CHINA ENERGINE
From Engine to New Energy

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

Stock Code : 1185

INTERIM REPORT 2017

* For identification purpose only

CORPORATE CULTURE

Mission

Devoted to new energy　Contributing to society　Benefiting mankind

Target

Pursuing excellence　Leading development of new energy

Value

Leveraging talents to full play　Win-win in harmony

CONTENTS

	Page
Corporate Information	2
Business Review	5
Additional Information	16
Report on Review of Condensed Consolidated Financial Statements	20
Condensed Consolidated Financial Statements	
Condensed Consolidated Statement of Profit or Loss and Other Comprehensive Income	22
Condensed Consolidated Statement of Financial Position	24
Condensed Consolidated Statement of Changes in Equity	27
Condensed Consolidated Statement of Cash Flows	29
Notes to the Condensed Consolidated Financial Statements	31

CORPORATE INFORMATION

BOARD OF DIRECTORS	*Executive Directors* Mr. Han Shuwang *(Chairman)* Mr. Wang Xiaodong *(Vice-Chairman)* Mr. Li Guang *(Chief Executive Officer)* Mr. Xu Jun *Non-executive Directors* Mr. Liu Xiaowei (appointed on 30 March 2017) Mr. Fang Shili (retired on 2 June 2017) *Independent Non-executive Directors* Ms. Kan Lai Kuen, Alice Mr. Gordon Ng Mr. Li Dapeng
COMPANY SECRETARY	Ms. Luo Xiao Jing
AUDIT COMMITTEE	Ms. Kan Lai Kuen, Alice *(Chairman)* Mr. Gordon Ng Mr. Li Dapeng Mr. Liu Xiaowei
REMUNERATION COMMITTEE	Mr. Gordon Ng *(Chairman)* Mr. Li Guang Ms. Kan Lai Kuen, Alice Mr. Li Dapeng
NOMINATION COMMITTEE	Mr. Han Shuwang *(Chairman)* Mr. Xu Jun Ms. Kan Lai Kuen, Alice Mr. Gordon Ng Mr. Li Dapeng

DEVELOPMENT AND INVESTMENT COMMITTEE	Mr. Han Shuwang *(Chairman)* Mr. Wang Xiaodong Mr. Li Guang Mr. Xu Jun Mr. Li Dapeng
REGISTERED OFFICE	Cricket Square, Hutchins Drive P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands
PRINCIPAL PLACE OF BUSINESS	Suite 4701, 47/F, Central Plaza 18 Harbour Road Wanchai, Hong Kong
AUDITOR	Deloitte Touche Tohmatsu 35/F, One Pacific Place 88 Queensway, Hong Kong
PRINCIPAL SHARE REGISTRAR	SMP Partners (Cayman) Limited 3/F, Royal Bank House 24 Shedden Road, P.O. Box 1586 Grand Cayman KY1-1110 Cayman Islands
BRANCH SHARE REGISTRAR	Tricor Standard Limited Share Registration Public Office Level 22, Hopewell Centre 183 Queen's Road East, Hong Kong
PRINCIPAL BANKERS	Bank of Communications Company Limited Agricultural Bank of China Industrial and Commercial Bank of China Limited Bank of China Limited

LEGAL ADVISERS	Sit, Fung, Kwong & Shum Conyers Dill & Pearman
WEBSITE	www.energine.hk
E-MAIL ADDRESS	energine@energine.hk
STOCK CODE	1185

BUSINESS REVIEW

On behalf of the Board of Directors, the business performance of China Energine International (Holdings) Ltd. (the "Company") and its subsidiaries (collectively the "Group") for the first half of 2017 is summarised in the following paragraphs.

RESULTS SUMMARY

As of 30 June 2017, the Group's turnover for the first half of 2017 amounted to HK$33.55 million as compared to that of 2016 of HK$827.54 million, representing HK$793.99 million decrease in turnover; the loss for the period attributable to owners of the Company amounted to HK$52.28 million as compared to the profit attributable to owners of the Company for the same period of 2016 of HK$3.92 million. The turnover for the period comprised sale of wind energy related products of HK$0.39 million, sale of electricity generated from wind farm of HK$12.91 million, sale of rare-earth permanent magnet motor products of HK$8.43 million, sale of energy storage and related products of HK$2.76 million and HK$9.06 million related to sales of telecommunication products whereas that of the same period last year comprised sale of wind energy related products of HK$463.78 million, sale of electricity generated from wind farm of HK$11.76 million, sale of rare-earth permanent magnet motor products of HK$12.45 million, sale of energy storage and related products of HK$287.69 million and HK$51.86 million related to sales of telecommunication products.

Business of Wind Turbine

In the first half of 2017, under the influence of fluctuation in respect of policies on regional development of new energy issued by the State Energy Administration and the down-regulation of electricity tariff, the entire wind energy industry saw a decline and the development focus of wind farm gradually shifted from the "Three-North" areas to the regions with a low wind speed including Eastern China and Central-Southern China, resulting in unexpected challenges against the wind turbine business of the Group. For example, the Results of Monitoring and Early Warning of Wind Power Investment in 2017 issued by the State Energy Administration identified six provinces (regions) including Inner Mongolia, Heilongjiang, Jilin, Ningxia, Gansu and Xinjiang (including the corps) as the red alert areas for development and construction of wind power in which construction of new wind power projects would not be approved. Therefore, the originally planned orders and the delivery schedules of the Group's projects in Baotou, Xilingol League and Xinghe of Inner Mongolia, Jiuquan and Wuwei of Gansu, etc. have to be delayed due to adjustment to progress based on the aforementioned reasons notwithstanding our efforts made.

Facing the complex market situation, the management of the Group made prompt adjustments to the market layout and market development focus to shift the focus to the regions without grid curtailment. Meanwhile, in response to the national "One Belt, One Road" initiative, the Group implemented the strategy of simultaneous development of domestic and international markets. In domestic market, the Group adopted the strategy of "industrial implementation drives orders" to win orders in the key areas including the areas not subject to grid curtailment in Inner Mongolia and Henan Province in Central-Southern China; for international market, driven by the "One Belt, One Road" initiative, the Group proactively promoted the satisfaction of development conditions of overseas wind power project, which is expected to bring about additional market share for the Group.

Baotou City in Inner Mongolia, as the state demonstration area for integrated application of renewable energy, is the sole wind power project development area whose red alert is currently released in Inner Mongolia. According to plan, the implementation of the Group's rare-earth permanent-magnet generator project is expected to drive the Group's local sales of wind turbines. In addition, the Group also proactively propelled the development of resources in the regions of Central-Eastern China, and others, not subject to grid curtailmen, such as the projects in Puyang of Henan, Handan of Hebei, Guilin of Guangxi and other cities.

Driven by the "One Belt, One Road" initiative, the Group started to strive for the general subcontracting and operation right of a wind power project in Kyrgyzstan in 2016; and conducted technical and economic verification on the feasibility of wind power project development in India and other places in primary promotion of the application of the Group's 2MW excitation magnetic and 3MW permanent magnet directdrive wind turbines.

In addition, the wind power heat supply projects in Inner Mongolia also generate new development opportunities for the Group. On the basis of the 50,000KW pilot project in each of Damaoqi and Chayouqianqi, Inner Mongolia in 2016, the Group will further endeavour to attain appreciable new orders in the second half of 2017.

The advancement of the aforementioned projects is likely to lay a solid foundation for the Group's adjustment to the market layout strategy and future sustainable development.

On the other hand, the Group has gradually gained differentiated competitive edge by way of continuous improvement of technology and products, comprehensive enhancement of R&D ability, intensification of supply chain construction and cost control, and stable improvement of operation and maintenance service efficiency and quality reliability. The continued enrichment of product lines, e.g. wind turbine series with different models and blade profiles adopting different technologies under excitation magnetic directdrive and permanent-magnet directdrive wind turbines offers diversified options for clients. Furthermore, the Group keeps strengthening cooperation intensely with large domestic power enterprise groups in effort to consolidate and expand its market share.

Research and Development of Technology

In respect of technology of wind turbine system, after years of assimilation and absorption for re-innovation, the Group has established a wind turbine portfolio with proprietary intellectual property rights consisting of 9 models in 5 types including 900KW, 1.5MW and 2MW excitation magnetic directdrive wind turbines and 2MW and 3MW permanent magnetic directdrive wind turbines.

In the first half of 2017, to meet the different demands and requirements on industrialized development in the markets as to areas with low wind speed/weak wind and high temperature/low temperature regions, the Group, on the basis of existing models, carried out in-depth optimisation of design and improvement of adaptability, in particular optimal design of the adaptability for the environment with a wide temperature range. To better meet the demands of the current market, the Group commenced research and development of technology for hybrid tower based on 2MW excitation magnetic directdrive wind turbine.

In terms of product certification, the Group has completed design certification and type test for the basic model of 2MW excitation magnetic directdrive wind turbine and design certification for 3MW permanent magnetic directdrive wind turbine, for which the product type certification is expected to be completed in the second half of 2017.

In respect of research and development of core technology, the research and development of the Group's wind turbine control system with proprietary intellectual property rights went well in the first half of the year. The Group is likely to attain the goal of putting the system in the market in batches soon.

As to the enhancement of batch production processing technology, the Group constantly optimised the processing technology of existing wind turbine models and paid more attention to technical indicators and processing performance of products to enhance products' manufacturability and maintainability continuously.

The Group presided over the preparation of the State Standard on Excitation Magnetic Directdrive Wind Turbine Generating Units which passed the appraisal by the expert panel of the wind power industry taking the unanimous view that it is in line with the provisions under the standards of state mechanical industry field. The Standardization Administration of China completed the final appraisal on the standard in May 2017.

Wind Farm Operations

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

Energy Storage Business

Whilst maintaining the leading position in wind energy technology, the Group, in response to the state call for vigorous development of clean energy, is committed to the application of graphene and energy storage technologies. At present, the Group possesses oxidation-reduction method and mechanical exfoliation method with proprietary intellectual property rights for preparation of graphene and has made gratifying achievements on preparation of graphene and graphene cladded lithium iron phosphate as anode material. The improvement of material processing technology has effectively reduced the electrical resistivity of materials and improved materials' cryogenic property, rate capability and cycle life. The Group has developed, and currently possesses the conditions for scale production of, power battery and energy storage battery suitable for electric vehicles.

Meanwhile, the entire industrial chain of new energy power energy storage battery, mutually complementary with the principal business of wind power and other relevant industries, has been gradually formed, and the initial industrial pattern with new energy, new materials, new processing, etc. complementary to each other has also taken shape.

To cooperate with the industrialization of energy storage technology and guarantee the performance advantages of the Group's products, in 2017, the Company will place the focus of research and development on the manufacturing processing technology of the raw material of iron phosphate. At present, small batch tests have been completed for products at laboratory. For cathode materials, the processing technology for artificial graphite has been finalized, and the Company has started research on petroleum coke artificial graphite and intermediate phase carbon microsphere artificial graphite. Besides, the Group has developed the mature formula for preparation of electrolyte for energy storage battery.

At present, the Group is proactively cooperating with partner to plan construction of an industrial base for production of battery materials together.

Business of Parts for Electric Vehicles

To seize the business opportunity created by the vigorous development of new energy vehicles by the State, the Group exerted great efforts for development of battery for electric vehicles and vehicle control system. The performance of high-capacity lithium batteries launched by the CALT and technical expert team of the Company reaches 160Wh/kg, exceeding the average level of the industry. In addition, the "four in one" vehicle control system launched by the Group in cooperation has integrated motor driver, vehicle controller, high voltage distribution box and DC power switching device. Riding on this advantage, the business of parts for electric vehicles is expected to promote the sustainable development of the Group.

It should be noted that, on 30 December 2016, the Ministry of Finance, Ministry of Science and Technology, Ministry of Industry and Information Technology and State Development and Reform Commission jointly issued the Notice on Adjustment to the Fiscal Subsidies for Promotion of and Application of New Energy Vehicles, stipulating new requirements on the technologies of electric vehicles and power battery products. Affected by the notice, the Group was forced to delay the delivery of power battery products in the first half of the year. The Group revised the battery design plan and re-submitted the product for test. The new mandatory test report on battery is expected to be issued in the second half of 2017, after which the sales of power battery products will resume to normal.

The Group has set up a special sales team to proactively develop the battery sales market, and sought for cooperation with electric vehicle manufacturers to vigorously develop the market of battery for electric vehicles. At present, the Group has established good business relations with Beiqi Auv, Fujian Motors Group, Xiamen King Long Coaches Group, West Lake Coach, and other companies.

Rare-earth Permanent Magnet Product Business

In 2017, Jiangsu Energine Technology Co. Ltd., a subsidiary of the Group, on the one hand, expanded the sales channel for rare-earth permanent magnet gearless traction machines, and, on the other hand, accelerated the development design and production of motor for new energy vehicles, energy storage motor, permanent magnet motor for paddle deflection in cruise of wind turbine and other motor projects to promote business transformation and upgrade in full force.

Business of Automotive Engine Management Systems

Beijing Delphi Wan Yuan Engine Management Systems Co., Ltd, a joint venture of the Group, is a leading supplier in the domestic automotive electronic fuel injection market with a stable market share, ranking the second nationwide, and makes continuous stable contributions to the Group's results.

PROSPECTS

The Group takes the view that the policy of regulating the development of wind energy regions issued by the State, with an aim to solving the issues of wind power curtailment, has restricted the development of wind energy industry and the impacts of such policy to the Group exceeded the expectation and that the related effects are hard to be eliminated in the second half of 2017.

However, in view of the increasingly severe environmental problems, it has become a global consensus to vigorously develop renewable energy represented by wind power, the third largest power source after thermal and water power in China. Wind power industry still plays an important role in the long-term economic development of China and wind power is one of the important clean energies of China. In order to promote the healthy and sustainable development of wind power industry, the State Energy Administration has promulgated the "Thirteenth Five-year" Plan on Wind Power Development which sets out that, by the end of 2020, the accumulative installed capacity of wind power will exceed 210 million KW and the annual wind power generation will reach 420 billion KWh, representing 6% of national total power generation. The goal for 2020 is to achieve China's total electricity consumption of 6.8 trillion – 7.2 trillion KWh.

The competition in the wind turbine manufacturing industry is still keen and the industry has presented the trend of reshuffle ever since the beginning of 2017. Considering the shift of investment to Central-Eastern China and Southern China and higher requirements on the performance, power generation efficiency, etc. of the wind turbines installed in the areas with low wind speed, the Group is expected to further users' recognition in reliance on the leading technology of our wind turbine models featuring for low wind speed and the hybrid tower under research and development.

Moreover, in respect of project development and construction, the Group will intensely seek cooperating parties in exploitation of broadening the way of business development through cooperation.

In the recent five years, the compound annual growth rate of the global energy storage industry reached 193%. It is expected that, in the coming decade, the size of energy storage market in China will reach USD100 billion. The "Thirteenth Five-year" Plan on Development of State Strategic Emerging Industries, "Thirteenth Five-year" Plan on Development of Renewable Energy, "Thirteenth Five-year" Plan on Energy Development and the "Thirteenth Five-year" Plan on Innovation of Energy Technology regard energy storage as one of the key fields for research and development. As the policy support gradually becomes clear, the Group will increase efforts for layout, develop the energy storage market and further explore the business model of sustainable development. Leveraging on the technological advantages in terms of application of energy storage system and application of electric vehicle technology, the Group will seek cooperation with others and grasp the opportunity posed by state policy support for industries to increase market development efforts to promote the growth of the Group's results of operation.

With an eye on sustainable development, the Group shoulders the responsibly of popularization of green energy, and endeavours to build a new energy industrial chain and continuously carry out development and innovation to benefit mankind with clean energy.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2017, the Group had 23 employees (31 December 2016: 21 employees) in the Hong Kong head office and 580 employees (31 December 2016: 587 employees) in the Mainland China offices. The staff costs incurred for the six months ended 30 June 2017 was approximately HK$38.46 million (for the six months ended 30 June 2016: approximately HK$39.69 million). Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The Group also provides Mandatory Provident Fund and medical insurance to its employees. In addition, discretionary performance bonus is available at the discretion of the Directors.

FINANCIAL REVIEW

Group Finance

In December 2014, the Group proceeded a placing of the existing shares and subscription for new shares of 400 million shares, with the placing price of HK$0.75 per share (whereas HK$0.91 per share as quoted on the Stock Exchange on the last trading day of 15 December 2014), obtaining a net fund of approximately HK$291 million, which is mainly used for general working capital and to finance projects on energy storage including the development of wind and solar power storage integration and that on electric vehicle, thereby improving the Group's capital structure and enhancing the market value. The placing shares were placed to no less than six placees who are individual, institutional or professional investors and whose ultimate beneficial owners are (i) independent of and not connected with the Company and its connected persons; and (ii) third parties independent of and not acting in concert with Astrotech Group Ltd. or any person acting in concert with it. As of August 2017, the fund has been used to the extent of HK$225.58 million, comprising working capital for wind energy business in purchase of materials of wind turbine of HK$175.00 million, working capital for telecommunication business of HK$20.00 million, and dividend distribution of HK$30.58 million.

Liquidity and Financial Resources

Total borrowings of the Group as at 30 June 2017 were HK$1,667,876,000 (31 December 2016: HK$1,601,885,000), of which HK$277,196,000 (31 December 2016: HK$252,543,000) was floating-rate borrowing and the remaining was fixed-rate borrowing. All borrowings of the Group were determined at market interest rate. The Group has not issued any financial instruments for hedging or other purposes.

Gearing ratio (total borrowings to shareholders' equity) as at 30 June 2017 was 76% (31 December 2016: 75%).

Exchange and Other Exposures

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

Contingent Liabilities

The Group did not have any contingent liabilities as at 30 June 2017 (31 December 2016: nil).

ADDITIONAL INFORMATION

INTERIM DIVIDEND

The Board of the Company did not recommend any interim dividend for the six months ended 30 June 2017 (same period 2016: Nil).

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

As at 30 June 2017, none of the Directors and chief executives of the Company or their respective associates had any interest or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Future Ordinance (the "SFO")) which are required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of SFO), or to be recorded in the register required to be maintained pursuant to Section 352 of the SFO, or otherwise to be notified to the Company or the Stock Exchange pursuant to the Model Code for Securities Transaction by Directors of Listed Companies in the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

DIRECTOR'S RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the six-month period ended 30 June 2017 was the Company, its subsidiaries or any of its associated corporations (within the meaning of Part XV of the SFO) a party to any arrangements to enable the Directors of the Company or their associates (as defined in the Listing Rules) to acquire benefits by means of acquisition of shares in, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS

As at 30 June 2017, the following persons (other than any directors or chief executives of the Company) were substantial shareholders of the Company (as defined in the Listing Rules) and had interests or short positions in the Shares and underlying Shares as recorded in the register required to be kept pursuant to Section 336 of the SFO:

Name of shareholder	**Capacity**	**Number of shares** *(Note 1)*	**Approximate percentage of the total number of shares in issue**
China Aerospace Science & Technology Corporation ("CASC")	Interest of a controlled corporation *(Note 2)*	2,649,244,000(L)	60.64%
China Academy of Launch Vehicle Technology ("CALT")	Interest of a controlled corporation *(Note 3)*	2,649,244,000(L)	60.64%
Astrotech Group Limited ("Astrotech")	Beneficial owner	2,649,244,000(L)	60.64%

Note:

1. The letter "L" denotes the shareholder's long position in the shares.
2. CASC is deemed to be interested in 2,649,244,000 shares as it holds 100% equity of CALT.
3. Astrotech is a wholly-owned subsidiary of CALT. Accordingly, CALT is deemed to be interested in all the shares held by Astrotech.

Save as disclosed above, the Company has not been notified of any other persons (other than any directors or chief executives of the Company) who had an interest or a short position in the Shares, underlying Shares or debentures of the Company as recorded in the register required to be kept pursuant to Section 336 of the SFO as at 30 June 2017.

CORPORATE GOVERNANCE

Corporate Governance Code

The Group has complied with all code provisions as set out in the Corporate Governance Code in Appendix 14 of the Listing Rules (the "Code") applicable to the Group in respect of the six-month period ended 30 June 2017 under review, with the exception of one deviation from the code provision A.4.1 of the Code which stipulates that non-executive directors should be appointed for a specific term subject to re-election. Mr. Fang Shili (retired on 2 June 2017), a Non-executive Director of the Company, was not appointed for a specific term, but was subject to retirement and rotation and re-election at the Company's Annual General Meeting ("AGM") in accordance with the retirement provisions under the Articles of Association of the Company. The Company considers that sufficient measures have been taken in this regard to ensure that the Group's corporate governance practices are no less exacting than those in the Code.

Model Code for Securities Transactions by Directors

Throughout the six-month period ended 30 June 2017, the Group has adopted the Model Code for Securities Transactions by Directors of Listed issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Group by the Directors. Having made specific enquiry, all the Directors confirmed that they had complied with the Model Code.

REVIEW OF INTERIM RESULTS

The audit committee of the Company (the "Audit Committee") currently comprises all of three Independent Non-executive Directors, Ms. Kan Lai Kuen, Alice (Chairman of the Audit Committee), Mr. Gordon Ng and Mr. Li Dapeng and a Non-executive Director, Mr. Liu Xiaowei. The Audit Committee has reviewed the unaudited interim financial statements for the six months ended 30 June 2017. Deloitte Touche Tohmatsu, the Group's external auditor, has carried out a review of the unaudited interim financial statements for the six months ended 30 June 2017 in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA.

CHANGE IN DIRECTORSHIP

Mr. Fang Shili retired as Non-executive Director and member of the Audit Committee of the Company with effect from the conclusion of the AGM held on 2 June 2017 due to his new job arrangement with China Academy of Space Technology, another subsidiary of CASC, the Company's holding company.

CHANGE IN INFORMATION OF DIRECTOR

Since the publication of the Company's annual report for the year ended 31 December 2016, Ms. Kan Lai Kuen, Alice, an Independent Non-executive Director, was appointed as an independent non-executive director of Mason Group Holdings Limited (a company listed on the Stock Exchange) with effect from 24 May 2017.

Saved as disclosed above, there is no other information required to be disclosed pursuant to Rule 13.51B (1) of the Listing Rules.

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six-month period ended 30 June 2017.

By Order of the Board
Han Shuwang
Chairman

Hong Kong, 30 August 2017

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

TO THE BOARD OF DIRECTORS OF

CHINA ENERGINE INTERNATIONAL (HOLDINGS) LIMITED

INTRODUCTION

We have reviewed the condensed consolidated financial statements of China Energine International (Holdings) Limited (the "Company") and its subsidiaries set out on pages 22 to 48, which comprise the condensed consolidated statement of financial position as of 30 June 2017 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong
30 August 2017

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	NOTES	**1.1.2017 to 30.6.2017** ***HK$'000*** ***(Unaudited)***	1.1.2016 to 30.6.2016 *HK$'000* *(Unaudited)*
Turnover	3	**33,546**	827,544
Cost of sales		**(27,013)**	(744,361)
Gross profit		**6,533**	83,183
Other income		**7,732**	9,451
Other gains and losses	4	**(10,954)**	(8,530)
Distribution costs		**(4,207)**	(27,012)
Administrative expenses		**(73,934)**	(72,241)
Finance costs	5	**(36,391)**	(39,038)
Share of results of associates		**(25,137)**	(11,210)
Share of results of joint ventures		**79,032**	70,419
(Loss) profit before taxation	6	**(57,326)**	5,022
Taxation	7	**(2,338)**	(1,819)
(Loss) profit for the period		**(59,664)**	3,203
Other comprehensive income (expense)			
Item that will not be reclassified to profit or loss:			
– exchange difference arising on translation to presentation currency		**49,071**	(35,640)
Total comprehensive expense for the period		**(10,593)**	(32,437)

	NOTES	1.1.2017 to 30.6.2017 HK$'000 (Unaudited)	1.1.2016 to 30.6.2016 HK$'000 (Unaudited)
(Loss) profit for the period attributable to:			
Owners of the Company		**(52,281)**	3,919
Non-controlling interests		**(7,383)**	(716)
		(59,664)	3,203
Total comprehensive expense for the period attributable to:			
Owners of the Company		**(5,271)**	(30,734)
Non-controlling interests		**(5,322)**	(1,703)
		(10,593)	(32,437)
(Loss) earnings per share - Basic	9	**HK(1.20) cents**	HK0.09 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2017

	NOTES	30.6.2017	31.12.2016
		HK$'000	*HK$'000*
		(Unaudited)	*(Audited)*
Non-current assets			
Property, plant and equipment	10	**292,317**	294,633
Investment properties	10	**141,949**	137,730
Goodwill		**2,004**	2,004
Intangible assets		**225,653**	225,085
Deferred tax assets		**1,748**	1,637
Interests in associates		**336,761**	353,265
Interests in joint ventures		**1,214,535**	1,100,344
Amount due from a joint venture	15(ii) (b) (1)	**101,138**	96,846
Available-for-sale investment		**4,954**	4,807
		2,321,059	2,216,351
Current assets			
Inventories		**238,854**	216,520
Trade and other receivables	11	**2,877,848**	3,120,499
Amounts due from associates	15(ii) (a)	**514,408**	498,941
Amount due from a joint venture	15(ii) (b) (2)	**27,316**	26,504
Pledged bank deposits	12	**60**	2,233
Bank balances and cash		**112,289**	241,667
		3,770,775	4,106,364

	NOTES	**30.6.2017**	31.12.2016
		HK$'000	*HK$'000*
		(Unaudited)	*(Audited)*
Current liabilities			
Trade and other payables	13	**1,708,914**	2,006,126
Amounts due to associates	15(ii) (a)	**325,933**	309,637
Amounts due to joint ventures	15(ii) (b) (3)	**60**	277
Government grants		**805**	839
Taxation payable		**2,695**	7,654
Warranty provision		**136,109**	136,731
Borrowings	14, 15(i) (a)	**1,187,417**	856,225
Obligation under a finance lease		**88**	130
		3,362,021	3,317,619
Net current assets		**408,754**	788,745
Total assets less current liabilities		**2,729,813**	3,005,096
Non-current liabilities			
Borrowings	14, 15(i) (a) & 15(i) (b) (1)	**480,459**	745,660
Deferred tax liabilities		**21,245**	20,312
Government grants		**29,708**	28,939
Obligation under a finance lease		**—**	22
		531,412	794,933
Net assets		**2,198,401**	2,210,163

	NOTES	**30.6.2017**	31.12.2016
		HK$'000	*HK$'000*
		(Unaudited)	*(Audited)*
Capital and reserves			
Share capital		**436,900**	436,900
Reserves		**1,682,734**	1,688,005
Equity attributable to owners of the Company		**2,119,634**	2,124,905
Non-controlling interests		**78,767**	85,258
Total equity		**2,198,401**	2,210,163

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	Attributable to the owners of the Company									
	Share capital	Special reserve	Share premium	Property revaluation reserve	Exchange reserve	Other reserves	Accumulated losses	Total	Non-controlling interests	Total
	HK$'000	*HK$'000* (Note a)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000* (Note b)	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2017 (audited)	436,900	86,971	2,732,397	1,399	46,028	102,887	(1,281,677)	2,124,905	85,258	2,210,163
Loss for the period	–	–	–	–	–	–	(52,281)	(52,281)	(7,383)	(59,664)
Exchange differences arising on translation to presentation currency	–	–	–	–	47,010	–	–	47,010	2,061	49,071
Total comprehensive income (expense) for the period	–	–	–	–	47,010	–	(52,281)	(5,271)	(5,322)	(10,593)
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	(1,169)	(1,169)
Transfer	–	–	–	–	–	633	(633)	–	–	–
At 30 June 2017 (unaudited)	436,900	86,971	2,732,397	1,399	93,038	103,520	(1,334,591)	2,119,634	78,767	2,198,401

	Attributable to the owners of the Company									
	Share capital HK$'000	Special reserve HK$'000 (Note a)	Share premium HK$'000	Property revaluation reserve HK$'000	Exchange reserve HK$'000	Other reserves HK$'000 (Note b)	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2016 (audited)	436,900	86,971	2,732,397	1,399	189,357	88,368	(1,351,874)	2,183,518	65,410	2,248,928
Profit (loss) for the period	–	–	–	–	–	–	3,919	3,919	(716)	3,203
Exchange differences arising on translation to presentation currency	–	–	–	–	(34,653)	–	–	(34,653)	(987)	(35,640)
Total comprehensive (expense) income for the period	–	–	–	–	(34,653)	–	3,919	(30,734)	(1,703)	(32,437)
Deemed disposal of partial interest in a subsidiary without loss of control	–	–	–	–	–	–	6,791	6,791	14,709	21,500
Capital contribution from non-controlling interests	–	–	–	–	–	–	–	–	6,143	6,143
Transfer	–	–	–	–	–	638	(638)	–	–	–
At 30 June 2016 (unaudited)	436,900	86,971	2,732,397	1,399	154,704	89,006	(1,341,802)	2,159,575	84,559	2,244,134

Notes:

a. The special reserve of the Group represents the difference between the nominal amount of the share capital issued by the Company and the nominal amount of the issued share capital of the subsidiaries acquired by the Company and the aggregate amount of HK$116,025,000 transferred from other reserves pursuant to the Group's reorganisation on 11 August 1997 and the amount of dividend recognised and paid for the year ended 31 December 2015.

b. Included in other reserves are reserve fund of a subsidiary established in the People's Republic of China (the "PRC") which can be used only to i) make up prior years' losses or ii) expand production operations and reserve fund for future enhancement of safety production environment and improvement of facilities and is not available for distribution to shareholders.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

	1.1.2017 to 30.6.2017 *HK$'000* *(Unaudited)*	1.1.2016 to 30.6.2016 *HK$'000* *(Unaudited)*
Net cash used in operating activities	**(118,867)**	(81,353)
Investing activities		
Withdrawal of pledged bank deposits	**2,241**	682
Interest received	**1,886**	2,256
Proceeds from disposal of property, plant and equipment	**251**	21
Payment of intangible assets	**(5,431)**	(9,384)
Purchase of property, plant and equipment	**(2,128)**	(2,223)
Placement of pledged bank deposits	**—**	(1,242)
Settlement of consideration payable for acquisition of a subsidiary in prior year	**—**	(58,502)
Net cash used in investing activities	**(3,181)**	(68,392)

	1.1.2017 to 30.6.2017 HK$'000 (Unaudited)	1.1.2016 to 30.6.2016 HK$'000 (Unaudited)
Financing activities		
New other loans raised	**149,783**	620,123
New bank loans raised	**83,044**	71,700
Repayment of other loans	**(149,783)**	(480,888)
Repayment of bank loans	**(60,000)**	—
Interest paid	**(36,391)**	(39,038)
Dividend paid to non-controlling interests of a subsidiary	**(1,169)**	—
Repayment of obligation under a finance lease	**(64)**	(61)
Net cash inflow in respect of deemed disposal of partial interest in a subsidiary without loss of control	**—**	21,500
Capital contribution from non-controlling interests	**—**	6,143
Net cash (used in) from financing activities	**(14,580)**	199,479
Net (decrease) increase in cash and cash equivalents	**(136,628)**	49,734
Effect of foreign exchange rate changes	**7,250**	(6,326)
Cash and cash equivalents at beginning of the period	**241,667**	300,298
Cash and cash equivalents at end of the period, representing bank balances and cash	**112,289**	343,706

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

1. BASIS OF PREPARATION

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2017 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2016.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

Amendments to HKAS 7	Disclosure initiative
Amendments to HKAS 12	Recognition of deferred tax assets for unrealised losses
Amendments to HKFRSs	Amendments to HKFRS 12 included in annual improvements to HKFRSs 2014 - 2016 cycle

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Amendments to HKAS 7 "Disclosure initiative"

The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities including both changes arising from cash flows and non-cash changes. Specifically, the amendments require the following changes in liabilities arising from financing activities to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

The application of the amendments will result in additional disclosures on the Group's financing activities, specifically reconciliation between the opening and closing balances in the consolidated statement of financial position for liabilities arising from financing activities will be provided on application.

The adoption will result in relevant disclosures in the Group's annual consolidated financial statements for the year ending 31 December 2017.

The application of other amendments to HKFRSs in the current interim period has had no material impact on the amounts and/or disclosures reported in these condensed consolidated financial statements.

3. SEGMENT INFORMATION

Information reported to the Group's Executive Directors, being the chief operating decision maker, for the purposes of resource allocation and assessment of segment performance focuses on types of goods or services delivered or provided. No operating segments identified by the chief operating decision maker have been aggregated in arriving at the reportable segments of the Group.

Specifically, the Group's operating and reportable segments during the period are as follows:

Wind Energy Related Products	—	Manufacture and sales of wind energy related products
Operation of Wind Farm	—	Sales of electricity from operation of wind farm
Rare-earth Permanent Magnet Motor ("REPM") Products	—	Manufacture and distribution of elevator motors
Energy Storage and Related Products	—	Manufacture and sales of energy renewal products by combining wind energy, solar energy and energy storage
Telecommunication Products	—	Development and distribution of communication products, information technology systems, broadband systems, equipment and accessories

Segment results represent the (loss) profit before taxation incurred/earned by each segment, excluding finance costs, share of result of a joint venture which cannot be allocated, unallocated other income and corporate expenses such as central administration costs and directors' salaries. Share of loss of associates of HK$25,137,000 (1.1.2016 to 30.6.2016: HK$11,210,000) and share of profit of a joint venture of HK$1,219,000 (1.1.2016 to 30.6.2016: HK$2,657,000) are allocated to reportable segments. This is the measure reported to the Group's Executive Directors for the purposes of resources allocation and assessment of segment performance.

3. SEGMENT INFORMATION *(Continued)*

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

Six months ended 30 June 2017

	Wind Energy Related Products	Operation of Wind Farm	REPM Products	Energy Storage and Related Products	Tele-communication Products	Consolidated
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Turnover						
External sales	391	12,911	8,434	2,755	9,055	33,546
Result						
Segment result	(65,371)	9,695	(1,599)	230	(5,752)	(62,797)
Unallocated other income						5,446
Unallocated corporate expenses						(41,397)
Finance costs						(36,391)
Share of result of a joint venture						77,813
Loss before taxation						(57,326)

3. SEGMENT INFORMATION *(Continued)*

Six months ended 30 June 2016

	Wind Energy Related Products *HK$'000*	Operation of Wind Farm *HK$'000*	REPM Products *HK$'000*	Energy Storage and Related Products *HK$'000*	Tele-communication Products *HK$'000*	Consolidated *HK$'000*
Turnover						
External sales	463,777	11,765	12,450	287,686	51,866	827,544
Result						
Segment result	3,398	8,667	(873)	15,699	(6,199)	20,692
Unallocated other income						5,804
Unallocated corporate expenses						(50,198)
Finance costs						(39,038)
Share of result of a joint venture						67,762
Profit before taxation						5,022

4. OTHER GAINS AND LOSSES

	1.1.2017 to 30.6.2017 HK$'000	1.1.2016 to 30.6.2016 HK$'000
Impairment loss recognised in respect of trade receivables	(11,315)	—
Net exchange gain (loss) recognised	263	(8,528)
Gain (loss) on disposal of property, plant and equipment	98	(2)
	(10,954)	(8,530)

5. FINANCE COSTS

	1.1.2017 to 30.6.2017 HK$'000	1.1.2016 to 30.6.2016 HK$'000
Interest on:		
– bank and other loans	36,388	39,033
– finance lease	3	5
	36,391	39,038

6. (LOSS) PROFIT BEFORE TAXATION

	1.1.2017 to 30.6.2017 HK$'000	1.1.2016 to 30.6.2016 HK$'000
(Loss) profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	**13,815**	14,835
Amortisation of intangible assets	**11,706**	12,341
Interest income from		
– advance to a joint venture	**(1,378)**	(1,615)
– bank balances	**(508)**	(641)

7. TAXATION

	1.1.2017 to 30.6.2017 HK$'000	1.1.2016 to 30.6.2016 HK$'000
The tax charge comprises:		
PRC Enterprise Income Tax ("EIT")		
Current period	**1,127**	1,236
Underprovision in prior years	**865**	158
	1,992	1,394
Deferred taxation charge	**346**	425
	2,338	1,819

7. TAXATION *(Continued)*

No provision for Hong Kong Profits Tax has been made as the Company and its subsidiaries in Hong Kong have no assessable profits arising in or derived from Hong Kong for both periods.

Taxation arising in the PRC is recognised based on EIT rate of 25% (1.1.2016 to 30.6.2016: 25%) for the six months ended 30 June 2017.

8. DIVIDENDS

No dividend was paid or declared for the six months ended 30 June 2017 and 2016. The directors do not recommend the payment of an interim dividend for the interim period.

9. (LOSS) EARNINGS PER SHARE - BASIC

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

	1.1.2017 to 30.6.2017	1.1.2016 to 30.6.2016
	HK$'000	*HK$'000*
(Loss) profit for the period attributable to the owners of the Company for the purpose of basic (loss) earnings per share	**(52,281)**	3,919

	Number of shares	
	2017	2016
Number of ordinary shares for the purpose of basic (loss) earnings per share	**4,368,995,668**	4,368,995,668

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

10. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

During the period, the Group paid approximately HK$2,128,000 (1.1.2016 to 30.6.2016: HK$2,223,000) on acquisition of property, plant and equipment.

The Group also disposed of certain property, plant and equipment with an aggregate carrying amount of HK$153,000 (1.1.2016 to 30.6.2016: HK$23,000) for cash proceeds of HK$251,000 (1.1.2016 to 30.6.2016: HK$21,000), resulting in gain on disposal of HK$98,000 (1.1.2016 to 30.6.2016: loss on disposal of HK$2,000).

The fair value of the Group's investment properties as at 30 June 2017 were determined by the directors of the Company. The valuation performed by the directors of the Company was arrived at by reference to recent market prices for similar commercial properties in the PRC. No fair value gain or loss has been recognised for the investment properties in the current period (1.1.2016 to 30.6.2016: nil).

11. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK$1,471,766,000 (31.12.2016: HK$1,556,852,000). The amount of trade receivables at 30 June 2017 included retention receivables for the sales of wind turbines and energy storage and related products to third parties of HK$413,463,000 (31.12.2016: HK$438,950,000). The balances will be settled upon the completion of warranty period of 1 to 5 years (31.12.2016: 1 to 5 years) of which HK$382,939,000 (31.12.2016: HK$388,555,000) will be settled after one year from the end of the reporting period. For the remaining balances of trade receivables, the Group allows credit periods for not more than six months to its customers for sales of goods. At the discretion of the executive directors, several major customers were allowed to settle their balances beyond the credit terms up to one year. The following is an aged analysis of trade receivables, net of allowances, presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
Within 30 days	**4,133**	674,711
Between 31 and 90 days	**10,925**	102,384
Between 91 and 180 days	**7,976**	5,889
Between 181 and 365 days	**708,853**	173,051
Over 1 year	**739,879**	600,817
	1,471,766	1,556,852

Included in the Group's other receivables at 30 June 2017 are bills receivables of HK$1,228,900,000 (31.12.2016: HK$1,383,454,000) in relation to the settlement of trade receivables. All bills receivables of the Group are aged within 180 days (31.12.2016: 180 days).

12. PLEDGED BANK DEPOSITS

Included in the Group's pledged bank deposits are bank deposits amounting to HK$60,000 (31.12.2016: HK$2,233,000) pledged to banks to secure short term general banking facilities granted to the Group and are therefore classified as current assets.

13. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK$1,107,736,000 (31.12.2016: HK$1,290,739,000). The following is an ageing analysis of trade payables based on the invoice dates at the end of each reporting period:

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
Within 30 days	**8,510**	574,256
Between 31 and 90 days	**17,309**	180,869
Between 91 and 180 days	**27,182**	129,831
Between 181 and 365 days	**625,099**	130,226
Over 1 year	**429,636**	275,557
	1,107,736	1,290,739

Included in the Group's other payables at 30 June 2017 are bills payables aged within 180 days of HK$467,376,000 (31.12.2016: HK$526,062,000).

14. BORROWINGS

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
Short-term bank loans (Note a)	**407,392**	378,869
Short-term other loans (Note a)	**342,197**	332,025
Short-term portion of shareholder's loans (Note b)	**437,828**	145,331
Long-term portion of shareholder's loans (Note b)	**460,872**	726,655
Long-term other loan (Note c)	**19,587**	19,005
	1,667,876	1,601,885
Less: Amount due within one year under current liabilities	**(1,187,417)**	(856,225)
Amount due after one year	**480,459**	745,660

	30.6.2017	31.12.2016
	HK$'000	*HK$'000*
The maturity of the Group's borrowings is as follows:		
Within one year	**1,187,417**	856,225
Between one to two years	—	279,483
Between two to five years	**480,459**	466,177
	1,667,876	1,601,885

14. BORROWINGS *(Continued)*

Notes:

(a) The amount at 30 June 2017 represents unsecured bank loans of HK$407,392,000 (31.12.2016: HK$378,869,000).

Loans of HK$149,783,000 or RMB130,000,000 (31.12.2016: HK$145,331,000 or RMB130,000,000) bear fixed-rate interest at 4.79% (31.12.2016: 4.79%) per annum.

Loans of HK$57,609,000 or RMB50,000,000 (31.12.2016: HK$33,538,000 or RMB30,000,000) bear floating rate interest at PRC Lending Prime Rate plus 0.05% (31.12.2016: PRC Lending Prime Rate plus 0.05%) that is 4.35% (31.12.2016: 4.35%) rate per annum.

Loans of HK$200,000,000 (31.12.2016: HK$200,000,000) bear floating-rate interest at Hong Kong inter-bank offered rate ("HIBOR") plus 1.65% (31.12.2016: HIBOR plus 1.65% to 2.3%) per annum.

The loans are repayable within one year (31.12.2016: within one year) and are used to finance the operations of the Group.

Included in other loans represent two loans (31.12.2016: two loans) from Aerospace Science and Technology Finance Co. Ltd. ("ASTF"), a fellow subsidiary of China Academy of Launch Vehicle Technology ("CALT"), a stated-owned enterprise and an intermediate holding company of the Company, amounting to HK$342,197,000 or RMB297,000,000 (31.12.2016: HK$332,025,000 or RMB297,000,000). The amounts are unsecured and guaranteed by CALT, bear fixed-rate interest of 4.13% (31.12.2016: 4.13%) per annum.

Loans of HK$192,414,000 or RMB167,000,000 (31.12.2016: HK$186,694,000 or RMB167,000,000) and HK$149,783,000 or RMB130,000,000 (31.12.2016: nil) are repayable in December 2017 and March 2018 respectively. Loan of HK$145,331,000 or RMB130,000,000 at 31 December 2016 were fully repaid during the current period.

14. BORROWINGS *(Continued)*

Notes: *(Continued)*

(b) The amounts represent loans advanced from CALT, through a fellow subsidiary of CALT, ASTF as the trustee in aggregate amounting to HK$898,700,000 or RMB780,000,000 (31.12.2016: HK$871,986,000 or RMB780,000,000).

The amounts are unsecured, bear fixed-rate interest ranging from 4.88% to 5.00% (31.12.2016: 4.88% to 5.00%) per annum. Loans of HK$149,783,000 or RMB130,000,000 (31.12.2016: HK$145,331,000 or RMB130,000,000), HK$288,045,000 or RMB250,000,000 (31.12.2016: HK$279,483,000 or RMB250,000,000) and HK$460,872,000 or RMB400,000,000 (31.12.2016: HK$447,172,000 or RMB400,000,000) are repayable in July 2017, March 2018 and April 2021 respectively.

(c) The amount represents a loan of HK$19,587,000 or RMB17,000,000 (31.12.2016: HK$19,005,000 or RMB17,000,000) advanced from a non-controlling shareholder of a subsidiary. The amount is unsecured, bears floating-rate interest at 0.9 times of the People's Bank of China Benchmark interest rate that is 4.28% (31.12.2016: 4.28%) per annum and is repayable in full in November 2020.

15. RELATED PARTY TRANSACTIONS AND BALANCES

(i) Transactions with government-related entities in the PRC

The Group operates in an economic environment currently predominated by entities ultimately controlled, jointly controlled or significantly influenced by the PRC government ("government-related entities"). In addition, the Group itself is part of a larger group of companies under China Aerospace Science & Technology Corporation ("CASC") which is controlled by the PRC government.

15. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(i) Transactions with government-related entities in the PRC *(Continued)*

(a) Transactions with CASC Group

Included in borrowings at 30 June 2017 are three (31.12.2016: three) loans advanced from CALT through CASC's subsidiary, ASTF, as the trustee totalling HK$898,700,000 or RMB780,000,000 (31.12.2016: HK$871,986,000 or RMB780,000,000). Details are set out in note 14(b).

In addition, included in other loans represent loans from ASTF, a fellow subsidiary of CALT, a stated-owned enterprise and an intermediate holding of the Company amounting to HK$342,197,000 or RMB297,000,000 (31.12.2016: HK$332,025,000 or RMB297,000,000). Details are set out in note 14(a).

(b) Transactions with other government-related entities

(1) Included in borrowings at 30 June 2017 was a loan of HK$19,587,000 or RMB17,000,000 (31.12.2016: HK$19,005,000 or RMB17,000,000) advanced from a non-controlling shareholder of a subsidiary. Details are set out in note 14(c).

(2) The Group conducts business with other government-related entities. The directors consider those government-related entities are independent third parties so far as the Group's business with them are concerned. The Group also has certain sales and purchases transactions with certain customers and suppliers in which the directors are of the opinion that it is impracticable to ascertain the identity of the counterparties and accordingly whether the transactions are with other government-related entities.

In addition, the Group has entered into various transactions, including deposits placements, borrowings and other general banking facilities, with banks which are government-related entities. A majority of its bank deposits and bank borrowings are with government-related entities.

15. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(ii) Transactions with other related parties

(a) Included in the amounts due from associates are trade receivables of HK$511,389,000 (31.12.2016: HK$496,188,000). The amount is unsecured, non-interest bearing and has credit periods for 180 days for sales of goods mainly wind energy related products. The remaining balance of HK$3,019,000 (31.12.2016: HK$2,753,000) are unsecured, non-interest bearing and repayable on demand.

Included in the amounts due to associates are trade payables of HK$325,173,000 (31.12.2016: HK$308,899,000). The amounts are unsecured, non-interest bearing and with credit period of 365 days. The remaining balance of HK$760,000 (31.12.2016: HK$738,000) are unsecured, non-interest bearing and repayable on demand.

(b) (1) Non-current balance

Included in the balances is an amount due from a joint venture of HK$101,138,000 (31.12.2016: HK$96,846,000), of which loans advanced to the joint venture amounted to HK$64,522,000 (31.12.2016: HK$62,604,000) that bear fixed interest rate at 4.35% (31.12.2016: 4.35%) per annum. The joint venture has pledged its land and buildings to the Group to secure the loan. The remaining amount of HK$36,616,000 (31.12.2016: HK$34,242,000) is non-interest bearing. The joint venture has entered into arrangements with the Group in connection with the above loans of HK$64,522,000 (31.12.2016: HK$62,604,000) and other balance of HK$21,200,000 (31.12.2016: HK$20,570,000) as at 30 June 2017 that these amounts shall be repaid from the proceeds upon the realisation of the land and buildings and certain other assets of that joint venture. The directors of the Company considered that the amount due from the joint venture will not be settled within 12 months from the end of the reporting period, therefore classified as non-current asset.

15. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(ii) Transactions with other related parties *(Continued)*

(b) *(Continued)*

(2) Current balance

The amount due from a joint venture at 30 June 2017 included retention receivables of HK$27,270,000 (31.12.2016: HK$26,459,000) for the sales of wind turbines to a joint venture that took place in prior years which will be settled upon the completion of warranty period in 2017. The remaining balance of HK$46,000 (31.12.2016: HK$45,000) is unsecured, non-interest bearing and repayable on demand.

(3) The amounts due to joint ventures of HK$60,000 (31.12.2016: HK$277,000) are unsecured, non-interest bearing and repayable on demand.

(c) During the period, the Group had the following transactions with related parties:

	1.1.2017 to 30.6.2017	1.1.2016 to 30.6.2016
	HK$'000	*HK$'000*
Purchases of goods from an associate	—	57,597
Interest on loan from a shareholder, CALT	**22,191**	22,897
Interest on loan from a fellow subsidiary, ASTF	**6,823**	4,294
Interest paid to a non-controlling shareholder with significant influence over a subsidiary	**403**	813
Interest income from a joint venture	**1,378**	1,615

15. RELATED PARTY TRANSACTIONS AND BALANCES *(Continued)*

(ii) Transactions with other related parties *(Continued)*

(d) Compensation of key management personnel

The remuneration of key management during the period was as follows:

	1.1.2017 to 30.6.2017	1.1.2016 to 30.6.2016
	HK$'000	*HK$'000*
Salaries and other benefits	**2,731**	3,312
Contributions to retirement benefits scheme	**9**	9
	2,740	3,321

The remuneration of key management is determined by the remuneration committee having regard to the performance of individuals and market trends.