5.78	344,275
Corporate bonds – unsecured	6.47~7.50	2,411,803	6.47~6.50	1,912,018
Medium-term notes – unsecured	—	—	8.50	500,000
		<u>2,759,073</u>		<u>2,756,293</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

18. INTEREST-BEARING BANK AND OTHER BORROWINGS *(Continued)*

	30 June 2018 RMB' 000 (Unaudited)	31 December 2017 RMB' 000 (Audited)
Analysed into:		
Bank loans repayable:		
Within one year	5,368,486	4,530,608
In the second year	347,270	343,150
In the third to fifth years, inclusive	—	1,125
	5,715,756	4,874,883
Other borrowings repayable:		
Within one year	500,000	500,000
In the second year	900,000	500,000
In the third to fifth years, inclusive	1,511,803	1,912,018
	2,911,803	2,912,018
	8,627,559	7,786,901

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

19. DISPOSAL OF SUBSIDIARIES

During the period ended 30 June 2017

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 held in Nanjing High Accurate Marine Equipment Co., Ltd. (“Nanjing Marine”) and Zhenjiang Tongzhou Propeller Co., Ltd. (“Zhenjiang Tongzhou”) (collectively the “Marine Disposal Group”) for an aggregate cash consideration of RMB607,000,000. In addition, the acquirer of Zhenjiang Tongzhou agreed to settle the payables to the Group of RMB245,312,000 on behalf of Zhenjiang Tongzhou, which was due to a subsidiary of the Group prior to the disposal. 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 Nanjing Jingjing Photoelectric Science & Technology Co., Ltd. (“Nanjing Jingjing”) and its subsidiaries (collectively the “LED Disposal Group”) for 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. DISPOSAL OF SUBSIDIARIES (Continued)

During the period ended 30 June 2017 (Continued)

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

Note: For the disposal of LED Disposal Group, the deferred consideration was settled in two instalments in 2017.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

19. DISPOSAL OF SUBSIDIARIES *(Continued)*

During the period ended 30 June 2017 *(Continued)*

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

20. CONTINGENT LIABILITIES

The Group entered 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.

At 30 June 2018, the Group provided guarantees to one of the Group's associates in favour of its bank loans of RMB300,000,000 (31 December 2017: RMB320,000,000). This amount represented the balance that the Group could be required to be paid if the guarantees were called upon in its entirety. At the end of the reporting period, an amount of RMB10,009,000 (31 December 2017: RMB11,108,000) has been recognised in the consolidated statement of financial position as liabilities.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 2018 (Unaudited) RMB' 000	31 December 2017 (Audited) RMB' 000
Trade receivables	—	19,502
Bills receivable	541,841	958,484
Property, plant and equipment	118,027	154,999
Prepaid land lease payments	28,629	45,846
Pledged bank deposits	3,655,024	2,892,955
	4,343,521	4,071,786

22. CAPITAL COMMITMENTS

	30 June 2018 (Unaudited) RMB' 000	31 December 2017 (Audited) RMB' 000
Contracted, but not provided for:		
Land and buildings	62,400	62,400
Plant and machinery	214,682	238,758
Capital contributions payable to associates	84,260	59,260
Capital contributions payable to financial assets at FVTOCI	19,000	—
Capital contributions payable to available-for-sale investments	—	35,000
	380,342	395,418

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

23. RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in the interim condensed consolidated financial statements, the Group had the following transactions with related parties during the six months ended 30 June 2018 and 2017:

	Notes	30 June 2018 (Unaudited) RMB' 000	30 June 2017 (Unaudited) RMB' 000
Associates:			
Purchases of products	(ii)	(6,552)	(15,690)
Sales of property, plant and equipment		68	466
Joint ventures:			
Sales of products	(i)	27,736	1,249
Purchases of products	(ii)	(20)	—
Other income		73	426
Holding company of a non-controlling shareholder of a subsidiary:			
Rental expenses	(iii)	—	(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, with a 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

23. RELATED PARTY TRANSACTIONS *(Continued)*

(b) Other transactions with related parties:

At 30 June 2018, 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 RMB300,000,000 (31 December 2017: RMB320,000,000).

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

	For the six months ended 30 June	
	2018 (Unaudited) RMB’000	2017 (Unaudited) RMB’000
Fees	582	638
Salaries and other emoluments	4,219	7,180
	4,801	7,818

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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 2018 (Unaudited) RMB' 000	31 December 2017 (Audited) RMB' 000
Debt instruments at amortised cost:		
Trade and bills receivables	—	6,515,259
Trade receivables	4,351,882	—
Financial assets included in prepayments, deposits and other receivables	1,515,196	1,546,073
Pledged bank deposits	3,655,024	2,892,955
Bank balances and cash	2,685,513	4,030,409
Structured bank deposits	—	108,000
Available-for-sale investments	—	3,612,278
Financial assets at FVTOCI:		
Listed equity investments	364,889	—
Unlisted equity investments	2,229,542	—
Bills receivable	2,285,301	—
Financial assets at FVTPL:		
Unlisted debt investments	1,937,031	—
Total	19,024,378	18,704,974

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

	30 June 2018 (Unaudited) RMB' 000	31 December 2017 (Audited) RMB' 000
Financial liabilities at amortised cost:		
Trade and bills payables	7,396,643	6,637,045
Financial liabilities included in other payables and accruals	499,229	455,826
Interest-bearing bank and other borrowings	8,627,559	7,786,901
Total	16,523,431	14,879,772

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

25. FAIR VALUE AND FAIR VALUE HIERARCHY OF FINANCIAL INSTRUMENTS

The carrying amounts and fair values of the Group's financial instruments, other than those with carrying amounts that reasonably approximate to fair values are as follows:

	30 June 2018		31 December 2017	
	Carrying amounts (Unaudited) RMB' 000	Fair values (Unaudited) RMB' 000	Carrying amounts (Audited) RMB' 000	Fair values (Audited) RMB' 000
Financial assets:				
Available-for-sale investments:				
Listed equity investments, at fair value	—	—	436,660	436,660
Financial assets at FVTOCI:				
Listed equity investments	364,889	364,889	—	—
Unlisted equity investments	2,229,542	2,229,542	—	—
Bills receivable	2,285,301	2,285,301	—	—
Financial assets at FVTPL:				
Unlisted debt investments	1,937,031	1,937,031	—	—
Total	6,816,763	6,816,763	436,660	436,660
Financial liabilities:				
Bank and other borrowings	8,627,559	8,594,502	7,786,901	7,964,058

At 30 June 2018, management has assessed that the fair values of bank balances and cash, pledged bank deposits, trade receivables, financial assets included in prepayments, deposits and other receivables, trade and bills payables, financial liabilities included in other payables and accruals approximate to their carrying amounts largely due to the short term maturities of these instruments.

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

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 2018

	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	
Financial assets at FVTOCI:				
Listed equity investments	364,889	—	—	364,889
Unlisted equity investments	—	—	2,229,542	2,229,542
Bills receivable	—	—	2,285,301	2,285,301
Financial assets at FVTPL				
Unlisted debt investments	—	—	1,937,031	1,937,031
Total	364,889	—	6,451,874	6,816,763

As at 31 December 2017

	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	436,660	—	—	436,660
Total	436,660	—	—	436,660

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Liabilities for which fair values are disclosed:

As at 30 June 2018

	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	
Bank and other borrowings	—	8,594,502	—	8,594,502

As at 31 December 2017

	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	
Bank and other borrowings	—	7,964,058	—	7,964,058

During the six months ended 30 June 2018, 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 (six months ended 30 June 2017: nil).



NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

26. EVENTS AFTER THE REPORTING PERIOD

On 19 July 2018, Nanjing Drive has entered into a sale and purchase agreement with Nanjing Jundi Electromechanical Equipment Limited (南京駿迪機電設備有限公司) (“Nanjing Jundi”) regarding the disposal of its 75% equity interest in CHSTE (Beijing) Shougao with a nominal consideration of RMB1, which was paid upon signing of the sale and purchase agreement.

On 25 July 2018, Nantong Zhenhua Hongsheng Heavy Forgery Machine Corporation Ltd. (南通市振華宏晟重型鍛壓有限公司) (“Nantong Zhenhua”), a company indirectly owned as to 95% equity interest by the Company, has entered into a building and land transfer agreement regarding the disposal of its land use rights located at Nantong City, Jiangsu Province together with the building thereon with Rugao Hongmao Heavy Forgery Machine Corporation Ltd. (如皋市宏茂重型鍛壓有限公司) (“Rugao Hongmao”) with a consideration of RMB104,000,000, of which, RMB34,000,000 was paid within 7 days after signing of the building and land transfer agreement and the remaining RMB70,000,000 will be payable within 1 year after signing of the building and land transfer agreement.

On 25 July 2018, Nanjing Drive has entered into a sale and purchase agreement with Datong Haode Equipment Leasing Limited (大同市浩德設備租賃有限公司) (“Datong Haode”) regarding the disposal of its 15% equity interest in E'er Duo Si Shenchuan Mining Equipment Manufacturing Company Limited (鄂爾多斯市神傳礦用設備製造有限公司) with a consideration of RMB2,150,000, which was paid within 15 days after signing of the sale and purchase agreement.

Nanjing Jundi, Rugao Hongmao and Datong Haode are all independent third parties and independent with each other.

27. COMPARATIVE AMOUNTS

During the current interim period, certain comparative figures included in the interim condensed consolidated statement of profit or loss and other comprehensive income in respect of the six months ended 30 June 2017 have been reclassified to conform with the presentation of the Group’s annual consolidated financial statements for the year ended 31 December 2017 and the current interim period.

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 2018.