中國高速傳動設備集團有限公司*
China High Speed Transmission Equipment Group Co., Ltd.
(Incorporated in the Cayman Islands with limited liability)
(Stock code: 658)

Announcement
Unaudited interim results
for the six months ended 30 June 2017

FINANCIAL HIGHLIGHTS

	Six months ended 30 June 2017 *RMB'000* *(Unaudited)*	Six months ended 30 June 2016 *RMB'000* *(Unaudited and restated)*	Change
Continuing operations			
Revenue	**3,812,217**	4,379,200	-12.9%
Gross profit	**1,193,744**	1,545,036	-22.7%
Continuing operations and discontinued operations			
Profit for the period attributable to the owners of the Company	**586,695**	575,843	1.9%
Basic earnings per share (RMB)	**0.359**	0.352	2.0%

	30 June 2017 *RMB'000* *(Unaudited)*	31 December 2016 *RMB'000* *(Audited)*	Change
Total assets	**27,502,879**	26,295,600	4.6%
Total liabilities	**16,114,078**	15,055,252	7.0%
Net assets	**11,388,801**	11,240,348	1.3%
Net assets per share (RMB)	**7.0**	6.9	1.4%
Gearing ratio* (%)	**58.6**	57.3	1.3 percentage point

* *Gearing ratio = total liabilities/total assets*

The board (the "**Board**") of directors (the "**Director**") of China High Speed Transmission Equipment Group Co., Ltd. (the "**Company**") is pleased to announce the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2017, together with the comparative figures are as follows. The interim financial statements are unaudited, but have been reviewed by the Company's audit committee.

Interim condensed consolidated statement of profit or loss and other comprehensive income
For the six months ended 30 June 2017

		For the six months ended 30 June	
		2017	2016
		(Unaudited)	*(Unaudited and restated)*
	Notes	***RMB'000***	*RMB'000*
Continuing operations			
Revenue	3	**3,812,217**	4,379,200
Cost of sales		**(2,618,473)**	(2,834,164)
Gross profit		**1,193,744**	1,545,036
Other income and net gains	3	**247,813**	136,186
Selling and distribution expenses		**(162,057)**	(128,210)
Administrative expenses		**(323,566)**	(280,822)
Research and development costs		**(105,183)**	(121,370)
Other expenses		**(133,902)**	(66,532)
Finance costs	5	**(235,435)**	(270,998)
Share of profits and losses of:			
Joint ventures		**35,990**	2,101
Associates		**(6,924)**	3,178
Profit before tax from continuing operations	4	**510,480**	818,569
Income tax expense	6	**(44,831)**	(178,337)
Profit for the period from continuing operations		**465,649**	640,232
Discontinued operations			
Profit/(loss) for the period from discontinued operations	13	**95,584**	(89,214)
Profit for the period		**561,233**	551,018

Interim condensed consolidated statement of profit or loss and other comprehensive income (continued)

	Note	For the six months ended 30 June **2017** *(Unaudited)* *RMB'000*	2016 *(Unaudited and restated)* *RMB'000*
Other comprehensive expense			
Other comprehensive (expense)/income to be reclassified to profit or loss in subsequent periods:			
Available-for-sale investments:			
Change in fair value		**(106,895)**	—
Income tax effect on change in fair value		**26,723**	—
		(80,172)	—
Exchange differences on translation of foreign operations		**551**	(396)
Other comprehensive expense for the period, net of tax		**(79,621)**	(396)
Total comprehensive income for the period		**481,612**	550,622
Profit/(loss) for the period attributable to:			
Owners of the Company		**586,695**	575,843
Non-controlling interests		**(25,462)**	(24,825)
		561,233	551,018
Total comprehensive income/(expense) for the period attributable to:			
Owners of the Company		**507,199**	575,447
Non-controlling interests		**(25,587)**	(24,825)
		481,612	550,622
Earnings per share attributable to ordinary equity holders of the Company:		**RMB**	RMB
Basic and diluted	8		
- For profit for the period		**0.359**	0.352
- For profit from continuing operations		**0.300**	0.405

Interim condensed consolidated statement of financial position
As at 30 June 2017

	Notes	30 June 2017 (Unaudited) RMB'000	31 December 2016 (Audited) RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**4,495,527**	5,111,201
Prepaid land lease payments		**676,488**	702,842
Goodwill		**2,991**	2,991
Other intangible assets		**96,268**	138,564
Interests in joint ventures		**1,018,707**	1,008,254
Interests in associates		**134,846**	142,187
Prepayment for acquisition of property, plant and equipment		**3,332**	3,332
Other receivable		**69,707**	551,524
Available-for-sale investments	9	**1,982,692**	870,090
Deposit for land lease		**116,800**	191,800
Deferred tax assets		**247,423**	190,897
Total non-current assets		**8,844,781**	8,913,682
CURRENT ASSETS			
Inventories		**2,370,299**	2,311,574
Prepaid land lease payments		**15,373**	16,250
Trade and bills receivables	10	**6,495,532**	6,964,944
Prepayments, deposits and other receivables		**3,849,454**	2,603,732
Tax prepaid		**1,399**	—
Available-for-sale investments	9	**565,000**	—
Structured bank deposits		**—**	209,000
Pledged bank deposits		**3,214,341**	2,531,395
Bank balances and cash		**2,146,700**	2,745,023
Total current assets		**18,658,098**	17,381,918
CURRENT LIABILITIES			
Trade and bills payables	11	**7,284,153**	6,570,740
Other payables and accruals		**952,247**	903,490
Receipts in advance and deposits received		**539,331**	418,698
Interest-bearing bank and other borrowings	12	**5,308,866**	5,273,847
Taxation payable		**181,481**	220,421
Finance lease payables		**—**	7,007
Warranty provision		**94,390**	101,248
Total current liabilities		**14,360,468**	13,495,451
NET CURRENT ASSETS		**4,297,630**	3,886,467
TOTAL ASSETS LESS CURRENT LIABILITIES		**13,142,411**	12,800,149

Interim condensed consolidated statement of financial position (continued)

	Note	**30 June 2017** ***(Unaudited)*** ***RMB'000***	31 December 2016 *(Audited)* *RMB'000*
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	12	**1,443,339**	1,227,966
Deferred tax liabilities		**227,013**	238,095
Deferred income		**83,258**	93,740
Total non-current liabilities		**1,753,610**	1,559,801
Net assets		**11,388,801**	11,240,348
EQUITY			
Equity attributable to owners of the Company			
Share capital		**119,218**	119,218
Reserves		**11,109,442**	10,934,655
		11,228,660	11,053,873
Non-controlling interests		**160,141**	186,475
Total equity		**11,388,801**	11,240,348

Notes to the interim condensed consolidated financial statements
for the six months ended 30 June 2017

1. BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

1.1 Basis of preparation

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

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

1.2 New standards, interpretations and amendments adopted by the Group

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

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

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

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

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

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

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

1.2 **New standards, interpretations and amendments adopted by the Group (continued)**

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

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

Annual Improvements Cycle - 2014-2016

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

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

The application of the amendments to IFRS 12 in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

2. **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.

2. **OPERATING SEGMENT INFORMATION (continued)**

During the period ended 30 June 2017, the Group ceased the operation in manufacturing and sales of marine gear transmission equipment and light emitting diode (the "**LED**") products, upon the completion of disposal of a group of subsidiaries as described in notes 13 and 14. Accordingly, the results of the related operations for the period ended 30 June 2017 have been separately presented as discontinued operations in the condensed consolidated statement of profit or loss and other comprehensive income. The presentation of comparative financial information for the period ended 30 June 2016 has been represented to conform the current period's presentation.

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

For the six months ended 30 June 2017

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

2. **OPERATING SEGMENT INFORMATION (continued)**

For the six months ended 30 June 2016

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

3. REVENUE AND OTHER INCOME AND NET GAINS

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

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

	For the six months ended 30 June	
	2017	2016
	(Unaudited)	*(Unaudited and restated))*
	RMB'000	*RMB'000*
Revenue		
Sale of goods	**3,812,217**	4,379,200
Other income		
Bank interest income	**31,621**	58,736
Gross rental income	**779**	9,801
Government grants*	**9,840**	2,938
Sale of scraps and material	**20,181**	15,064
Investment income	**19,688**	10,299
Others	**3,608**	8,467
	85,717	105,305
Net gains		
Gain from Land Resumption (note 19)	**174,005**	—
Loss on disposal of property, plant and equipment, net	**(1,260)**	(83)
Loss on disposal of a subsidiary (note 14)	**—**	(2,305)
Gain on disposal of an associate	**58**	—
Foreign exchange differences, net	**(10,707)**	33,269
	162,096	30,881
	247,813	136,186

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

4. PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

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

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

5. FINANCE COSTS

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

6. **INCOME TAX EXPENSE**

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

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

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

6. **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. ("**Nanjing High Speed**")	31 December 2014	31 December 2016 (note)
Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("**Nanjing High Accurate**")	31 December 2014	31 December 2016 (note)
Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd.	31 December 2015	31 December 2017
CHSTE (Beijing) Shougao Metallurgical Engineering & Equipment Co., Ltd.	31 December 2015	31 December 2017

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

6. INCOME TAX EXPENSE (continued)

Hong Kong profits tax

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

Singapore corporate income tax

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

Withholding tax

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

7. DIVIDENDS

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

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

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

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

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

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

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

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

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

9. **AVAILABLE-FOR-SALE INVESTMENTS**

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

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

Notes:

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

(b) (i) On 17 April 2017, a wholly owned subsidiary of the Company, 南京高精傳動設備製造集團有限公司 Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("**Nanjing Drive**") entered into a limited partnership agreement with thirty-four other partners in respect of, among other matters, the establishment of an investment fund in the PRC and the subscription of interest therein. The general partner and executive partner of the investment fund is 寧波錢潮湧鑫投資管理合夥企業(有限合夥) Ningbo Qianchao Yongxin Investment Management LLP, a limited partnership established in the PRC. The objective of the investment fund is to invest in businesses arising from government's economic reform especially in Zhejiang region. The Group considers that such investment could result in more investment opportunities and better investment returns by leveraging on the other partners' advantageous resources or experience in investment management. Pursuant to the limited partnership agreement, the total capital commitment to the investment fund is RMB65.91 billion, among which, RMB2 billion is to be contributed by Nanjing Drive as a limited partner. As at 30 June 2017, RMB1 billion has been paid up by Nanjing Drive to the investment fund with the remaining RMB1 billion settled during July 2017.

(ii) On 20 March 2017, Nanjing Drive entered into a trust investment agreement ("**Trust Investment Agreement**") with 寧波眾邦金控投資有限公司 Ningbo Zhongbang Jinkong Investment Co., Ltd. ("**Ningbo Zhongbang**"), in relation to a portfolio of financial products to be invested and managed by Ningbo Zhongbang for a trust period of one year ending 19 March 2018. During the period ended 30 June 2017, an initial investment fund made by Nanjing Drive in accordance with the Trust Investment Agreement amounted to RMB550,000,000.

(iii) On 26 April 2017, a wholly owned subsidiary of the Company, China Transmission Holdings Limited entered into a subscription agreement to subscribe for 32,000 class A shares attributable to a segregated portfolio (the "**Portfolio**") created by Green Asia Restructure Fund SPC ("**Green Asia**") at a total subscription price of USD32,000,000, equivalent to approximately RMB219 million. The investment objective of the Portfolio is capital appreciation and is managed by Long Asia Asset Management Limited, the manager appointed by Green Asia. The class A shares owned by the Group do not carry any voting rights in the Portfolio or Green Asia, and are redeemable at the Group's own discretion at a redemption price by reference to the net asset value of the Portfolio at the valuation day immediately preceding the redemption day.

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

10. TRADE AND BILLS RECEIVABLES

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

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

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

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

11. TRADE AND BILLS PAYABLES

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

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

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

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

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

12. INTEREST-BEARING BANK AND OTHER BORROWINGS

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

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

The secured borrowings at the end of the reporting period were secured by pledge of assets, details of which are set out in note 16.

13. **DISCONTINUED OPERATIONS**

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

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

Details of the assets and liabilities disposed of, and the calculation of the gain on disposal of subsidiaries, are disclosed in note 14.

13. **DISCONTINUED OPERATIONS (continued)**

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

	Marine Disposal Group		**LED Disposal Group**	
	1 January 2017 to the date of disposal	1 January 2016 to 30 June 2016	**1 January 2017 to the date of disposal**	1 January 2016 to 30 June 2016
	(Unaudited)	*(Unaudited)*	***(Unaudited)***	*(Unaudited)*
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Profit/(loss) for the period from discontinued operations:				
Revenue	**23,573**	100,707	**58,417**	52,547
Cost of sales	**(23,459)**	(88,739)	**(54,438)**	(78,726)
Other income and net gains	**1,884**	3,477	**5,187**	3,434
Selling and distribution expenses	**(4,044)**	(10,177)	**(3,548)**	(4,441)
Administrative expenses	**(6,104)**	(23,654)	**(9,712)**	(11,400)
Research and development costs	**(4,658)**	(9,011)	**(3,593)**	(6,401)
Other expenses	**—**	(984)	**(5,062)**	—
Finance costs	**(3,190)**	(7,075)	**(209)**	(8,232)
Loss before tax	**(15,998)**	(35,456)	**(12,958)**	(53,219)
Income tax expense	**(15)**	(45)	**—**	(494)
Loss from operating activities, net of tax	**(16,013)**	(35,501)	**(12,958)**	(53,713)
Gain on disposal of discontinued operations (note 14)	**76,953**	—	**60,421**	—
Tax attributable to gain on disposal	**(12,819)**	—	**—**	—
Gain on disposal of discontinued operations, net of tax	**64,134**	—	**60,421**	—
Profit/(loss) for the period from discontinued operations	**48,121**	(35,501)	**47,463**	(53,713)
Attributable to:				
Owners of the Company	**49,642**	(33,026)	**46,684**	(53,087)
Non-controlling interests	**(1,521)**	(2,475)	**779**	(626)
	48,121	(35,501)	**47,463**	(53,713)
Cash flows from/(used in) discontinued operations:				
Operating activities	**(66,266)**	(23,887)	**29,113**	30,935
Investing activities	**(2,719)**	(44,025)	**334,565**	72,848
Financing activities	**70,753**	69,228	**(366,297)**	(21,989)
Net cash inflow/(outflow)	**1,768**	1,316	**(2,619)**	81,794

14. DISPOSAL OF SUBSIDIARIES

During the period ended 30 June 2017

Saved as disclosed in note 13, 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 is agreed to be settled in two instalments by 120 and 160 working days after signing of the agreements respectively.

14. **DISPOSAL OF SUBSIDIARIES (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	**LED Disposal Group**	**Total**
	RMB'000	*RMB'000*	*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

During the period ended 30 June 2016

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

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

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

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

14. DISPOSAL OF SUBSIDIARIES (continued)

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

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

15. CONTINGENT LIABILITIES

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

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

16. PLEDGE OF ASSETS

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

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

17. CAPITAL COMMITMENTS

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

18. EVENTS AFTER THE REPORTING PERIOD

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

19. OTHER MATTER

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

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

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

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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

Principal businesses review

1. Gear segment

(i) Wind gear transmission equipment

Diversified, large-scale and overseas development

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

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

Currently, the Group maintains a strong customer portfolio. Customers of its wind power business include the major wind turbine manufacturers in the PRC, as well as renowned international wind turbine manufacturers such as GE Renewable Energy, Nordex, Senvion, Unison, Suzlon, Inox Wind, etc. With our quality products and good services, the Group has also received a wide range of recognition and trust from customers at home and abroad. The Group has wholly-owned subsidiaries in the USA, Germany, Singapore, Canada and India to support the sustainable development strategy of the Group and strive to have closer communication and discussion with potential overseas customers, and has newly set up a wholly-owned subsidiary in Vietnam to grasp opportunities in the emerging market, with a view to providing further diversified services for global customers.

(ii) Industrial gear transmission equipment

Enhance market competitiveness through changes in production mode and sales strategies

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

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

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

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

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

2. Computer numerical controlled ("CNC") machine tool products

CNC machine tool products industry

Machine tool is the core equipment of the equipment manufacturing industry. The modernisation of equipment manufacturing industry of China depends on the development of its machine tool industry. We must enhance the manufacturing capacity of our machine tool to support the development of equipment manufacturing industry. The Group intends to take the opportunity to develop heavy, precise and efficient machine tool products to provide advanced machine tools for the equipment manufacturing industry.

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

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

3. Diesel engine product

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

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

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

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

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

4. Discontinued operations

During the Period under Review, the Group continued its strategy to divest the loss-making business to enhance its overall performance. The two subsidiaries engaged in marine gear transmission equipment business were sold to two independent third parties on 27 February 2017 and 18 April 2017 respectively, and the LED product business was sold to an independent third party on 20 April 2017. Details of results and gains on disposal of the discontinued businesses are set out in note 13 and 14 to the condensed consolidated financial statements respectively.

Marine gear transmission equipment

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

LED products

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

LOCAL AND EXPORT SALES

During the Period under Review, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. During the Period under Review, the overseas sales amounted to approximately RMB1,525,736,000 (30 June 2016: RMB1,566,910,000), representing a decrease of 2.6% as compared with the corresponding period last year. Overseas sales accounted for 40.0% to total sales (30 June 2016: 35.8%), representing an increase of 4.2 percentage points over the corresponding period last year. At present, the overseas customers of the Group are based mainly in the U.S. and other countries and regions such as Europe, India and Japan. Although the economies in Europe and the U.S. were yet to be fully recovered during the Period under Review, the Group introduced different types of products in order to extend its coverage to the overseas markets.

PROSPECTS

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

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

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

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

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

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

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

FINANCIAL PERFORMANCE (Continuing operation)

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

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

Revenue

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

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

Gross profit margin and gross profit

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

Other income and net gains

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

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

Selling and distribution expenses

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

Administrative expenses

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

Finance costs

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

FINANCIAL RESOURCES AND LIQUIDITY

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

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

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

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

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

Taking into account the internal financial resources of and the banking facilities available to the Group, and the net current asset of RMB4,297,630,000, the Directors believe that the Group will have sufficient capital to meet its working capital requirements and foreseeable capital expenditure.

Gearing ratio

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) increased from 57.3% as at 31 December 2016 to 58.6% as at 30 June 2017, mainly due to the increase in trade and bills payables, and bank and other borrowings.

Capital structure

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

The Group's loans and cash and cash equivalents were mainly denominated in Renminbi, Euro, U.S. dollars and Hong Kong dollars. The Group's bank borrowings denominated in Euro and U.S. dollars as at 30 June 2017 amounted to €29,785,000 and USD13,750,000 respectively.

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

PLEDGE OF ASSETS

Save as disclosed in note 16 to the condensed consolidated financial statements, the Group has made no further pledge of assets as at 30 June 2017.

INTERIM DIVIDEND

The Board did not recommend payment of an interim dividend for the six months ended 30 June 2017.

FOREIGN EXCHANGE RISK

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

The Group's bank borrowings denominated in Euro and U.S. dollars as at 30 June 2017 amounted to €29,785,000 (equivalent to approximately RMB231 million) and USD13,750,000 (equivalent to approximately RMB93 million). Therefore, the Group may be exposed to certain foreign exchange rate risks.

The net loss of foreign exchange recorded by the Group during the Period under Review was approximately RMB10,707,000 (30 June 2016: net gain of RMB33,269,000). The foreign exchange loss was primarily due to the appreciation of Renminbi against U.S. dollars during the Period under Review which resulted in a loss in export business transactions denominated in U.S. dollars. The Group will actively manage the net amount of foreign currency assets and liabilities by formulating foreign currency control measures and strategies, with a view to reducing its exposures to exchange risks in 2017.

INTEREST RATE RISK

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

EMPLOYEES AND REMUNERATION POLICY

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

SIGNIFICANT INVESTMENT DURING THE PERIOD UNDER REVIEW

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

Save as disclosed above and those disclosed in note 9 to the condensed consolidated financial statements, there were no other significant investments held by the Group during the Period under Review.

CORPORATE GOVERNANCE

During the six months period ended 30 June 2017, the Company has complied with the code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") except for the deviation from code provision A.6.7 which states that independent non-executive directors and other non-executive directors should attend general meetings of the Company.

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

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code set out in the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the "**Model Code**") as its internal code of conduct regarding Directors' securities transactions. The Company has made specific enquiries of all Directors and all Directors have confirmed that they have complied with the required standard set out in the Model Code during the six months period ended 30 June 2017. The Company will continue to ensure the compliance of the Model Code.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

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

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

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

Hong Kong, 31 August 2017

As at the date of this announcement, the executive Directors are Mr. Chen Yongdao, Mr. Gou Jianhui, Mr. Wang Zhengbing, Mr. Zhou Zhijin, Mr. Hu Jichun and Ms. Zheng Qing; the non-executive Directors are Mr. Hu Yueming and Mr. Yuen Chi Ping; and the independent non-executive Directors are Dr. Chan Yau Ching, Bob, Ms. Jiang Jianhua, Mr. Jiang Xihe and Mr. Nathan Yu Li.

* *For identification purpose only*