



**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 2014

* 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

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Han Shuwang (*Chairman*)
Mr. Wang Xiaodong (*Vice-Chairman*)
Mr. Li Guang (*Chief Executive Officer*)
Mr. Wang Lijun

Non-executive Directors

Mr. Fang Shili
Ms. Zhang Jianhua

Independent Non-executive Directors

Mr. Wang Dechen
Ms. Kan Lai Kuen, Alice
Mr. Gordon Ng

COMPANY SECRETARY

Mr. Au-Yeung Keung, Steve

AUDIT COMMITTEE

Ms. Kan Lai Kuen, Alice (*Chairman*)
Mr. Wang Dechen
Mr. Gordon Ng
Mr. Fang Shili

REMUNERATION COMMITTEE

Mr. Wang Dechen (*Chairman*)
Mr. Li Guang
Ms. Kan Lai Kuen, Alice
Mr. Gordon Ng
Ms. Zhang Jianhua

NOMINATION COMMITTEE

Mr. Han Shuwang (*Chairman*)
Mr. Wang Lijun
Mr. Wang Dechen
Ms. Kan Lai Kuen, Alice
Mr. Gordon Ng

DEVELOPMENT AND INVESTMENT COMMITTEE

Mr. Han Shuwang (*Chairman*)
Mr. Wang Xiaodong
Mr. Li Guang
Mr. Wang Lijun
Mr. Wang Dechen

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	Royal Bank of Canada Trust Company (Cayman) Limited 4th Floor, Royal Bank House 24 Shedden Road, George Town 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

MANAGEMENT DISCUSSION AND ANALYSIS

On behalf of the Board of Directors, the business performance of China Engin International (Holdings) Ltd. (the “Company”) and its subsidiaries (collectively the “group”) for the first half of this year 2014 is summarized in the following paragraphs.

RESULTS SUMMARY

As of 30 June 2014, the Group’s turnover for the first half of 2014 amounted to HK\$809.25 million as compared to that of 2013 of HK\$282.61 million, representing HK\$526.64 million, or 186%, increase in turnover; the profit attributable to the Company’s owners for the period amounted to HK\$18.35 million as compared to that of 2013 of HK\$9.72 million; the profit for the period attributable to the Company’s owners increased by 89%. The turnover for the period comprised sale of wind energy related products of HK\$589.11 million, sale of electricity generated from wind farm of HK\$13.25 million, sale of rare-earth permanent magnet motor products of HK\$22.85 million, newly launched sale of energy storage and related products of HK\$167.23 million and sales of HK\$16.81 million related to telecommunication business whereas that of the same period last year comprised sale of wind energy related products of HK\$165.44 million, sale of electricity generated from wind farm of HK\$15.67 million, sale of rare-earth permanent magnet motor products of HK\$23.51 million, sale of chemical materials of HK\$63.70 million (business ceased from this period) and sales of HK\$14.29 million related to telecommunication business.

BUSINESS REVIEW

Business of Wind Energy

In 2014, the directdrive wind turbine developed by the Group with proprietary intellectual property rights participated in fierce competition in the China wind energy market which has entered into a rational development phase, and was highly recognized by wind farm developers within the industry for its simple structure, high reliability, high efficiency and low operation and maintenance costs. The Group continued to give full play to the advantages of technology, quality and service of CASC directdrive wind turbines. On this basis, the Group capitalised on its products' leading edge and achieved cost control by adopting the strategy of technology enhancement and batch production through research and development, thereby achieving high supply chain performance and enhanced cost effectiveness to proactively address challenges. Through Inner Mongolia Wind Turbine General Assembling Plant, and Gansu Wind Turbine General Assembling Plant, the Group realized mass production of a number of self-developed models (especially 1.5MW excitation magnetic directdrive wind turbine, 2MW permanent magnet directdrive wind turbine and 2MW excitation magnetic directdrive wind turbine), and adopted the strategy of establishing good relationship with several provincial and autonomous regions' governments to gain their supports and leveraging on provincial and autonomous regions' quotas for wind energy to obtain more wind resources in seeking more production orders for wind turbines, thereby increasing our market share. At present, the Group has considerable wind energy resources in various major wind power bases planned by the State, including Wulatehouqi in Inner Mongolia, Jiuquan City and Wuwei City in Gansu, Ningde City in Fujian, Tieling City and Kaiyuan City in Liaoning, Suihua City in Heilongjiang and Tangshan City in Hebei, effective pushing sales of wind turbines and bringing in promising income to the Group continually.

In 2014, the marketing strategy was not only that of exchanging resources for orders, developing and maintaining key areas and key customers, but also of participating in market competition on a large scale to expand the sales regions and increase our sales efforts.

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

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

In the first half of 2014, the Group completed the assembling, commissioning and delivery of respective 50 sets and 20 sets of 2MW excitation magnetic wind turbines to Mahuangtan Project in Yumen City in Gansu and to Xiapu Project in Ningde City in Fujian in recognizing the sales of them, 70 sets in total. Meanwhile, the Group completed the manufacture and assembling of 60 sets of 2MW excitation magnetic wind turbines for Gansu Jingyuan Project (as to order of 100 sets) and 50 sets of them for Gansu Wuwei Project (as to order of 150 sets).

Research and Development of Technology

In 2014, the Group speeds up the research and development on the 3MW permanent magnet directdrive wind turbines in striving to achieve the target of production of its prototype in the year.

Production Management

In 2014, the Group carried on cost control rigorously with strengthening analyses of wind turbine costing. By conducting on-site research, survey and study, price searches and comparisons across the nation, the purchasing costs of various components of wind turbines under the strategy of strengthening quality control in maintaining quality were further reduced, thereby increasing the gross profit ratio. In enhancing the supply chain management, management structure on eligible suppliers was established with system on conducting appraisals and dynamic assessments of eligible suppliers.

Energy Storage Business

Whilst maintaining the leading position in wind energy technology, the Group has been actively nurturing a new core major business from the research and development of a series of wind and solar energy storage products and a series of distributed energy storage system products and extends the industrial chain to a distributed energy renewal solutions by combining wind energy, solar energy and energy storage subtly in providing customers with more flexible and reliable energy solutions.

In May 2012, the Group initiated the research and development on graphene materials and lithium battery of high storage capacity. Cooperative research and development agreements were signed with international and domestic renowned experts and teams in order to achieve mass production of high quality graphene by leveraging on the graphene extraction technology mastered by them and conducted research and development on new graphene-based cathode material for batteries and high capacity lithium battery in order to launch a series of energy storage products with an integrated system based on high capacity lithium batteries.

In 2013, international renowned experts were invited by the Group to join the Energy Storage Technology Research and Development Centre and effectively commenced the research and development on graphene and energy storage system. Material breakthroughs have been achieved in a number of technologies by the Research and Development Centre.

1. Performance of the existing lithium battery is secured at the top of the domestic ranking list in that its integrated performance is 30% higher than regular lithium batteries and has been successfully applied in large electrical buses for public transport and on storage systems for wind energy and solar energy, thereby the market prospect being of highly optimistic;
2. Production of graphene materials has entered into the phase of pilot production;
3. Performance of graphene-based cathode material for lithium battery has been enhanced substantially;
4. Performance indicators of the self-developed high performance lithium battery electrolyte and battery anode have reached the best international performance standards;
5. Research and development of the graphene-based high-capacity lithium battery product series are being organized and implemented, the indicators from the perspective of phase results have already surpassed the performance of the best existing lithium batteries;
6. A street lamp with a small integrated wind energy and solar energy storage system has been successfully applied in the municipal lighting projects of a number of cities, satisfying the promotion of the clean energy, energy saving and environmental conservation concepts in large and medium cities. Our product has been warmly received by local government leadership due to its pleasant visual design as well as high performance-to-price ratio.

Currently, the Research and Development Centre possesses a daily production capacity of 5 kg graphene; realizes the pilot production of anode material; and small batch production of electrolyte following passing its pilot production line. Materials can be certified promptly on the battery production line, whereas the electrolyte enhances the performance of materials in the battery. Initial result in research and development emerges.

A lithium iron phosphate battery for application in wind turbines of variable pitch has been developed and applied to 2MW excitation magnetic wind turbines successfully. Applying this battery in assembling battery packs of variable pitch could enable the packs not to be replaced for 5 years. Meanwhile, the anode and cathode materials and electrolyte being researched and developed in the laboratory have formed a dynamic lithium iron phosphate battery of excellent performance, which will be applied to electric cars and electric bicycles, developing a large-capacity energy storage system. A mutual strategic partnership relationship in cooperation with Fullsave Technology (Wuxi) Co. Ltd. has been established. In relying on our edges in electrical control and system integration, a battery management system with container-type energy storage system and a grid connection device for the energy storage system have been developed, where the lithium iron phosphate battery utilized in the energy storage battery has a high energy ratio and long utilization life. Its energy ratio amounts to 130% of those of commercial batteries for general usage, and the electrical energy released by battery of the same weight is 30% more than an ordinary battery. The product has been successfully utilized in the control system relating to recovery of rocket parafoils in supplying electrical energy for the recovery of satellites and rockets in its employment in military areas.

Recently, another new type of street lighting system with complementary wind energy and solar energy based on a lithium battery energy storage system has been developed. The scope of applications of the system may extend to unmanned communication base stations, data transmission by high voltage wire towers, boundary outposts, islands, remote areas with no electricity, etc. and may even connect to power grid for electricity generation. Currently, the energy storage street lights with complementary wind energy and solar energy have been installed in Chengde City, Pingquan County of Chengde City, Zuidong Development Zone in Tangshan, and Shijiazhuang International Shopping Mall, etc.

Wind and solar power storage integration

The Group reached a strategic cooperation agreement with Wuwei City in connection with wind and solar power storage integration projects, which expressly put forward a policy of “mutual guarantee and joint development”, stipulating that investors of non-local enterprises must guarantee purchase of no less than 60% of the wind turbine equipment from the Group for the sake of obtaining the resources relating to wind farms and photovoltaic power stations i.e. offering us the priority on the development of the Group's wind and solar power equipment in the course of construction of wind farms and photovoltaic power stations. The Wuwei municipal government has formulated plan to build a 3 million KW wind farm. In 2014, the National Development and Reform Committee approved the construction of phase I of Minqin Hongshagang with a capacity of 1 million KW. The construction of the wind farm has commenced, where the Group's 2MW excitation magnetic direct-driven generators are adopted for the 300,000 KW wind farm thereof. It follows that this wind farm will be the largest wind farm of the Group in terms of the scale of wind turbines applied, which is of great significance to enhancement of the production capacity rate as to the Group's existing 2MW excitation magnetic directdrive wind turbines.

Following the completion of the construction of the ultra-high voltage transmission lines for the transmission of national power from west to east (Hami—Zhengzhou and Jiuquan—Changsha), the capacity of current transmission lines for 60 million KW complementary wind energy and solar energy project (comprising 30 million KW wind farm and 30 million KW photovoltaic power station) will be capable of accommodating wind and solar power generation capacity under grid-connection.

Meanwhile, Wuwei municipal government has formulated plan to construct 190MW photovoltaic power stations, of which the Group's share accounts for 100MW. In 2014, the Development and Reform Committee of Gansu Province approved the construction of 90MW photovoltaic power station in Wuwei and the construction of the 50MW thereof allocated to the Group has commenced, out of which 30 MW project filing has been completed and sales relating thereto were recognized in the first half of this year. The Group will complete project filing for another 20MW in the second half of the year.

Electric vehicles market

The Group is committed to the exploitation of electric vehicle market which has achieved significant breakthroughs. The key technologies in electric vehicles include vehicle, motor, battery, control and driving system as well as charging point system, where main technical bottlenecks that restrict the development of electric vehicles are the performances of batteries and vehicle control system, which, however, are the Group's advantages and features.

As the performance of high-capacity lithium batteries launched by the technical team of the Company and its major shareholder, China Academy of Launch Vehicle Technology ("CALT"), and an international expert reaches 160 Wh/kg, exceeding market level of 130 Wh/kg, and the "four in one" vehicle control system launched by us could place motor driver, vehicle controller, high voltage distribution box and DC power switching device in one control box, the batteries feature comprehensive functions and high level of integration. The electric buses installed with the Group's batteries and control systems are capable of running over 300 km mileage per charge. Exactly thanks to this edge, the Group has made major breakthroughs in promoting electric vehicle market, in particular the market of electric buses and proven track record.

Wind Farm Operations

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

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

Business of New Materials

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

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

Business of Automotive Component Parts

Automotive engine management systems

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

PROSPECTS

Due to consumption of huge amounts of traditional energy and demand for environmental conservation, there will be basically no changes as to the rapid growth of China's wind energy industry in the future. Currently, serious air pollution has been spread as a national issue and becomes a stimulating or driving force to the China government. It is expected that administrative measures for non-hydro new energy quota will be launched in 2014 by the government, laying the foundation for sustainable and healthy development of wind energy.

As hazy weather and air pollution are worsening in China, China government has increased the support for development of clean energy as well as policy support thereon. Given that the Group has strong technical advantages in the application of energy storage system and electric vehicle technology and operates in the clean energy industry as staunchly encouraged by the supports from state policies, the Group will, in addition to making every effort in large-scale industrialized production of wind energy equipment and continuing to expand market share in reliance on our proven record of stable orders received, ensure a rapid growth in the Group's operational results in 2014, 2015 and beyond. The development of new technology and exploitation of new market are focusing on the areas of wind and solar power storage integration as well as electric vehicles intensively.

The Group will strive to develop wind and solar power storage integration and electric vehicles rapidly into new growth points and core businesses of the Group in the second half of 2014 and 2015 on the basis of established market results by hinging on tremendous technical edges obtained in the said sectors, grasping the opportunity of staunch assistances and supports from China policies and devoting greater efforts in market exploitation with the aim of re-addition of momentum in the course of the rapid growth of the Group's operational results.

HUMAN RESOURCES AND REMUNERATION POLICY

As at 30 June 2014, the Group had 23 employees (31 December 2013: 27 employees) in the Hong Kong head office and 573 employees (31 December 2013: 558 employees) in the Mainland China offices. Remuneration of employee is determined according to individual employee's performance and the prevailing trends in different areas and reviewed on an annual basis. The Group also provides Mandatory Provident Fund and medical insurance to its employees. In addition, discretionary performance bonus is available at the discretion of the Directors.

FINANCIAL REVIEW

Liquidity and Financial Resources

Total borrowings of the Group as at 30 June 2014 were HK\$1,826,772,000 (31 December 2013: HK\$1,954,706,000), of which HK\$113,386,000 (31 December 2013: HK\$123,111,000) 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 2014 was 96% (31 December 2013: 103%).

Exchange and Other Exposures

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

Contingent Liabilities

As at 30 June 2014, the Group has issued a guarantee to a bank in respect of a banking facility with an amount of HK\$44,094,000 (31 December 2013: HK\$44,518,000) granted to an associate, of which HK\$37,795,000 (31 December 2013: HK\$25,439,000) has been utilized, and has issued a guarantee to a third party with an amount of HK\$6,198,000 (31 December 2013: HK\$6,258,000).

ADDITIONAL INFORMATION

INTERIM DIVIDEND

The Board of the Company did not recommend any interim dividend for the six months ended 30 June 2014 (2013: Nil).

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

As at 30 June 2014, 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 2014 as 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 2014, so far as is known to the Directors, the persons/entities had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under provisions of Division 2 and 3 of Part XV of the SFO, or, who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group and the amount of each of such person's interest in such securities or in any options in respect of such capital were as follows:

Name	Capacity	Number of shares <i>(Note 1)</i>	Percentage of shareholding
China Aerospace Science & Technology Corporation ("CASC")	Interest of a controlled corporation <i>(Note 2)</i>	2,649,244,000(L)	66.75%
China Academy of Launch Vehicle Technology ("CALT")	Interest of a controlled corporation <i>(Note 3)</i>	2,649,244,000(L)	66.75%
Astrotech Group Limited ("Astrotech")	Beneficial owner	2,649,244,000(L)	66.75%

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 herein, according to the register of interests kept by the Company under Section 336 of the SFO and so far as was known to the Directors, there is no other person/entity who, as at 30 June 2014, had any interest or short position in the shares of underlying shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or who was, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any member of the Group and the amount of each of such person's interest in such securities or in any options in respect of such capital.

CORPORATE GOVERNANCE

Corporate Governance Code

The Group has complied with all principles 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 2014 under review, and complied with the relevant code provisions in the Code throughout the period, with the exception of one deviation from the Code Provision A.4.1 of the Code which stipulates that Non-executive Directors should be appointed for a specific term subject to re-election.

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

Model Code for Securities Transactions by Directors

Throughout the six-month period ended 30 June 2014, the Group has adopted the Model Code for Securities Transactions by Directors of Listed issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code for dealing in securities of the Group by the Directors. Having made specific enquiry, all the Directors confirmed that they have complied with the Model Code.

Independent Non-executive Directors

Throughout the six-month period ended 30 June 2014, the Board at all times met the requirements of the Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules in appointment of a sufficient number of three Independent Non-executive Directors, representing one-third of the Board, one of whom has appropriate professional qualifications, accounting and financial management expertise.

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

Audit Committee

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

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

Neither the Company, nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six-month period ended 30 June 2014.

By Order of the Board

Han Shuwang

Chairman

Hong Kong, 28 August 2014

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 Engerine International (Holdings) Limited and its subsidiaries (collectively referred to as the “Group”) set out on pages 21 to 48, which comprise the condensed consolidated statement of financial position as of 30 June 2014 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 Main Board Listing 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 (“HKICPA”). 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 HKICPA. 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

28 August 2014

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		1.1.2014 to 30.6.2014 HK\$'000 (Unaudited)	1.1.2013 to 30.6.2013 HK\$'000 (Unaudited)
	<i>NOTES</i>		
Turnover	3	809,246	282,608
Cost of sales		(716,039)	(263,034)
Gross profit		93,207	19,574
Other income		12,924	5,905
Other gains and losses	4	2,385	4,628
Distribution costs		(37,645)	(7,870)
Administrative expenses		(68,079)	(73,180)
Finance costs	5	(46,399)	(47,606)
Share of results of associates		(8,397)	4,373
Share of results of joint ventures		71,062	102,660
Profit before taxation	6	19,058	8,484
Taxation	7	(885)	(1,356)
Profit for the period		18,173	7,128

	<i>NOTES</i>	1.1.2014 to 30.6.2014 HK\$'000 (Unaudited)	1.1.2013 to 30.6.2013 HK\$'000 (Unaudited)
Other comprehensive (expense) income			
Item that will not be reclassified to profit or loss:			
– exchange difference arising on translation to presentation currency		(17,832)	33,441
Item that may be subsequently reclassified to profit or loss:			
– reclassification adjustment upon sale of available-for-sale financial asset		—	14,881
Total comprehensive income for the period		341	55,450
Profit (loss) for the period attributable to:			
Owners of the Company		18,351	9,716
Non-controlling interests		(178)	(2,588)
		18,173	7,128
Total comprehensive income (expense) for the period attributable to:			
Owners of the Company		1,235	56,192
Non-controlling interests		(894)	(742)
		341	55,450
Earnings per share – Basic	9	HK0.46 cents	HK0.24 cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014

	NOTES	30.6.2014 HK\$'000 (Unaudited)	31.12.2013 HK\$'000 (Audited)
Non-current assets			
Property, plant and equipment	10	377,094	391,436
Investment properties	10	127,496	128,720
Deposits paid for acquisition of property, plant and equipment	10	10,950	9,084
Goodwill		2,004	2,004
Intangible assets		28,346	30,701
Deferred tax assets		1,990	2,009
Interests in associates		456,148	473,285
Interests in joint ventures		1,378,060	1,319,549
Amount due from a joint venture	16(ii)(b)(1)	106,004	—
		2,488,092	2,356,788
Current assets			
Inventories		416,836	414,130
Trade and other receivables	12	1,530,849	1,599,769
Amounts due from associates	16(ii)(a)	405,401	57,428
Amounts due from joint ventures	16(ii)(b)(2)	30,082	135,074
Pledged bank deposits	13	5,902	9,312
Bank balances and cash		488,187	631,817
		2,877,257	2,847,530

	NOTES	30.6.2014 HK\$'000 (Unaudited)	31.12.2013 HK\$'000 (Audited)
Current liabilities			
Trade and other payables	14	954,227	858,384
Amounts due to associates	16(ii)(a)	292,424	318,044
Amounts due to joint ventures	16(ii)(b)(3)	218,602	6,278
Government grants		4,293	1,068
Taxation payable		1,938	1,967
Warranty provision		48,056	35,937
Borrowings – amount due within one year	15, 16(i)(a)	1,096,063	890,359
		2,615,603	2,112,037
Net current assets		261,654	735,493
Total assets less current liabilities		2,749,746	3,092,281
Non-current liabilities			
Borrowings – amount due after one year	15, 16(i)(a)& 16(i)(b)(1)	730,709	1,064,347
Deferred tax liabilities		20,484	20,988
Government grants		33,293	39,792
		784,486	1,125,127
Net assets		1,965,260	1,967,154
Capital and reserves			
Share capital		396,900	396,900
Reserves		1,498,124	1,496,889
Equity attributable to owners of the Company		1,895,024	1,893,789
Non-controlling interests		70,236	73,365
Total equity		1,965,260	1,967,154

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Attributable to the owners of the Company								Non-		
	Share capital	Special reserve	Share premium	Revaluation reserve	Asset revaluation reserve	Exchange reserve	General reserve	Accumulated losses	Total	controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(Note a)</i>			<i>(Note b)</i>							
At 1 January 2014 (audited)	396,900	117,554	2,483,141	1,399	—	324,664	62,435	(1,492,304)	1,893,789	73,365	1,967,154
Profit for the period	—	—	—	—	—	—	—	18,351	18,351	(178)	18,173
Exchange differences arising on translation to presentation currency	—	—	—	—	—	(17,116)	—	—	(17,116)	(716)	(17,832)
Total comprehensive (expense) income for the period	—	—	—	—	—	(17,116)	—	18,351	1,235	(894)	341
Dividend declared to non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	—	(2,235)	(2,235)
At 30 June 2014 (unaudited)	396,900	117,554	2,483,141	1,399	—	307,548	62,435	(1,473,953)	1,895,024	70,236	1,965,260

	Attributable to the owners of the Company										
	Share capital	Special reserve	Share premium	Revaluation reserve	Asset revaluation reserve	Exchange reserve	General reserve	Accumulated losses	Total	Non-controlling interests	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
	<i>(Note a)</i>				<i>(Note b)</i>						
At 1 January 2013 (audited)	396,900	117,554	2,483,141	1,399	(14,881)	268,557	47,513	(1,516,276)	1,783,907	197,286	1,981,193
Profit for the period	—	—	—	—	—	—	—	9,716	9,716	(2,588)	7,128
Exchange differences arising on translation to presentation currency	—	—	—	—	—	31,595	—	—	31,595	1,846	33,441
Reclassification adjustment upon sale of available-for-sale financial asset	—	—	—	—	14,881	—	—	—	14,881	—	14,881
Total comprehensive income (expense) for the period	—	—	—	—	14,881	31,595	—	9,716	56,192	(742)	55,450
Dividend paid to non-controlling interests of a subsidiary	—	—	—	—	—	—	—	—	—	(1,665)	(1,665)
Deemed disposal of a subsidiary	—	—	—	—	—	—	—	—	—	(103,341)	(103,341)
At 30 June 2013 (unaudited)	<u>396,900</u>	<u>117,554</u>	<u>2,483,141</u>	<u>1,399</u>	<u>—</u>	<u>300,152</u>	<u>47,513</u>	<u>(1,506,560)</u>	<u>1,840,099</u>	<u>91,538</u>	<u>1,931,637</u>

Notes:

- 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.
- Included in general reserve is reserve fund of a subsidiary established in the People's Republic of China (the "PRC") used to i) make up prior years' losses or ii) expand production operations.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	1.1.2014	1.1.2013
	to	to
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited)
Net cash used in operating activities	(330,739)	(232,296)
Investing activities		
Proceeds from disposal of interest in a joint venture	273,906	—
Dividend received from a joint venture	73,714	—
Release of pledged bank deposits	3,491	13,457
Proceeds from disposal of property, plant and equipment	955	508
Proceeds from disposal of a subsidiary	20	—
Net proceeds on disposal of an available-for-sale financial asset	—	122,481
Dividend received from associates	—	16,091
Purchase of property, plant and equipment	(3,874)	(7,114)
Deposits paid for acquisition of property, plant and equipment	(2,620)	(628)
Net cash outflow from deemed disposal of a subsidiary	—	(9,718)
Deposits paid for acquisition of investment property	—	(5,639)
Purchase of an investment property	—	(4,082)
Other investing cash flows	4,485	4,388
Net cash generated from investing activities	350,077	129,744

	1.1.2014 to 30.6.2014 HK\$'000 (Unaudited)	1.1.2013 to 30.6.2013 HK\$'000 (Unaudited)
Financing activities		
Repayment of other loans	(324,966)	(12,554)
Repayment of bank loans	(139,914)	(471,408)
Interest paid	(46,399)	(47,606)
New other loans raised	314,961	313,854
New bank loans raised	37,795	208,652
Dividend paid to non-controlling shareholders of a subsidiary	—	(5,661)
	<hr/> (158,523)	<hr/> (14,723)
Net cash used in financing activities		
Net decrease in cash and cash equivalents	(139,185)	(117,275)
Effect of foreign exchange rate changes	(4,445)	19,584
Cash and cash equivalents at the beginning of the period	631,817	462,393
	<hr/>	<hr/>
Cash and cash equivalents at the end of the period, representing bank balances and cash	488,187	364,702
	<hr/> <hr/>	<hr/> <hr/>

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

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 (“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 2014 are the same as those followed in the preparation of the Group’s annual financial statements for the year ended 31 December 2013.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment entities
Amendments to HKAS 32	Offsetting financial assets and financial liabilities
Amendments to HKAS 36	Recoverable amount disclosures for non-financial assets
Amendments to HKAS 39	Novation of derivatives and continuation of hedge accounting
HK(IFRIC) - INT 21	Levies

The application of the above amendments of HKFRSs and Interpretations in the current interim period has had no material effect 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 ("CODM"), 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.

In prior year, there are 5 reportable and operating segments, namely Wind Energy Related Products, Operation of Wind Farm, REPM Products, Trading of Materials and Telecommunication Business. During the period, the CODM reassessed the current business segments.

The Group developed new products on energy storage and its related products during the current period, the CODM considered it as a separate reportable and operating segment. The Energy storage and Related Products is the new reportable and operating segment during the current period under the Group's business development.

In addition, the Group ceased its business of trading of materials during the current period since the Group has shifted its focus to the wind energy and its related product. Therefore it is no longer a reportable and operating segment of the Group. Comparative figures have been restated to comply with the current period's presentation.

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 power field
REPM Products	—	Manufacture and distribution of elevator motors
Telecommunication Business	—	Development, manufacture and distribution of communication products, ITS, broadband systems, equipment and accessories
Energy Storage and Related products	—	Distributed energy renewal solutions by combining wind energy, solar energy and energy storage

3. SEGMENT INFORMATION *(Continued)*

Segment results represent the profit before taxation earned or loss before taxation incurred by each segment, excluding finance costs, share of results of certain joint ventures which cannot be allocated, unallocated other income and corporate expenses such as central administration costs and directors' remuneration. Share of loss of associates of HK\$8,397,000 (1.1.2013 to 30.6.2013: share of profit of associates HK\$4,373,000) and share of loss of certain joint ventures of HK\$6,134,000 (1.1.2013 to 30.6.2013: HK\$2,405,000) were allocated to reportable and operating segments. This is the measure reported to the Group's Executive Directors, being the chief operating decision maker, for the purposes of resources allocation and assessment of segment performance.

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

Six months ended 30 June 2014

	Wind Energy Related Products <i>HK\$'000</i>	Operation of Wind Farm <i>HK\$'000</i>	Rare-earth Permanent Magnet Motor Products <i>HK\$'000</i>	Energy Storage and Related Products <i>HK\$'000</i>	Trading of materials <i>HK\$'000</i>	Tele- communication <i>HK\$'000</i>	Consolidated <i>HK\$'000</i>
Turnover							
External sales	589,111	13,249	22,854	167,225	—	16,807	809,246
Result							
Segment result	2,433	5,107	2,548	21,536	—	(6,160)	25,464
Unallocated other income							8,010
Unallocated corporate expenses							(45,213)
Finance costs							(46,399)
Share of result of a joint venture							77,196
Profit before taxation							19,058

3. SEGMENT INFORMATION *(Continued)*

Six months ended 30 June 2013

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

4. OTHER GAINS AND LOSSES

	1.1.2014	1.1.2013
	to	to
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
Gain on disposal of available-for-sale financial asset	—	3,633
Net exchange (loss) gain recognised	(2,931)	868
Recovery of trade receivables previously impaired	13	127
Gain on disposal of property, plant and equipment	381	—
Gain on deemed disposal of interest in an associate	4,902	—
Gain on disposal of a subsidiary	20	—
	<hr/>	<hr/>
	2,385	4,628
	<hr/> <hr/>	<hr/> <hr/>

5. FINANCE COSTS

	1.1.2014	1.1.2013
	to	to
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
Interests on bank and other loans:		
– wholly repayable within five years	44,628	45,527
– repayable over five years	1,771	2,079
	<hr/>	<hr/>
	46,399	47,606
	<hr/> <hr/>	<hr/> <hr/>

6. PROFIT BEFORE TAXATION

	1.1.2014	1.1.2013
	to	to
	30.6.2014	30.6.2013
	HK\$'000	<i>HK\$'000</i>
Profit before taxation has been arrived at after charging (crediting):		
Depreciation of property, plant and equipment	14,620	17,037
Amortisation of intangible assets	2,076	3,478
Interest income		
– advance to a joint venture	(2,242)	(1,582)
– bank balances	(2,243)	(933)
	<u> </u>	<u> </u>

7. TAXATION

	1.1.2014	1.1.2013
	to	to
	30.6.2014	30.6.2013
	HK\$'000	<i>HK\$'000</i>
The tax charge comprises:		
Current tax:		
PRC Enterprise Income Tax ("EIT")	1,316	793
Deferred taxation	(431)	563
	<u> </u>	<u> </u>
	<u>885</u>	<u>1,356</u>

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 profit for both periods.

Taxation arising in the PRC is recognised based on EIT rate of 25% (2013: 25%) for the six months ended 30 June 2014.

8. DIVIDENDS

No dividends were paid or declared for both periods. The directors of the Company do not recommend the payment of any interim dividend for the six months ended 30 June 2014.

9. EARNINGS PER SHARE – BASIC

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

	1.1.2014 to 30.6.2014 HK\$'000	1.1.2013 to 30.6.2013 HK\$'000
Profit for the period for the purpose of basic earnings per share – attributable to the owners of the Company	<u>18,351</u>	<u>9,716</u>
		Number of shares 2014 & 2013
Number of ordinary shares for the purpose of basic earnings per share		<u>3,968,995,668</u>

No diluted 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 AND DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT/ INVESTMENT PROPERTY

During the period, the Group disposed of certain plant and machinery with an aggregate carrying amount of HK\$574,000 (1.1.2013 to 30.6.2013: HK\$508,000) for cash proceeds of HK\$955,000 (1.1.2013 to 30.6.2013: HK\$508,000), resulting in gain on disposal of HK\$381,000 (1.1.2013 to 30.6.2013: no gain or loss on disposal).

During the period, the Group spent approximately HK\$3,874,000 (1.1.2013 to 30.6.2013: HK\$7,114,000) on acquisition of plant and machineries.

During the period, the Group made further deposits of HK\$2,620,000 (1.1.2013 to 30.6.2013: HK\$628,000) for the acquisition of property, plant and equipment.

In prior period, the Group derecognised certain plant and machinery with an aggregate carrying amount of HK\$108,403,000 due to a deemed disposal of a subsidiary. Details are set out in note 17.

In prior period, the Group acquired an investment property with a cost of HK\$13,883,000.

In prior period, the Group made deposits of HK\$5,639,000 for the acquisition of investment property.

The fair value of the Group's investment property as at 30 June 2014 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 property in the current period (1.1.2013 to 30.6.2013: nil).

11. AVAILABLE-FOR-SALE FINANCIAL ASSET

In prior period, the Group disposed of its investment in Huadian Fuxin Energy Corporation Limited, an equity security listed on The Stock Exchange of Hong Kong Limited, to third parties in the open market for total considerations of HK\$122,745,000. Gain on disposal of available-for-sale financial asset of HK\$3,633,000 was recognised after netting off the transaction cost of HK\$264,000.

12. TRADE AND OTHER RECEIVABLES

Included in trade and other receivables are trade receivables of HK\$824,274,000 (31.12.2013: HK\$531,832,000). The amount of trade receivables at 30 June 2014 included retention receivables for the sales of wind turbines to third parties of HK\$172,392,000 (31.12.2013: HK\$116,229,000). The balances will be settled upon the completion of warranty period of 1 - 5 years (31.12.2013: 1 - 5 years). For the remaining balances of trade receivables, the Group allows credit periods for 90 days on average to its customers for sales of goods mainly wind energy related products. At the discretion of the executive directors, several major customers were allowed to settle their balances beyond the credit terms up to one year. The following is an ageing analysis of trade receivables net of allowances, presented based on the invoice dates at the end of the reporting period, which approximated the respective revenue recognition dates:

	30.6.2014	31.12.2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Within 30 days	398,763	116,578
Between 31 and 90 days	6,184	194,305
Between 91 and 180 days	6,447	6,437
Between 181 and 365 days	205,108	747
Over 1 year	207,772	213,765
	824,274	531,832

12. TRADE AND OTHER RECEIVABLES *(Continued)*

Included in the Group's other receivables at 30 June 2014 are dividend receivable from a joint venture of HK\$12,427,000 (31.12.2013: HK\$12,614,000), dividend receivables from associates of HK\$9,129,000 (31.12.2013: nil), deposits paid for purchase of inventories for subsidiaries in the PRC of HK\$193,956,000 (31.12.2013: HK\$61,052,000), VAT recoverable of HK\$61,923,000 (31.12.2013: HK\$88,259,000) and bills receivables of HK\$315,340,000 (31.12.2013: HK\$471,380,000) in relation to the settlement of trade receivables. The remaining bills receivables of HK\$73,714,000 were in relation to settlement of dividend receivable from a joint venture in prior year. All bills receivables of the Group are aged within 180 days (31.12.2013: 90 days).

13. PLEDGED BANK DEPOSITS

Included in the Group's pledged bank deposits are bank deposits amounting to HK\$5,902,000 (31.12.2013: HK\$9,312,000) pledged to banks to secure general banking facilities granted to the Group and are therefore classified as current assets. They will be released in September 2014 upon the settlement of the related borrowings.

14. TRADE AND OTHER PAYABLES

Included in trade and other payables are trade payables of HK\$818,203,000 (31.12.2013: HK\$739,882,000). The following is an ageing analysis of trade payables based on the invoice dates at the end of each reporting period:

	30.6.2014	31.12.2013
	HK\$'000	HK\$'000
Within 30 days	473,197	168,244
Between 31 and 90 days	34,004	216,204
Between 91 and 180 days	160,529	145,202
Between 181 and 365 days	95,212	160,767
Over 1 year	55,261	49,465
	818,203	739,882

14. TRADE AND OTHER PAYABLES *(Continued)*

Included in the Group's other payables at 30 June 2014 are accrual for construction work of HK\$2,574,000 (31.12.2013: HK\$2,599,000), receipt in advance from customers of HK\$31,641,000 (31.12.2013: HK\$18,852,000), project guarantee deposits of HK\$2,520,000 (31.12.2013: HK\$2,544,000), accrued transportation cost of HK\$17,521,000 (31.12.2013: HK\$13,212,000), office rental payable of HK\$4,336,000 (31.12.2013: HK\$4,378,000), bills payables aged within 180 days of HK\$15,055,000 (31.12.2013: HK\$35,729,000) and dividend payables to non-controlling interests of HK\$2,235,000 (31.12.2013: nil).

15. BORROWINGS

	30.6.2014	31.12.2013
	HK\$'000	HK\$'000
Short term bank loans (Note a)	466,142	572,374
Short term other loans (Note a)	314,961	—
Short term shareholder's loans (Note b)	314,961	317,985
Long term shareholder's loans (Note b)	667,716	992,113
Long term other loan (Note c)	62,992	72,234
	1,826,772	1,954,706
Less: Amount due within one year under current liabilities	(1,096,063)	(890,359)
Amount due after one year	730,709	1,064,347

The maturity of the Group's borrowings is as follows:

Within one year	1,096,063	890,359
Between one to two years	503,937	—
Between two to five years	163,780	992,113
Over five years	62,992	72,234
	1,826,772	1,954,206

15. BORROWINGS *(Continued)*

Notes:

- (a) The amount at 30 June 2014 represents unsecured bank loans of HK\$466,142,000 or RMB370,000,000 (31.12.2013: HK\$572,374,000 or RMB450,000,000). Loans of HK\$50,394,000 or RMB40,000,000 (31.12.2013: HK\$50,877,000 or RMB40,000,000) bear floating-rate interest at 0% (31.12.2013: 0%) on top of People's bank of China benchmark interest rate per annum. The remaining loans of HK\$415,748,000 or RMB330,000,000 (31.12.2013: HK\$521,497,000 or RMB410,000,000) bear fixed-rate interest ranging from 6% to 6.96% (31.12.2013: 6%) per annum.

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

During the current period, the Group obtained new 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 intermediate holding of the Group, amounting to HK\$188,977,000 or RMB150,000,000 (31.12.2013: nil) and HK\$125,984,000 or RMB100,000,000 (31.12.2013: nil). The amounts are unsecured, bear fixed-rate interest of 5.7% per annum and are repayable in April 2015 and June 2015 respectively.

- (b) The amounts in aggregate amounting to HK\$982,677,000 or RMB780,000,000 (31.12.2013: HK\$1,310,098,000 or RMB1,030,000,000) represent loans advanced from CALT, through a fellow subsidiary of CALT, ASTF.

The amounts are unsecured, bear fixed-rate interest ranging from 4.9% to 5.0% (31.12.2013: 3.7% to 5.0%) per annum. Loans of HK\$314,961,000 or RMB250,000,000 (31.12.2013: HK\$317,985,000 or RMB250,000,000), HK\$503,937,000 or RMB400,000,000 (31.12.2013: HK\$508,776,000 or RMB400,000,000) and HK\$163,779,000 or RMB130,000,000 (31.12.2013: HK\$165,352,000 or RMB130,000,000) are repayable in March 2015, April 2016 and July 2017 respectively.

- (c) The amount represents a loan of HK\$62,992,000 or RMB50,000,000 (31.12.2013: HK\$72,234,000 or RMB56,790,000) 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 5.90% (31.12.2013: 5.90%) per annum and is repayable in full in November 2020. Amount of HK\$8,554,000 or RMB6,790,000 was settled during the current period.

16. 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.

(a) Transactions with CASC Group

Included in borrowings at 30 June 2014 were three (31.12.2013: six) loans advanced from CALT through CASC's subsidiary, ASTF, as the trustee totalling HK\$982,677,000 or RMB780,000,000 (31.12.2013: HK\$1,310,098,000 or RMB1,030,000,000). Details are set out in note 15(b).

During the current period, the Group obtained two new loans from ASTF, a fellow subsidiary of CALT, a stated-owned enterprise and intermediate holding of the Group totalling HK\$314,961,000 or RMB250,000,000. Details are set out in note 15(a).

(b) Transactions with other government-related entities

(1) Included in borrowings at 30 June 2014 was a loan of HK\$62,992,000 or RMB50,000,000 (31.12.2013: HK\$72,234,000 or RMB56,790,000) advanced from a non-controlling shareholder of a subsidiary. Details are set out in note 15(c).

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

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

(b) Transactions with other government-related entities *(Continued)*

- (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.

(ii) Transactions with other related parties

- (a) Included in the amounts due from associates are prepayment for inventories of HK\$334,282,000 (31.12.2013: nil) and trade receivables of HK\$70,198,000 (31.12.2013: nil). For prepayment for inventories, the amount is unsecured, non-interest bearing and will be utilised upon receipt of inventories. For trade receivables, the amount is unsecured, non-interest bearing and has credit periods for 90 days for sales of goods mainly wind energy related products. The remaining balance of HK\$921,000 (31.12.2013: HK\$57,428,000) are unsecured, non-interest bearing and repayable on demand.

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

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

(a) *(Continued)*

Included in the amounts due to associates are receipt in advance of HK\$163,780,000 (31.12.2013: HK\$257,772,000) and trade payables of HK\$128,634,000 (31.12.2013: HK\$60,272,000). For receipt in advance, the amount is unsecured and non-interest bearing and will be utilised upon sales of wind energy related products. For trade payables, the amount is unsecured, non-interest bearing and has credit period of 365 days. The remaining balance of HK\$10,000 are unsecured, non-interest bearing and repayable on demand.

(b) (1) Non-current balance

Included in the balance is a loan advanced to a joint venture amounted to HK\$70,551,000 brought forward from prior year (31.12.2013 under current account: HK\$71,229,000) and was repayable in July 2014. At the end of the reporting period, the Group is in the process to extend the maturity date of the loan with the joint venture to July 2015. The loan is therefore classified as non-current in the current period. In July 2014, the Group has signed renewed loan agreement with the joint venture to extend the maturity date of the loan to July 2015 and the joint venture has pledged its land and buildings with a carrying amount of HK\$59,563,000 ("Pledged Assets") to the Group to secure the loan. The loan bears fixed interest rate at 6% per annum.

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

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

(b) (1) Non-current balance *(Continued)*

For the other non-current account balance of HK\$23,181,000 (31.12.2013 under current account: HK\$23,404,000), the joint venture has entered into arrangements with the Group that the balance shall be repaid from the proceeds upon the realisation of the Pledged Assets and certain other assets of the joint venture. The other non-current account balance of HK\$23,181,000 and the remaining balance of HK\$12,272,000 are unsecured, non-interest bearing and repayable on demand. The directors of the Company expected that the Pledged Assets and certain other assets of the joint venture will not be realised within 12 months from the end of the reporting period, therefore classified as non-current.

(b) (2) Current balance

The amounts due from joint ventures at 30 June 2014 included retention receivables of HK\$29,879,000 (31.12.2013: HK\$30,166,000) for the sales of wind turbines to a joint venture that took place in prior years. The balance is unsecured, non-interest bearing and will be settled upon the completion of warranty period in 2015. The remaining balance of HK\$203,000 (31.12.2013: HK\$10,275,000) is unsecured, non-interest bearing and repayable on demand.

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

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

(3) Included in the amounts due to joint ventures are a financial guarantee of HK\$6,198,000 (31.12.2013: HK\$6,258,000) granted to a customer of the joint venture and receipt in advance of HK\$212,384,000 (31.12.2013: nil). The joint venture deposited the same amount to the Group as guarantee deposit under the arrangement. For receipt in advance, the amount is unsecured and non-interest bearing and will be utilised upon sales of wind energy related products. The remaining balance of HK\$20,000 (31.12.2013: HK\$20,000) is unsecured, non-interest bearing and repayable on demand.

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

	1.1.2014	1.1.2013
	to	to
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
Sales of goods to an associate	171,425	—
Purchase of goods from an associate	81,567	12,747
Interest paid to ASTF	30,366	24,739
Interest paid to a non-controlling shareholder of a subsidiary	1,771	2,079
Interest income from a joint venture	2,242	1,582
	=====	=====

16. 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:

	1.1.2014	1.1.2013
	to	to
	30.6.2014	30.6.2013
	HK\$'000	HK\$'000
Salaries and other benefits	3,755	3,191
Contributions to retirement benefits scheme	8	8
	<hr/> 3,763 <hr/>	<hr/> 3,199 <hr/>

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

17. DEEMED DISPOSAL OF A SUBSIDIARY

In prior period, the Group and the non-controlling shareholders of a subsidiary, 蘇州航天特譜風能技術有限公司 ("Suzhou Wind Energy"), whose business is manufacturing and trading of wind turbines, agreed to change the proportion of directors in the board of directors of Suzhou Wind Energy. The number of directors that can be appointed by the Group had decreased from three to two out of five board members with effect from 1 April 2013. In prior period, the Group had transferred a right to appoint a director irrevocably to 蘇州三科投資管理有限公司, another shareholder of Suzhou Wind Energy, with effect from 1 April 2013. All decisions about operating and financial (which are relevant activities of Suzhou Wind Energy) require three-fifth votes (i.e. three votes). As a result, the Group had lost its ability to direct the relevant activities of Suzhou Wind Energy. The Group had lost its control over Suzhou Wind Energy since 1 April 2013. The Group continues to hold 41.28% equity interest of Suzhou Wind Energy after the deemed disposal and Suzhou Wind Energy became an associate of the Group.

17. DEEMED DISPOSAL OF A SUBSIDIARY *(Continued)*

The net assets of Suzhou Wind Energy at the date of deemed disposal were as follows:

	1.4.2013
	<i>HK\$'000</i>
Property, plant and equipment	108,403
Intangible assets	58,944
Deferred tax assets	1,076
Inventories	111,949
Trade and other receivables	102,541
Bank balances and cash	9,718
Trade and other payables	(100,323)
Borrowings	(111,241)
Warranty provision	(6,791)
	<hr/>
Net assets	174,276
Non-controlling interests	(103,341)
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Net assets transferred to interest in an associate	70,935
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Net cash outflow arising on deemed disposal	
Bank balances and cash disposed of	9,718
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The directors of the Company considered that the fair value of the retained interest classified as interest in the associate at the date of deemed disposal approximated to its carrying amount.

18. CONTINGENT LIABILITIES

	30.6.2014	31.12.2013
	<i>HK\$'000</i>	<i>HK\$'000</i>
Guarantee given to a bank, in respect of a banking facility granted to an associate		
– amount guaranteed	44,094	44,518
– amount utilised	37,795	25,439
Guarantee given to a third party	6,198	6,258
	<u>6,198</u>	<u>6,258</u>

In the opinion of the directors, the fair values of the guarantee are not significant.