中國高速傳動設備集團有限公司*
China High Speed Transmission Equipment Group Co., Ltd.

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 658)

ANNUAL REPORT

2018

* For identification purpose only

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Chen Yongdao
Mr. Wang Zhengbing
Mr. Zhou Zhijin
Mr. Hu Jichun *(Chief Executive Officer)*
Ms. Zheng Qing

Non-executive Directors

Mr. Hu Yueming *(Chairman)*
Mr. Yuen Chi Ping

Independent non-executive Directors

Dr. Chan Yau Ching, Bob
Ms. Jiang Jianhua
Mr. Jiang Xihe
Mr. Nathan Yu Li

AUDIT COMMITTEE

Mr. Jiang Xihe *(Chairman)*
Dr. Chan Yau Ching, Bob
Mr. Nathan Yu Li

REMUNERATION COMMITTEE

Dr. Chan Yau Ching, Bob *(Chairman)*
Mr. Jiang Xihe
Mr. Chen Yongdao

NOMINATION COMMITTEE

Mr. Hu Yueming *(Chairman)*
Mr. Jiang Xihe
Mr. Nathan Yu Li

REGISTERED OFFICE

4th Floor, Harbour Place
103 South Church Street
George Town
Grand Cayman KY1-1002
Cayman Islands

AUDITOR

PricewaterhouseCoopers

LEGAL ADVISER

Chungs Lawyers

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 1302
13th Floor
COFCO Tower
No.262 Gloucester Road
Causeway Bay
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Mr. Hu Yueming
Mr. Lui Wing Hong, Edward

PRINCIPAL BANKERS

ICBC
China Construction Bank
BOCOM
China Merchants Bank
SPD Bank
China Minsheng Bank
Australia and New Zealand Bank

PLACE OF LISTING

The Stock Exchange of Hong Kong Limited
(the "**Hong Kong Stock Exchange**")

STOCK CODE

00658

WEBSITE

www.chste.com

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000	Change
Continuing operations			
Revenue	**8,203,500**	7,990,604	2.7%
Gross profit	**1,530,989**	2,303,882	-33.5%
Continuing operations and discontinued operation			
Profit for the year attributable to owners of the Company	**208,401**	451,699	-53.9%
Basic earnings per share (RMB)	**0.128**	0.276	-53.6%
Proposed final dividend per share (HKD)	**0.08**	0.18	-55.6%

	At 31 December 2018 RMB'000	At 31 December 2017 RMB'000	Change
Total assets	**26,748,539**	27,438,175	-2.5%
Total liabilities	**15,883,275**	16,462,174	-3.5%
Net assets	**10,865,264**	10,976,001	-1.0%
Net assets per share (RMB)	**6.6**	6.7	-1.5%
Gearing ratio* (%)	**59.4**	60.0	-0.6ppt

* Gearing ratio = total liabilities/total assets

FIVE-YEAR FINANCIAL SUMMARY

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2018 RMB'000	2017 Restated* RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
RESULTS					
REVENUE	**8,203,500**	7,990,604	8,966,049	9,845,695	8,147,338
PROFIT FOR THE YEAR	**206,472**	352,816	1,059,435	1,002,897	175,682
Profit for the year attributable to owners of the Company	**208,401**	451,699	1,108,995	1,033,097	208,422

	As at 31 December				
	2018 RMB'000	2017 RMB'000	2016 RMB'000	2015 RMB'000	2014 RMB'000
ASSETS AND LIABILITIES					
TOTAL ASSETS	**26,748,539**	27,438,175	26,295,600	25,292,081	25,299,504
TOTAL LIABILITIES	**(15,883,275)**	(16,462,174)	(15,055,252)	(15,317,343)	(16,429,402)
	10,865,264	10,976,001	11,240,348	9,974,738	8,870,102
Attributable to:					
Owners of the Company	**10,791,832**	10,904,962	11,053,873	9,759,102	8,688,371
Non-controlling interests	**73,432**	71,039	186,475	215,636	181,731
	10,865,264	10,976,001	11,240,348	9,974,738	8,870,102

* See note 29 to the consolidated financial statements for details regarding the restatement as a result of the discontinued operation.

CHAIRMAN'S STATEMENT

I am pleased to present the 2018 annual report (the "**Annual Report**") of China High Speed Transmission Equipment Group Co., Ltd. (the "**Company**" or "**China High Speed Transmission**"). For the year ended 31 December 2018 (the "**Year**"), the company and its subsidiaries (collectively referred to as the "**Group**") recorded sales revenue from continuing operations of approximately RMB8,203,500,000, representing an increase of approximately 2.7% from 2017. Profit attributable to owners of the Company was approximately RMB208,401,000, representing a decrease of approximately 53.9% from 2017. China High Speed Transmission continued to lead domestic wind power equipment industry with its strong research, design and development as well as commitment to the provision of quality, reliable and innovative products for customers. The Company also adjusted the business development strategies of the industrial gear transmission equipment industry to enhance its market competitiveness. During the Year, the Group was awarded the title of "Outstanding Enterprise in the Building Materials Machinery Industry for 40 Years of China's Reform and Opening up" by China Building Materials Machinery Association.

In 2018, the overall rate of global economy slowed down, while China's economy has made a steady progress. China's economic aggregate has reached RMB90,000 billion, with a year-on-year growth rate of 6.6%, ranking first among the world's top five economies. Regarding the wind power industry, according to the preliminary statistics of Chinese Wind Energy Association, the installed wind power clearly revived in 2018. Newly installed wind power grid-connected capacity was up to 20.59 million kilowatts. The cumulate grid-connected installed capacity was 184GW, representing 9.7% of the total power-generating installed capacity. The annual wind power generation was 366,000GW, representing 5.2% of the total power generation and an increase of 0.4 percentage point over 2017.

According to the Bloomberg New Energy Finance report, the total global investment in clean energy reached USD333.1 billion in 2018. Despite a 7% decline from 2017, the investment in clean energy exceeded USD300 billion for the fifth year in a row. During the period, the total investment in wind energy globally was USD128.6 billion, representing an increase of 3%, of which offshore wind energy increased by 14% to USD25.7 billion. With a shift in offshore wind energy from traditional developed markets such as Europe to China, construction of 13 offshore wind farms began in China in 2018, with an estimated value of USD11.4 billion. In addition, newly installed capacity of photovoltaic energy generation also set a record, breaking 100GW mark for the first time.

CHAIRMAN'S STATEMENT

Looking back to 2018, the Group as a leading supplier of overall solution in wind gear transmission equipment in the world, its production technology reached an internationally advanced level, aligning with its international competitors. With quality products and services, we supplied in bulk to a portfolio of wind power customers including domestically and internationally renowned wind turbine general manufacturers and were well-recognized and trusted. During the Year, building on the outstanding strength of its R&D design, processing and manufacturing, product testing, equipment maintenance, and other areas of transmission equipment, adhering to a business philosophy of providing users with reliable quality and innovative products, the Group successfully developed the wind power gearbox online status monitoring and health management system and launched a new generation of high-power gearbox. In addition, while maintaining its leading domestic market share, the Group expanded its overseas market and continuously enhanced its international competitiveness. Through its wholly-owned subsidiaries in the United States, Germany, Singapore, Canada and India, the Group is committed to providing global customers with diversified services in line with its sustainable development strategy.

During the Year, the Group maintained the development strategy for traditional industrial gear transmission equipment. Above all, with the focus on energy-saving and environmentally-friendly products, the Group self-developed standardized and modular products which are internationally competitive, in order to facilitate the change in sales strategies and explore new markets and new industries; at the same time, the Group strengthened its efforts to provide and sell parts and components of relevant products as well as system solutions to its customers, helping them enhance their current production efficiency without increasing capital expenditure, thereby maintaining the Company's position as a major supplier in the traditional industrial transmission product market. At the same time, with continuous advancement of "The Belt and Road Initiative" construction, the Group's products have more room for development. Furthermore, the Group's rail vehicle gearboxes have again entered the African market. The metro gearboxes for Tunisia are PDM400 two-level-transmission-structure gearboxes, which have passed their first inspection covering various test data, appearance, as well as parts and related technical documents. Today, more than 25,000 existing rail vehicle gearboxes of the Group are stably operating in China, North America, South America, Australia, Europe, Southeast Asia, Africa and other places in various types of vehicles and equipment. The product is well received by users.

CHAIRMAN'S STATEMENT

According to the wind power development plan under the "Thirteenth Five-Year Plan" released by the National Energy Administration, it is clear that wind curtailment will be effectively addressed by 2020. In addition, the National Development and Reform Commission and the National Energy Administration issued "The implementation plan for resolving curtailment of hydro power, wind power and photovoltaic power", clarifying that the renewable energy power quota system should be implemented on an annual basis, and curtailment of hydro power, wind power and photovoltaic power should be effectively resolved nationwide by 2020. With significant improvements in wind power curtailment, the development of wind power in Northeastern, Northern and Northwestern China is expected to resume on a large scale, and newly installed capacity of domestic wind power is expected to continue its good growth momentum. The Group will adhere to the four core competitive strengths of "innovative thinking, zero defects, professional services, and customer orientation" under the globalization strategy framework. In addition, by following our visionary market strategy and our management concept of zero defects, we continue to invest in innovation and advanced manufacturing technologies. Furthermore, we inject high-level investments in human resources and build an excellent corporate culture to outperform the average market development, thus to become a stable and sustainable leader of the industry.

I would like to express my heartfelt thanks to the management, members of the board of directors, all staff, shareholders and investors of the Company who have contributed to and put faith in the Group as well as our business partners who have been supportive of the Group in the past year.

Hu Yueming
Chairman

29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in research, design, development, manufacturing and distribution of a broad range of mechanical transmission equipment that are used in wind power and a wide range of industrial applications. During the Year, the Group recorded sales revenue of approximately RMB8,203,500,000 in continuing operations (2017: RMB7,990,604,000), representing an increase of approximately 2.7% from 2017. The gross profit margin was approximately 18.7% (2017: 28.8%). Profit attributable to owners of the Company from continuing and discontinued operations was approximately RMB208,401,000 (2017: RMB451,699,000), representing a decrease of 53.9% from 2017. Basic earnings per share amounted to RMB0.128 (2017: RMB0.276), representing a decrease of 53.6% from 2017.

Principal Business Review

1. **Wind gear transmission equipment**

   Diversified, large and overseas market development

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

   Currently, the Group maintains a strong customer portfolio. Customers of its wind power business include the major wind turbine manufacturers in the PRC, as well as renowned international wind turbine manufacturers such as GE Renewable Energy, Gemesa, Unison, Suzlon, etc. With our quality products and good services, the Group has received a wide range of recognition and trust from customers at home and abroad. The Group has wholly-owned subsidiaries in the United States (the "**U.S.**"), Germany, Singapore, Canada and India to support the sustainable development strategy of the Group and strive to have closer communication and discussion with potential overseas customers with a view to providing further diversified services for global customers.

   The wind gear transmission equipment is a major product that has been developed by the Group. During the Year, sales revenue of wind gear transmission equipment business increased by approximately 1.4% to approximately RMB6,896,966,000 (2017: RMB6,803,417,000) as compared with last year.

2. **Industrial gear transmission equipment**

Enhanced market competitiveness through changes in production mode and sales strategies

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

The Group adjusted the development strategy for traditional industrial gear transmission equipment. Above all, with the focus on energy-saving and environmentally-friendly products, the Group self-developed standardized and modular products which are internationally competitive, in order to facilitate the change in sales strategies and explore new markets and new industries; at the same time, the Group strengthened its efforts to provide and sell parts and components of relevant products as well as system solutions to its customers, helping them enhance their current production efficiency without increasing capital expenditure, thereby maintaining the Company's position as a major supplier in the traditional industrial transmission product market.

In respect of transmission equipment for high-speed rails, metro lines, urban train and tram segments, the Group has obtained ISO/TS 22163 Certificate for the Quality Management System of International Railway Industry for its rail transportation products, which has laid a solid foundation for the Group's rail transportation products to expand into high-end international railway markets. Currently the products have been successfully applied to rail transportation transmission equipment in Beijing, Shanghai, Shenzhen, Nanjing, and other cities in mainland China and have also been successfully applied to rall transportation transmission equipment in multiple countries and regions such as Hong Kong, Singapore, Brazil, Netherlands, India, Mexico, Tunisia, Australia and Canada. The Group will continue to actively extend the transmission equipment business into high-speed rails, metro lines, urban train and tram segments, and accelerate the research and development of rail transportation gear equipment products.

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

During the Year, the industrial gear business segment generated sales revenue of approximately RMB1,298,567,000 (2017: RMB1,001,004,000) for the Group, representing an increase of 29.7% over last year.

3. Discontinued operations

During the Year, the Group continued its strategy to divest the loss-making business to enhance its overall performance. On 23 November 2018, the Group entered into the Bundle Transaction (as defined in note 29 to the consolidated financial statements) with an independent third party to dispose of its entire equity interests of ten subsidiaries and four associates (the "**Disposal Group**"), of which some are engaging in manufacturing and sales of computer numerical controlled machine tool and diesel engine products. For the relevant details, please refer to the announcement of the Company dated 25 November 2018 (the "**Disposal Announcement**"), note 29 to the consolidated financial statements and the paragraph headed "Significant Acquisition and Disposal During The Year" below. As mentioned in the Disposal Announcement, the Group is expected to record a gain of approximately RMB438,628,000 (before taxation and subject to audit) from the disposal of the Disposal Group in the year of 2019. As at the date of the Annual Report, the Bundle Transaction is still on going and is expected to be completed in 2019.

LOCAL AND EXPORT SALES

During the Year, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. During the Year, the overseas sales amounted to approximately RMB2,803,381,000 (2017: RMB2,631,914,000), representing an increase of 6.5% over last year. Overseas sales accounted for 34.2% to total sales (2017: 32.9%), representing an increase of 1.3 percentage points over the last year. At present, the overseas customers of the Group are based mainly in the U.S. and other countries and regions such as Europe, India and Japan.

PATENTED PROJECTS

The business of the Group has high entry barriers and requires specific technical know-how. The Group enhances corporate growth by introducing new products and new technology. Various new products have made their debuts in the domestic market under the Group's on-going innovation of products and technology. Leveraging its innovative technology and premium quality, the Group has obtained over 100 national, provincial and municipal technology advancement awards, outstanding new products awards, certification for new products, certification for high and new tech products and certification of high and new tech enterprise. As of 31 December 2018, a total of 271 patents were granted by the State. In addition, 49 patent applications have been submitted and pending for approval. The Group was the first producer to adopt ISO1328 and ISO06336 international standards. It was nominated as an enterprise for the 863 State Plan and a Computer Integrated Manufacturing System (CIMS) Application Model Enterprise by the Ministry of Science and Technology of the PRC. Until now, the Company passed ISO9001:2015 quality management system certification, ISO14001:2015 environmental management system certification and OHSAS18001: 2007 Occupational Health and Safety Management System Certification. Wind power transmission gear products have obtained certifications from China Classification Society (CCS), China General Certification Center (CGC), Technische Überwachungs-Verein (TÜV), Germanischer Lloyd (DNVGL), Offshore and Certification Centre of Deutsches Windenergie-Institut (DEWI-OCC), European Union's CE and ETL; industrial transmission gear products have been certified with the European Union's CE certificate, American Petroleum Institute (API) Specification 11E and Mining Products Safety Approval and Certification Center Co., Ltd. (MA); Rail transportation products have obtained ISO/TS 22163 Certificate for the Quality Management System of International Railway Industry.

FINANCIAL PERFORMANCE (Continuing operations)

Sales revenue of the Group for the Year increased by 2.7% to approximately RMB8,203,500,000.

	Revenue Year ended 31 December		
	2018 RMB'000	2017 RMB'000	Change
Continuing operations			
Wind Gear Transmission Equipment	**6,896,966**	6,803,417	1.4%
Industrial Gear Transmission Equipment	**1,298,567**	1,001,004	29.7%
Other Products	**7,967**	186,183	-95.7%
Total	**8,203,500**	7,990,604	2.7%

Revenue

During the Year, the Group's sales revenue was approximately RMB8,203,500,000, representing an increase of 2.7% as compared with last year. The increase was mainly due to the increase in deliveries of wind and industrial gear transmission equipment.

Gross profit margin and gross profit

During the Year, the Group's consolidated gross profit margin was approximately 18.7% (2017: 28.8%), representing a decrease of 10.1 percentage points as compared with last year. Consolidated gross profit for the Year amounted to approximately RMB1,530,989,000 (2017: RMB2,303,882,000), representing a decrease of 33.5% as compared with last year. During the Year, the decrease in consolidated gross profit margin was mainly due to the increase in cost of sales resulting from the increase in prices of raw materials. The decrease in consolidated gross profit was mainly due to the decrease in gross profit margin.

Other income

During the Year, the Group's other income was approximately RMB209,879,000 (2017: RMB135,612,000), representing an increase of 54.8% as compared with last year. Other income is mainly comprised of dividends, interest income, government grant and sales of scraps and material. The increase was mainly due to an increase in dividends from financial assets measured at FVPL and at FVOCI.

Other gains - net

During the Year, other gains and losses recorded a net gain of approximately RMB192,107,000 (2017: RMB305,836,000), mainly comprised of net fair value gains on financial assets at FVPL and net gains on disposal of a subsidary.

Selling and distribution expenses

During the Year, the Group's selling and distribution expenses was approximately RMB292,946,000 (2017: RMB293,685,000), representing a slight decrease of 0.3% as compared with last year. Selling and distribution expenses mainly comprised of product packaging expenses, transportation expenses, staff costs and technical service fees. The percentage of selling and distribution expenses to sales revenue for the Year was 3.6% (2017: 3.7%), representing a decrease of 0.1 percentage points as compared with last year.

Administrative expenses

During the Year, the Group's administrative expenses was approximately RMB494,546,000 (2017: RMB633,447,000), representing a decrease of 21.9% as compared with last year, which was mainly due to the decrease in salary and welfare, and bank charges. The percentage of administrative expenses to sales revenue decreased by 1.9 percentage points to 6.0% as compared with last year.

Net impairment losses on financial assets

During the Year, the net impairment losses on financial assets of the Group amounted to approximately RMB57,059,000 (2017: RMB61,630,000), which comprises of impairment losses for trade receivables and other receivables.

Finance costs

During the Year, the Group's finance costs was approximately RMB630,963,000 (2017: RMB554,780,000), representing an increase of 13.7% as compared with last year, which was mainly due to the increase in borrowing scale and interest rates during the Year.

FINANCIAL RESOURCES AND LIQUIDITY

The equity attributable to owners of the Company for the year ended 31 December 2018 amounted to approximately RMB10,791,832,000 (2017: RMB10,904,962,000). The Group had total assets of approximately RMB26,748,539,000 (31 December 2017: RMB27,438,175,000), a decrease of 2.5% as compared with the beginning of the year. Total current assets were approximately RMB17,994,929,000 (31 December 2017: RMB18,013,876,000), representing a decrease of 0.1% as compared with the beginning of the year. Total non-current assets were approximately RMB8,753,610,000 (31 December 2017: RMB9,424,299,000), representing a decrease of 7.1% as compared with the beginning of the year.

Total liabilities of the Group for the year ended 31 December 2018 were approximately RMB15,883,275,000 (31 December 2017: RMB16,462,174,000), representing a decrease of approximately RMB578,899,000 or 3.5%, as compared with the beginning of the year. Total current liabilities were approximately RMB13,181,696,000 (31 December 2017: RMB13,441,242,000), representing a decrease of 1.9% as compared with the beginning of the year. Total non-current liabilities were approximately RMB2,701,579,000 (31 December 2017: RMB3,020,932,000), representing a decrease of 10.6% as compared with the beginning of the year, which was mainly due to the decrease of long-term borrowings.

As of 31 December 2018, the net current asset of the Group was approximately RMB4,813,233,000 (31 December 2017: RMB4,572,634,000), representing an increase of approximately RMB240,599,000 or 5.3%, as compared with the beginning of the year.

As of 31 December 2018, total cash and bank balances of the Group were approximately RMB5,932,008,000 (31 December 2017: RMB7,031,364,000), representing a decrease of approximately RMB2,046,506,000 or 29.1%, as compared with the beginning of the year. The cash and bank balances include pledged bank deposits of RMB2,922,234,000 (31 December 2017: RMB2,892,955,000) and structured bank deposits of RMB947,150,000 (31 December 2017: RMB108,000,000) included in financial assets at fair value through profit or loss.

As of 31 December 2018, the Group had total borrowings (including corporate bonds) of approximately RMB7,372,957,000 (31 December 2017: RMB7,786,901,000), representing a decrease of approximately RMB413,944,000, or 5.3%, as compared with that at the beginning of the year, of which borrowings within one year were RMB4,960,387,000 (31 December 2017: RMB5,030,608,000), accounting for approximately 67.3% (31 December 2017: 64.6%) of the total borrowings. The fixed or floating interest rates of the Group's borrowings for the Year ranged from 1.05% to 8.50% per annum.

Taking into account of the internal financial resources of and the banking facilities available to the Group, and the net current asset of RMB4,813,233,000 as of 31 December 2018, the Directors believe that the Group will have sufficient capital to meet its working capital requirements and foreseeable capital expenditure.

Gearing ratio

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) decreased from 60.0% as at 31 December 2017 to 59.4% as at 31 December 2018.

Capital structure

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

The Group's loans and cash and cash equivalents were mainly denominated in Renminbi, Euros and U.S. dollars. The Group's bank borrowings denominated in Euros and U.S. dollars as of 31 December 2018 amounted to approximately EUR34,290,000 and USD63,009,000, respectively.

During the Year, the Group's borrowings with fixed interest rates to total borrowings was approximately 80.0%.

PROSPECTS

Looking back to 2018, the global economy as a whole maintained growth, but the recovery momentum diverged and the accumulation of various risks accelerated. Against the background of lots of risks and uncertainties, countries strived to seek changes and become stronger with the aim of occupying a favorable position in the global competition and cooperation. Among the major economies, the United States maintained a strong economic growth benefiting from tax cuts, deregulation and other factors. Growth in the economy of the UK slowed to its lowest rate in six years amid Brexit fears, while European economic growth also slowed down. As a representative in the emerging market, China closely focused on development of high quality, adhered to an emphasis on structural reform on the supply front, accelerated the transformation of economic development mode and promoted the optimization of economic structure. As a result, the economy made progress while largely remaining stable. China's GDP exceeded RMB90,000 billion, representing an increase of 6.6% over the previous year, and achieved an expected development target of around 6.5%.

Looking back to 2018, in the wind power industry, affected by improvement in wind power curtailment in Northeastern, Northern and Northwestern China, wind power bidding policy and the acceleration of offshore wind power, the newly installed grid-connected wind power capacity rebounded significantly. The newly installed grid-connected wind power capacity in China reached 20.59 million kilowatts, growing by 37% over the same period last year. The acceleration of offshore wind power installation was also significant, and the cumulative grid-connected installed capacity was 184GW, representing 9.7% of the total power generating installed capacity. At the same time, the government promoted reform in the energy sector and there has been continuous improvement in wind power curtailment under the guidance of quota system and competitive allocation. The national wind power curtailment was 27,700GW with a year-on-year decrease of 14,200GW, and the national average wind power curtailment rate was 7% with a year-on-year decrease of 5 percentage points, which continued to bring a decrease in both volume and rate of wind curtailment.

MANAGEMENT DISCUSSION AND ANALYSIS

As a global leader of wind gear transmission equipment, the Group is keen to procure business upgrade, transformation and high-quality growth. As a result, the Group secured one of the largest market shares in the global wind power equipment market. By leveraging its strong research, design and development capabilities, the Group has a range of products including 750kW, 1.5MW, 2MW and 3MW wind gear transmission equipment, and a wide variety of products are supplied to customers in China and other countries on a large scale with their technical standards reaching advanced international level. Furthermore, the Group has also successfully developed 5MW and 6MW wind power gear box with a technological level comparable to its international peers. In addition, anticipating development trends that the global wind gearbox market has developed towards low wind speed and high power, the Group launched an innovative next-generation 3.8 MW high power wind gearbox with high reliability and efficiency, and low electrical cost. At the same time, intelligent systems ensures the safety and smooth operation of the gearbox over the whole life cycle, improving the overall economic efficiency of wind power generation. Meanwhile, during the period under review, the Group also launched the Gear-Sight 3000 wind energy gearbox online status monitoring and health management system, which could produce accurate analysis and assessment on the operational state and soundness of the gearbox.

Currently, the Group maintains a strong customer portfolio. Customers of its wind power business include the major wind turbine manufacturers in the PRC, as well as renowned international wind turbine manufacturers such as GE Renewable Energy, Gemesa, Unison, Suzlon, etc. With our quality products and good services, the Group has gained extensive recognition and trust from customers at home and abroad. The Group has wholly-owned subsidiaries in the U.S., Germany, Singapore, Canada and India to support the sustainable development strategy of the Group and strive to have closer communication and discussion with potential overseas customers with a view to providing further diversified services for global customers.

In addition to focusing on enhancing the wind power equipment business, the Group will also put emphasis on the segment of traditional industrial gear transmission equipment as well as optimising and rationalising the loss-making and non-wind power equipment business with a view to strengthening its overall profit model. In the Period under Review, the Group's self-developed gearbox for the "Harmony" CRH380B bullet train, which has a top speed of 380km/h, was awarded a probationary certificate from CRCC. At the same time, gearbox specifically developed by the Group for the "Fuxing" bullet train, which has a top speed of 250km/h, passed its expert technical review. During this review, the gearbox was highly praised by the experts present, who consisted of specialists from engine manufacturers, colleges and universities, and scientific research institutes. The Group's self-developed vertical dual planetary gear reducers with power grades from 3,300kW to 6,000kW are running smoothly in China and Southeast Asia. In 2018, the Group successfully developed and delivered MLXSS700M dual planetary vertical mill reducer with a designed power level of 6,800kW, which is the M series vertical mill gear box with the highest power level so far developed by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

The National Development and Reform Commission and the National Energy Administration jointly issued "Active Promotion of the Work on Grid Parity of Wind Power and Photovoltaic Power without Subsidies" in January, explicitly carrying out the construction of affordable online projects and low-priced online pilot projects, and optimizing the investment environment for affordable online projects and low-priced online projects. Under the support and guidance of the policy, the wind power industry will be promoted in a healthy and orderly manner. Looking forward to 2019, the Group will keep abreast of changing market preferences to our products, provide customers with products, technology and services with the best quality and increase our market share in international markets while enhancing product quality and economies of scale, with a view to boosting profitability of the Group's core business.

PLEDGE OF ASSETS

Save as disclosed in note 40 to the consolidated financial statements, the Group has made no further pledge of assets as at 31 December 2018.

CONTINGENT LIABILITIES

Save as disclosed in note 38 to the consolidated financial statements, as at 31 December 2018, the Directors were not aware of any other material contingent liabilities.

COMMITMENTS

As at 31 December 2018, the Group had capital commitments contracted for but not provided in the consolidated financial statements in respect of plant and machinery, and outstanding commitments payable under non-cancellable operating lease in respect of rented land and office equipment of approximately RMB290,208,000 and RMB3,210,000 respectively (31 December 2017: RMB395,418,000 and RMB2,941,000). Details are set out in notes 39 to the consolidated financial statement.

FOREIGN EXCHANGE RISK

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

The Group's bank borrowings denominated in Euro and U.S. dollars as at the year ended 31 December 2018 amounted to approximately EUR34,290,000 (equivalent to approximately RMB269,084,000) and USD63,009,000 (equivalent to approximately RMB423,443,000) respectively. Therefore, the Group may be exposed to certain foreign exchange rate risk.

The net gains of foreign exchange recorded by the Group during the Year was approximately RMB25,621,000 (2017: net losses of RMB29,944,000), including gains from our export business denominated in U.S. dollars due to the fluctuation of Renminbi against U.S. dollars during the Year. The Group will actively manage the net amount of foreign currency assets and liabilities by formulating foreign currency control measures and strategies, with a view to reducing its exposures to foreign exchange risk for the coming year.

INTEREST RATE RISK

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

SIGNIFICANT INVESTMENT DURING THE YEAR

During the Year, the Group has not made any significant investments.

SIGNIFICANT ACQUISITION AND DISPOSAL DURING THE YEAR

On 23 November 2018, Ningbo Gaoguang Enterprise Management Co., Ltd.* (寧波高光企業管理有限公司) (the "**Purchaser**", a company incorporated in the PRC with limited liability, a third party independent of the Company and its connected persons) and the following vendors entered into a framework share transfer agreement and 12 share transfer agreements:

- Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd.* (南京高精傳動設備製造集團有限公司) ("**Nanjing Drive**" or "**NGC**", a company incorporated in the PRC with limited liability, and is a direct wholly-owned subsidiary of China Transmission Holdings Limited (中傳控股有限公司) ("**China Transmission Holdings**") and an indirect wholly-owned subsidiary of the Company);
- Global Power Asia Limited (環球動力亞洲有限公司) (a company incorporated in Hong Kong with limited liability, and is a direct wholly-owned subsidiary of China Transmission and an indirect wholly-owned subsidiary of the Company);
- China Transmission Holdings (a company incorporated in Hong Kong with limited liability and is an indirect wholly-owned subsidiary of the Company); and
- Nanjing High Speed & Accurate Gear (Group) Co., Ltd.* (南京高精齒輪集團有限公司) ("**Nanjing High Accurate**", a company incorporated in the PRC with limited liability and is an indirect wholly-owned subsidiary of the Company).

Pursuant to which the respective vendors agreed to sell, and the Purchaser agreed to purchase, the entire equity interests of the Disposal Group (including 10 subsidiaries of the Company, the "**10 Disposal Subsidiaries**") at an aggregate consideration of RMB299,432,441. The disposal of the Disposal Group pursuant to the share transfer agreements is expected to be completed in 2019. Upon completion, the 10 Disposal Subsidiaries will cease to be subsidiaries of the Company.

For further details, please refer to the announcement of the Company dated 25 November 2018, note 29 to consolidated financial statements and the paragraph headed "Business Review – Principal Business Review – 3. Discontinued Operations" above.

Save as disclosed above, the Group did not carry out other significant acquisition or disposal of subsidiaries and associates during the Year.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

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

ADOPTION OF IFRS 9 AND RECLASSIFICATION OF RELEVANT ITEMS

During the Year, the Group has applied IFRS 9 "Financial Instruments" for the first time, which has impacts on the classification and measurement of the Group's financial assets and the impairment loss for financial assets. For further details of the impact of the adoption of IFRS 9, please refer to note 2.2 to the consolidated financial statements.

Following the adoption of IFRS 9, certain line items have been reclassified as financial assets at fair value through profit or loss and financial assets at fair value through other comprehensive income. Please refer to notes 27 and 22 to the consolidated financial statements for more details.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Details of the biographies of Directors and senior management as of 31 December 2018 are listed as follows:

EXECUTIVE DIRECTORS

Mr. Chen Yongdao, aged 56, is an executive Director and a member of the Remuneration Committee of the Company. Mr. Chen is a university graduate. He obtained a bachelor's degree from Jiangsu Institute of Technology majoring in metal material and heat treatment in 1983 and a master's degree from Nanjing University of Science and Technology majoring in engineering in 2007. He is a senior engineer. He served as the deputy head of the inspection and gauging section, head of the production allocation section of the factory and deputy general manager of Nanjing High Speed Gear Factory. He has become a director and the deputy general manager of NGC since March 2007. He has served as the vice president of NGC since January 2017. Mr. Chen also holds directorship in certain subsidiaries of the Group, including Nanjing High Accurate, Nanjing Dongalloy Machinery & Electronics Co., Ltd. ("**Nanjing Dongalloy**"), Nanjing Ningkai Mechanical Co., Ltd. ("**Nanjing Ningka**i") and China Transmission Holdings. Mr. Chen is an expert on heat treatment of metal material and has engaged in the research, design and development of mechanical transmission equipment production techniques, gauging and inspection of mechanical transmission equipment and enterprise management for over 30 years. He has received a number of awards for the achievement of his research on mechanical transmission equipment production techniques.

Mr. Wang Zhengbing, aged 47, is an executive Director of the Company. He is a holder of university degree. He graduated from Zhejiang University and obtained a Bachelor's degree in Mental Material & Heat Treatment in 1993 and a Master's degree in Engineering in Nanjing University of Science and Technology in 2011 as a senior engineer. Mr. Wang has joined Nanjing High Speed Gear Factory since August 1993 and held various positions, including deputy director and director of the workshop since January 1999. He has served as the vice general manager of Nanjing High Speed Gear Manufacturing Co., Ltd. ("**Nanjing High Speed**") since July 2003. He has served as an executive Director of the Company since June 2015. Mr. Wang has served as a director and the vice president of NGC since November 2016 and January 2017, respectively. Mr. Wang also holds directorship in certain subsidiaries of the Group, including Nanjing High Accurate, Nanjing High Speed, Nanjing Dongalloy, Nanjing Ningkai and China Transmission Holdings.

Mr. Zhou Zhijin, aged 46, is an executive Director of the Company. He graduated from Nanjing Industrial School in 1991 and joined Nanjing High Speed Gear Factory in August 1991. Mr. Zhou was appointed as vice director of personnel department in January 1999. He was promoted as deputy director of human resource department in September 2001. He served as the assistant to general manager of Nanjing High Speed and office head since July 2003. He has served as the vice general manager of Nanjing High Speed since July 2006. He has served as an executive director of the Company since June 2015. Mr. Zhou has been served as a director of NGC since November 2016. He has served as the vice president of NGC since January 2017. Mr. Zhou also holds directorship in certain subsidiaries of the Group, including Nanjing High Speed, Nanjing Ningkai and China Transmission Holdings.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Hu Jichun, aged 39, is an executive Director and the Chief Executive Officer of the Company. He is a holder of postgraduate degree. Mr. Hu graduated from Shanghai University in Control Theory and Control Engineering and obtained a Master's degree in Engineering in 2004. Mr. Hu has been served as the vice general manager of Nanjing E-crystal Energy Co., Ltd. since January 2012 and an executive Director of the Company since June 2015. Also, Mr. Hu has been served as a director of NGC since November 2016 and the chairman and the general manager of NGC since December 2016. He has served as the president of NGC since January 2017. Mr. Hu also holds directorship in certain subsidiaries of the Group, including Nanjing High Accurate, Nanjing High Speed, NGC Transmission Equipment (America), Inc. ("**NGC (US)**") and China Transmission Holdings. Mr. Hu is the son of Mr. Hu Yueming, the Chairman, a non-executive Director, the chairman of the Nomination Committee and an authorized representative of the Company under Rule 3.05 of the Listing Rules.

Ms. Zheng Qing, aged 51, is an executive Director of the Company and a fellow member of the Association of Chartered Certified Accountants. She graduated from Nanjing Audit University in 1989. She obtained a Bachelor's (Honours) degree in Applied Accounting from Oxford Brookes University in 2005 and further obtained a Master degree in Business Administration from the Chinese University of Hong Kong in 2012.

Ms. Zheng engaged in financial affairs and operation of international trade business from 1989 to 2002. From September 2002 to May 2005, she was the financial controller and secretary to the board of directors of Junma Tyre Cord Company Limited. She was the chief financial officer of Asia Silk Holdings Limited from November 2005 to May 2008. From June 2008 to May 2015, she was the chief financial officer and the assistant to the president of Nanjing Goldenhighway International SCM Corporation* (南京金海威國際供應鏈管理股份有限公司) where she was mainly responsible for managing and monitoring the financial affairs of the group.

Since June 2015, Ms. Zheng has been the financial controller of Nanjing region of Fullshare Holdings Limited ("**Fullshare Holdings**", stock code: 607). She joined the Company as an executive Director in December 2016.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

NON-EXECUTIVE DIRECTORS

Mr. Hu Yueming, aged 69, is the Chairman, a non-executive Director and the chairman of the Nomination Committee of the Company. Mr. Hu is a university graduate and was graduated from Fudan University majoring in laser technology in 1977. Mr. Hu is a senior engineer. He has more than 30 years of experience in the management of machinery and industrial enterprises and has served as the head of various state-owned enterprises such as Nanjing Engineering Equipment Factory (南京工藝裝備廠) and general manager of various foreign invested enterprises including Nanjing Atlas Copco Construction Machinery Ltd. He has extensive experience in enterprise management. In 1998, he became the general manager of Nanjing High Speed Gear Factory. From March 2007 to December 2016, he served as the chairman and the general manager of NGC. Mr. Hu also holds directorship in certain subsidiaries of the Group. Mr. Hu is an expert on mechanical transmission equipment technology and business management. He is also the vice president of the China New Energy Generation Network (中國新能源發電網), a council member of China General Machine Components Industry Association (中國機械通用零部件工業協會), the vice chairman of Gear Manufacturers Association (齒輪專業協會) of China General Machine Components Industry Association (中國機械通用零部件工業協會) and chairman of Nanjing Renewable Energy Association (南京可再生能源協會). He has been awarded the "National May 1 Labour Medal" (全國五一勞動獎章) and title of "The 4th Outstanding Entrepreneur of the Machinery Industry" (第四屆全國機械工業明星企業家). Mr. Hu is the father of Mr. Hu Jichun, an executive Director and the Chief Executive Officer of the Company.

Mr. Yuen Chi Ping, aged 39, is a non-executive Director of the Company and he joined the Company as a non-executive Director on 1 December 2016. He has been a qualified solicitor in Hong Kong since 2004 and in England and Wales since 2010. Mr. Yuen has over twelve years of practicing experience and has extensive experience in corporate law, China-related public and private mergers and acquisitions, and capital market transactions. Mr. Yuen obtained his Bachelor's degree in Laws in November 2001 from the University of Hong Kong and completed the PCLL programme in June 2002. Afterwards, Mr. Yuen undertook his traineeship and worked as a lawyer in various international law firms. Mr. Yuen worked as a special counsel in the Shanghai office of Baker & McKenzie from 2007 to 2014, responsible for the firm's securities practice in Shanghai.

Mr. Yuen was appointed as the chief operating officer of Fullshare Holdings from October 2014 to March 2018. Since July 2016, Mr. Yuen has been a non-executive director of Hin Sang Group (International) Holding Co. Ltd. (stock code: 6893). Since September 2016, Mr. Yuen has been a chief executive officer and executive director of Applied Development Holdings Limited (stock code: 519). Since August 2018, Mr. Yuen has been an independent non-executive director of Sun Cheong Creative Development Holdings Limited (stock code: 1781). Since April 2017, Mr. Yuen has acted as a director of Pok Oi Hospital (a charity organisation) and since April 2018, Mr. Yuen also has been appointed as an executive director, the vice chairman of the board and the chief executive officer of LongiTech Smart Energy Holding Limited (stock code: 1281).

INDEPENDENT NON-EXECUTIVE DIRECTORS

Dr. Chan Yau Ching, Bob, aged 56, is a non-executive Director, a member of the Audit Committee and the chairman of the Remuneration Committee of the Company and joined the Company as an independent non-executive Director on 1 December 2016. He is a holder of a Doctorate degree in Finance. Dr. Chan graduated from the Chinese University of Hong Kong and obtained a Bachelor's degree in Business Administration in 1984. Dr. Chan further obtained a Master degree in Business Administration from the University of Wisconsin-Madison, the U.S. in 1986, and a Doctorate degree in Finance from Purdue University, U.S. in 1994. Dr. Chan is a member of the Chartered Financial Analyst Institution and the Hong Kong Society of Financial Analysts. Since April 2009, Dr. Chan has been a licenced representative/responsible officer engaging in type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

Dr. Chan was appointed as an executive director and the chief strategic officer of Celestial Asia Securities Holdings Limited (stock code: 1049) from August 2002 to February 2005, and later as the investment director from November 2005 to July 2010, where he was mainly responsible for strategic investment projects and asset management.

Dr. Chan was appointed as a managing director of Pricerite Group Limited (stock code: 996, currently known as Carnival Group International Holdings Limited) from November 2003 to November 2004, which primarily engaged in the retail of furniture and household products. During 2005 to 2007, Dr. Chan was appointed as the chief financial officer of Moli Group Limited* (摩力集團有限公司) (a wholly-owned subsidiary of Celestial Asia Securities Holdings Limited), which was a developer, operator and distributor of online games, where he was mainly responsible for building accounting, finance and control procedures and policies and in charge of the human resources. Dr. Chan was later appointed as the chief executive officer of Moli Group Limited from July 2010 to October 2012, where he was mainly responsible for the re-focusing of the company's business covering online and mobile entertainment.

Dr. Chan was appointed as the deputy chief executive officer and an executive director of Celestial Asia Securities Holdings Limited from November 2012 to July 2013, and later as the director of investments and corporate development from August to November 2013, where he was mainly responsible for the overall business development and the design and development of algorithm trading strategies respectively.

Since January 2002, Dr. Chan has been appointed as an independent non-executive director of Lee's Pharmaceutical Holdings Limited (stock code: 950), which principally engaged in the research, development, manufacturing and distribution of biopharmaceutical drugs in China.

Since September 2018, Dr. Chan was appointed as an independent non-executive Director of Daisho Microline Holdings Limited (stock code: 567).

Since December 2018, Dr. Chan was appointed as an independent Director of Hangzhou Huaxing Chuangye Communication Technology Co., Ltd. (stock code: 300025), a company listed on the Shenzhen Stock Exchange.

Dr. Chan is currently a managing director and a responsible officer of KBR Fund Management Limited, which, as at the date of the Annual Report, a licensed corporation carrying out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

Ms. Jiang Jianhua, aged 54, is an independent non-executive Director of the Company and she joined the Company as an independent non-executive Director in 31 December 2012. She is a holder of Ph. D. degree in Management. Ms. Jiang graduated from Shanghai University of Finance and Economics with a bachelor degree, majoring in international finance, in July 1986. From July 1996 to June 1999, she studied at Tianjin University of Finance and Economics and received a Master degree of management. She studied and obtained a Doctor degree of management from Nanjing Agricultural University from September 2006 to December 2008.

From July 1986 to September 2013, she held various positions at Nanjing Audit University, including the head of finance teaching section, the assistant to department director, the deputy director of the finance department, the deputy dean of the finance school, the secretary of the Communist Party of China at the audit school, the dean of Nanjing Golden Audit School, a teaching assistant, lecturer, an associate professor and a professor at Nanjing Audit School. Ms. Jiang specialized in the areas of finance and accountancy and had written many articles and books and participated in a number research projects in these areas. She won several awards in relation to her academic and teaching excellence, including Candidate for Potential Young and Middle-aged Academic Leaders in the "Green and Blue Project" of Jiangsu Province, Candidate for Aspirants of "333 Project" of Jiangsu Province, Third Level.

Currently, Ms. Jiang serves as an independent director of Nanjing Baose Co., Ltd. (Stock Code: 300402), a company listed on the Shenzhen Stock Exchange, Jiangsu Guoxin Corp. Ltd. (Stock Code: 002608, formerly as Sainty Marine Corporation Ltd.), a company listed on the Shenzhen Stock Exchange, and Jiangsu Holly Corporation (stock code: 600128), a company listed on the Shanghai Stock Exchange.

Mr. Jiang Xihe, aged 60, is an independent non-executive Director, the chairman of the Audit Committee, a member of the Remuneration Committee and a member of the Nomination Committee of the Company. He joined the Company as an independent non-executive Director on 8 June 2007. He is a Doctor in accountancy. He graduated from the Central University of Finance and Economics (中央財經大學) majoring in accountancy in June 1990. He obtained professional accounting qualification recognized in the PRC in July 1999. He is also a member of the Chinese Institute of Finance and Cost for Young & Mid-career professionals as well as a member of the Hong Kong International Accounting Association and a standing member of Jiangsu Accounting Association.

Mr. Jiang is currently a professor at the Faculty of Accounting and Financial Management of Nanjing Normal University (南京師範大學) and head of Accounting and Financial Development Research Centre of Nanjing Normal University (南京師範大學).

Mr. Jiang is also an independent Director of Hongbaoli Group Co., Ltd. (Stock Code: 002165), a company listed on the Shenzhen Stock Exchange, Nanjing Yunhai Special Metals Co., Ltd. (Stock Code: 002182), a company listed on the Shenzhen Stock Exchange and Anhui Hualing Kitchen Equipment Co., Ltd. (Stock Code: 430582), a company listed on the New Thrid Board of Shenzhen Stock Exchange.

Mr. Nathan Yu Li, aged 47, is an independent non-executive Director and a member of the Audit Committee and a member of the Nomination Committee of the Company. He joined the Company as an independent non-executive Director on 1 December 2016. He is a holder of a Master degree in Science and a Master degree in Business Administration.

Mr. Li graduated from Zhejiang University and obtained a Bachelor's degree in Science in May 1993. Mr. Li obtained a Master degree in Science from Boston University in May 1995, and further obtained a Master degree in Business Administration from Babson College in May 2009.

Mr. Li was a senior software engineer from August 1995 to May 2001 at Brooks Automation Inc., where he was principally responsible for leading the software team to design semiconductor manufacturing robots. Between June 2001 to March 2006, Mr. Li held various positions at Axsun Technologies Inc., including as principal software engineer, R & D manager and senior technical marketing manager. During his service, optical communication equipment and near infrared laser source product lines of the company were launched. From March 2006 to August 2010, Mr. Li was a director of sales and marketing at Copley Controls Corporation and a director of business development of its parent company, Analogic Corporation, responsible for business of medical diagnostic imaging products, aviation security and motion control products.

Mr. Li was the vice president of business development from August 2010 to August 2011 at Nanjing Fullshare Property Dazu Technology Company Limited* (南京豐盛大族科技股份有限公司) (a wholly-owned subsidiary of Fullshare Holdings based in Nanjing, PRC, where he was mainly responsible for designing the business plan and growth strategy for the healthcare sector of the company's group. From August 2011 to October 2012, Mr. Li founded Across Globe Works LLC and assisted companies with unique technology in the U.S. to access the international markets.

In October 2012, Mr. Li co-founded with partners and has since then been the general manager of Bowing Medical Technologies LLC, where Mr. Li is mainly responsible for formulation of business development strategy and budget planning.

SENIOR MANAGEMENT

Mr. Lui Wing Hong, Edward, aged 56, is a chief financial officer and company secretary and an authorised representative of the Company. He graduated from York University with a Bachelor of Arts degree majoring in business and economics. He further obtained a postgraduate diploma in financial management from the University of New England. Mr. Lui is a qualified accountant, associate member of the Australian Society of Certified Practising Accountants and a fellow member of Hong Kong Institute of Certified Public Accountants. Mr. Lui joined the Company in June 2006 and is responsible for the financial and accounting management and secretarial affairs of the Company. Mr. Lui is also a director of China Transmission Holdings, a subsidiary of the Group.

Ms. Zhou Jingjia, aged 55, is the financial controller of NGC. She graduated from Suzhou University majoring in accounting and is a member of the Chinese Institute of Certified Public Accountants and a qualified accountant. Ms. Zhou joined Nanjing Engineering Mechanical Plant in 1982 and became the deputy head of finance department in 1990. In 1994, Ms. Zhou joined the Nanjing Atlas Copco Construction Machinery Ltd. as the finance department manager. In January 2006, Ms. Zhou was transferred from Nanjing Altas Copco Construction Machinery Ltd. to Altas Copco (Nanjing) Construction and Mining Equipment Ltd. From 2004 to 2006, in addition to being the accounting department manager, Ms. Zhou was appointed as the regional manager of certain production companies of the Atlas Copco Group in China and was responsible for overseeing the accounting departments. Ms Zhou joined the Group in July 2006. She became the director of NGC in March 2007. Ms. Zhou also holds directorship in certain subsidiaries of the Group, including Nanjing High Accurate, Nanjing High Speed, NGC (US) and China Transmission Holdings.

Mr. Gu Xiaobin, aged 50, is a university graduate and was graduated from Beihang University majoring in material science and engineering in July 1991. He joined AVIC Chengdu Engine (Group) in September 1991, and was engaged in technology, sales and foreign trade, and served as an assistant to the head of the foreign trade division. He joined General Electric (China) Co., Ltd in December 1996 and held various positions, including project manager of purchase department in China of energy industry group, quality engineer, Six Sigma Master Black Belt, purchasing general manager in China of energy group, and purchasing general manager in Asia of renewable energy group, etc. Mr. Gu joined the Group in October 2017, and served as the director, chief operating officer of NGC, and concurrently as the general manager of wind power business department and overseas business department.

DIRECTORS' REPORT

The Board is pleased to present the Directors' report (the "**Directors' Report**") and the audited consolidated financial statements of the Group for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in design, production and sale of gear transmission equipment products. Details of the principal activities of the subsidiaries, joint ventures and associates of the Company are set out in notes 1, 18 and 19 to the consolidated financial statements respectively. Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including an indication of likely future developments in the Group's business, can be found in the Management Discussion and Analysis set out on pages 9 to 19 of the Annual Report. These discussions form part of this Directors' Report.

The Group is of the view that with the progress of economy and society, the Company is not only responsible for its business operation, but also responsible for environment. The Group values the environment and is committed to minimizing the carbon footprint arising from the Company's businesses in different ways, including by adopting new standards, new materials, new designs in project construction, improving the environmental awareness of employees, and also actively calling for our business partners to enhance environmental protection concept, with aim to enable the objective of environmental protection to penetrate into all levels of the Company's business.

The Group has complied with relevant PRC laws and regulations relating to environment protection, and has adopted the ISO14001 environment management system. The Company has strictly followed the environmental protection requirements and established relevant system to ensure legal treatment and disposal of various types of waste, and regularly submits environment statistics to relevant environmental protection authority. The Group conducts construction of new projects according to the latest national standards of environmental protection, engages design institute with Grade A qualification to design the environmental protection plans, and conscientiously implements the concept of "three concurrents", namely concurrent design, concurrent construction and concurrent acceptance, to ensure the principle of the problems encountered will be solved immediately, avoid repeating work and wasting resources, and reduce the unnecessary carbon emissions. In respect of past projects, the Company also put considerable human and financial resources to conduct inspections and improvements. During the Year, the discharge and disposal of various types of waste of the Company met the relevant requirements of environmental protection authority.

Nanjing High Speed, our subsidiary, has obtained the ISO14001 certification every year since 2008, passed the Environmental-Friendly Enterprise Assessment organized by Nanjing Environmental Protection Agency in the end of 2012 and passed the Clean Production Enterprise Assessment in the end of 2013. The Company established the duties of environmental protection for staff at all levels, and established emergency response plans for various types of environmental accidents and regularly conducts drills, to really penetrate the work of environmental protection into the Company's business. While our business grows, we will minimize the impact on environment.

The Group maintains good relationships with our clients and suppliers.

At the company level, the Group has complied with the requirements of the Companies Ordinance, the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the "**Listing Rules**") and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("**SFO**"), including information disclosures and corporate governance. The Group has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers in Appendix 10 to the Listing Rules (the "**Model Code**").

KEY RISKS AND UNCERTAINTIES

Apart from the risk of foreign exchange rate fluctuation and interest rate risk set out in the Management Discussion and Analysis on pages 17 and 18 of the Annual Report, the following lists out the key risks and uncertainties facing the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. Besides, the Annual Report does not constitute a recommendation or an advice for anyone to invest in the securities of the Company and investors are advised to make their own judgment or consult their own investment advisors before making any investment in the securities of the Company.

The Group sells wind gear transmission equipment to our customers who are wind turbine manufacturers providing wind power machines to wind energy generation companies which rely on local grid companies to offer connection, transmission and dispatch services and to sell the electricity. If these wind energy generation companies fail to establish effective connection with the power grid or sell the electricity they generate, their demand for our wind gear transmission equipment could decrease, and therefore our business operations may be adversely affected.

In addition, the commercial feasibility and profitability of the wind gear transmission equipment business of the Group are significantly dependent on the PRC government's policies and regulatory framework supporting renewable energy development. However, the PRC government may change and/or abolish such policies and regulatory framework, and such changes and/or abolishment may bring our business adverse impact.

IMPORTANT EVENTS AFTER THE REPORTING YEAR

Save as disclosed in note 45 to the consolidated financial statements, there are no other important events occurred subsequent to 31 December 2018.

DIRECTORS' REPORT

OPERATING RESULTS

The operating results of the Group for the year ended 31 December 2018 are set out in the consolidated income statement and consolidated statement of comprehensive income on pages 103 and 105 of the Annual Report.

FINAL DIVIDEND

The Board has recommended the payment of a final dividend of HKD0.08 (2017: HKD0.18) (tax inclusive) per ordinary share for the year ended 31 December 2018, amounting to approximately HKD130,823,000 in aggregate, by the Company to the shareholders of the Company. It is expected that the proposed final dividend will be paid to shareholders of the Company on 14 June 2019. The record date of the proposed final dividend distribution and date of closure of register of members are set out in the circular of the Company to be despatched to the shareholders of the Company in April 2019. The proposed final dividend will be paid subject to shareholders' approval at the Company's 2018 annual general meeting.

As at the date of the Annual Report, the Board is not aware of any shareholders who have waived or agreed to waive any dividends.

DIVIDEND POLICY

The Company has formulated and adopted a dividend policy (the "**Dividend Policy**"), in which sets out the factors determining the dividend distribution by the Company. The Dividend Policy is to distribute to the shareholders the funds surplus that exceeds the operational needs of the Group. Pursuant to the Dividend Policy, the dividends are distributed depending on, among other things, the Company's earnings performance, future funding needs, the interests of the shareholders of the Company as a whole and other factors that the Board considers relevant. The Company regularly reviews the Dividend Policy and submits it to the Board for approval when necessary for amendment.

DISTRIBUTABLE RESERVE

The distributable reserve of the Company for the year ended 31 December 2018 was approximately RMB4,262,478,000 (2017: approximately RMB4,383,409,000).

FIVE-YEAR FINANCIAL SUMMARY

The summary of business results and assets and liabilities of the latest five financial years of the Group are set out on page 5 of the Annual Report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the Year are set out in note 14 to the consolidated financial statements.

SHARE CAPITAL

Details of the issued share capital of the Company are set out in note 30 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

No equity-linked agreements were entered into by the Group or existed during the Year.

BORROWINGS

During the Year, details of the borrowings of the Group are set out in note 33 to the consolidated financial statements.

TAXATION

During the Year, details of the taxation of the Group are set out in note 11 to the consolidated financial statements.

DONATION EXPENDITURE

During the Year, the donation expenditure of the Group was approximately RMB1,249,000 (2017: RMB5,417,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the Year, neither the Company nor its subsidiaries has purchased, sold or redeemed any of the Company's listed securities.

SHARE OPTION SCHEME

During the Year, the Company has not adopted any share option schemes.

MAJOR SUPPLIERS AND CUSTOMERS

During the Year, the purchase amount (not of a capital nature) from the Group's top five suppliers and largest supplier accounted for approximately 31.0% and 7.0% of our total purchase amount respectively. During the Year, revenue from sales of goods to the Group's top five customers and largest customer accounted for approximately 67.9% and 36.6% of our total revenue from sales of goods respectively. All transactions between the Group and relevant suppliers and customers were carried out on normal commercial terms.

To the best knowledge of the Directors, none of Directors and any shareholders holding over 5% of the Company's shares and their close associates (within the meanings of the Listing Rules) had any interests in the top five suppliers and customers during the Year.

DIRECTORS' SERVICE CONTRACTS

All Directors have entered into service contracts with the Company with a term of three years starting from the listing date of the Company or the date of appointment or re-election of the Directors.

Under the Cayman Islands Companies Law, at every annual general meeting of the Company, no less than one-third of the Directors for the time being shall retire from office by rotation provided that every Director (including those appointed for a specific term) shall be subject to retirement by rotation at least once every three years and eligible to offer themselves for re-election. In addition, according to code provision A.4.3 of the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules, if an independent non-executive Director serves more than nine years, his/her appointment should be subject to a separate resolution to be approved by shareholders.

None of the Directors intending to seek re-election at the forthcoming annual general meeting has a service contract with the Company which is not terminable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS AND THEIR TERMS

The Board members and the Directors in office and their terms for the Year and as of the date of the Directors' Report are as follows:

Executive Directors:	
Mr. Chen Yongdao	Three years from the date of his re-election on 19 May 2017
Mr. Gou Jianhui	Resigned on 16 January 2018
Mr. Wang Zhengbing	Three years from the date of his re-election on 19 May 2017
Mr. Zhou Zhijin	Three years from the date of his re-election on 18 May 2018
Mr. Hu Jichun *(Chief Executive Officer)*	Three years from the date of his re-election on 18 May 2018
Ms. Zheng Qing	Three years from the date of her re-election on 18 May 2018
Non-executive Directors:	
Mr. Hu Yueming *(Chairman)*	Three years from the date of his re-election on 19 May 2017
Mr. Yuen Chi Ping	Three years from the date of his re-election on 19 May 2017
Independent Non-executive Directors:	
Dr. Chan Yau Ching, Bob	Three years from the date of his re-election on 19 May 2017
Ms. Jiang Jianhua	Three years from the date of her re-election on 19 May 2017
Mr. Jiang Xihe	Three years from the date of his re-election on 18 May 2018
Mr. Nathan Yu Li	Three years from the date of his re-election on 19 May 2017

Each of the independent non-executive Directors has confirmed his/her independence pursuant to Rule 3.13 of the Listing Rules. The Company considers that all independent non-executive Directors are independent parties.

The biographies of the Directors as of 31 December 2018 are set out on pages 20 to 25 of the Annual Report.

DETAILS OF THE EMOLUMENTS

Details of the emoluments of the Directors and five highest paid employees of the Group are set out in notes 47 and 9 to the consolidated financial statements respectively.

EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2018, the Group employed approximately 5,588 employees (2017: 5,782) in continuing operations. Staff cost in continuing operations of the Group for the Year approximated to RMB1,253,724,000 (2017: RMB1,264,981,000). The cost included basic salaries, discretionary bonus and staff benefits such as medical and insurance plans, pension scheme, unemployment insurance plan, etc.

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

The Group's criteria in relation to the determination of directors' remuneration takes into consideration factors including salaries paid by comparable companies, time commitment and responsibilities of the directors, employment conditions of other positions in the Group and desirability of performance-based remuneration.

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

PENSION SCHEME

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

HUMAN RESOURCES POLICY

The Company has established and implemented a human resources policy that is beneficial to our sustainable development. We consider code of ethics and professional abilities as an important criteria for staff employment and promotion. We practically reinforced staff training and continuous education, built up a rotation and interaction system and developed comprehensive knowledge and skill of professionals so as to constantly improve the quality of staff. We focus on development opportunity of internal staff when appointing and selecting outstanding talents. We view the continuous training of professional manager team with high level of professionalism, enthusiasm and responsibility as an important mission of our development.

In order to protect the interest and benefit of our staff, staff participated in the social protection system established and administered by government authorities according to the regulations in PRC. The Group has contributed to the social insurance funds (including basic pension insurance, basic medical insurance, unemployment insurance, work injury insurance and maternity insurance) and housing provident fund.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as the Directors' service contracts disclosed above, no transactions, arrangements or contracts of significance to which the Company or its subsidiaries was a party and in which a Director or an entity related to a Director had a material interest, whether directly or indirectly, subsisted on 31 December 2018 or at any time during the Year.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

During the Year, none of the Directors or controlling shareholders of the Company and any of their respective associates (within the meaning of the Listing Rules) has engaged in any business that competes or may compete with the business of the Group or have any conflict of interests with the Group.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE ISSUED SHARES OF THE COMPANY AND ITS ASSOCIATED CORPORATIONS

As of 31 December 2018, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Hong Kong Stock Exchange pursuant to the provisions of Divisions 7 and 8 of Part XV of the SFO (including interests or short positions in which they were taken or deemed to have under such provisions of the SFO) or which would be required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which would be required to be notified to the Company and the Hong Kong Stock Exchange, pursuant to the requirements relating to securities transactions by the Directors contained in the Listing Rules.

As of 31 December 2018, none of the Directors and chief executives of the Company or any of their associates (within the meaning of the Listing Rules) had any interests in any securities of the Company or any of its associated corporations (within the meaning of Part XV of the SFO). None of the Directors and chief executives of the Company or their spouses or children under the age of 18 had any right to subscribe for the securities of the Company or had exercised any such right.

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

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

As of 31 December 2018, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

Name	Nature of interests	Number of ordinary shares held	Approximate percentages to the issued shares of the Company (%)
Five Seasons XVI Limited ("**Five Seasons**") (Note 1)	Beneficial owner	1,208,577,693 (Long Position)	73.91 (Long Position)
Fullshare Holdings	Interest of controlled corporation	1,208,577,693 (Long Position)	73.91 (Long Position)
Magnolia Wealth International Limited ("**Magnolia Wealth**")	Interest of controlled corporation	1,208,577,693 (Long Position)	73.91 (Long Position)
Glorious Time Holdings Limited ("**Glorious Time**") (Note 2)	Beneficial owner	17,890,000 (Long Position)	1.09 (Long Position)
Mr. Ji Changqun ("**Mr. Ji**") (Note 3)	Interest of controlled corporation	1,208,577,693 (Long Position)	73.91 (Long Position)
	Interest of controlled corporation	17,890,000 (Long Position)	1.09 (Long Position)

Note 1: Five Seasons, a company incorporated in the British Virgin Islands, is wholly owned by Fullshare Holdings, while the issued share capital of Fullshare Holdings is owned as to 46.58% by Magnolia Wealth, a company incorporated in the British Virgin Islands, which is wholly and beneficially owned by Mr. Ji. Accordingly, Fullshare Holdings, Magnolia Wealth and Mr. Ji are considered to have interests in 1,208,577,693 shares of the Company, representing approximately 73.91% of the issued shares of the Company.

Note 2: Glorious Time, a company incorporated in the British Virgin Islands, is wholly and beneficially owned by Mr. Ji. Accordingly, Mr. Ji is considered to have interests in 17,890,000 shares of the Company, representing approximately 1.09% of the issued shares of the Company.

Note 3: Five Seasons and Glorious Time are wholly and beneficially owned by Mr. Ji. Accordingly, Mr. Ji is considered to have interests in 1,226,467,693 shares of the Company, representing approximately 74.99% of the issued shares of the Company.

Save as disclosed above and so far as the Directors are aware of, as at 31 December 2018, there was no other person, other than the Directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein.

INTERESTS OF CONTROLLING SHAREHOLDERS IN CONTRACTS

Save as disclosed herein, no contracts of significance had been entered into by the Company or its subsidiaries with the controlling shareholders or their subsidiaries at any time during the Year.

CONNECTED TRANSACTIONS

The connected transactions set out in note 43 to the consolidated financial statements were not disclosable connected transactions under Chapter 14A of the Listing Rules.

The Directors of the Company (including our independent non-executive Directors) believe that the connected transactions set out in note 43 to the consolidated financial statements are carried out in the ordinary course of business and on normal commercial terms.

CHANGE OF AUDITOR

As the Board took the view that it would be in the best interests of the Company and its shareholders to appoint the same auditor as the one engaged by Fullshare Holdings, of which the Company is an indirect non wholly-owned subsidiary, Deloitte Touche Tohmatsu ("**Deloitte**") resigned as auditor of the Group with effect from 29 December 2016. The Board appointed Ernst & Young as the new auditor of the Group on 9 January 2017 to fill the vacancy following the resignation of Deloitte.

At the extraordinary general meeting held on 3 January 2019, the shareholders of the Company passed a special resolution to remove Ernst & Young as the auditor of the Group, and passed an ordinary resolution to appoint PricewaterhouseCoopers ("**PricewaterhouseCoopers**") as the new auditor of the Group with immediate effect and to hold office until the conclusion of the next annual general meeting of the Company and authorise the Board to fix its remuneration. The Company will propose a resolution at the upcoming annual general meeting to re-appoint PricewaterhouseCoopers as the auditor of the Group.

Save as disclosed above, the Company did not change its auditor in the past three years. The consolidated financial statements of the Group for the year ended 31 December 2018 has been audited by PricewaterhouseCoopers.

MATERIAL LITIGATIONS AND ARBITRATIONS

Save as disclosed in note 44 to the consolidated financial statements, the Company had no other material litigations and arbitrations during the Year.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors is currently in force and was in force throughout the Year.

During the Year, the Company has put in place appropriate insurance cover for each Director in respect of Directors' liability.

MANAGEMENT CONTRACTS

As of 31 December 2018, the Company did not enter into or have any management and administration contracts in respect of the whole or any principal business of the Company.

TAX RELIEF AND EXEMPTION

During the Year, the Directors are not aware of any tax relief and exemption available to the shareholders by reason of their holding the Company's securities.

PRE-EMPTION RIGHTS

During the Year, though there are no restrictions on the grant of pre-emption right under the Cayman Laws, the Company did not grant any pre-emption rights in accordance with the Articles of Association of the Company.

SUFFICIENT PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Directors, the Company has maintained the amount of sufficient public float as required under the Listing Rules throughout the Year and as of the date of the Directors' Report.

By order of the Board
Hu Yueming
Chairman

Hong Kong
29 March 2019

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board recognizes the importance of a good corporate governance to a listed company. The Company is committed to achieving high standards of corporate governance in the best interest of the shareholders of the Company. This report is made to describe the practices of corporate governance of the Group and explain the principles and the applications as well as deviation (if any) of the Corporate Governance Code.

The Company has complied with the code provisions set out in the Corporate Governance Code during the year ended 31 December 2018 except for the deviation from code provision A.6.7 which states that independent non-executive Directors and other non-executive Directors should attend general meetings of shareholders of the Company.

During the Year, some of the executive Directors, non-executive Directors and independent non-executive Directors, the Chairman of the Company and Chairman of the nomination committee, the Chairman of the audit committee, Chairman of the remuneration committee and external auditors of the Company have attended the annual general meeting of the Company held on 18 May 2018. Mr. Yuen Chi Ping, a non-executive Director, and Mr. Nathan Yu Li, an independent non-executive Director, who were absent from the annual general meeting due to other important commitments.

CORPORATE STRATEGY AND BUSINESS MODEL

The Group has been focusing on the proprietary research and development, design, manufacture and sale of gear transmission products with high technology. Our products are widely applied in various industrial areas, customers of the Company are distributed in a number of equipment manufacturing industries around the world. In future development, the Group will strengthen the research and development, enhance product quality and increase products of different models on the basis of the original gear transmission equipment products, to increase added value to products and to seek diversified developments in the Group's products. At the same time, the Group will establish subsidiaries in various regions across the world to coordinate with the Group's strategy of sustainable development and increase our comprehensive corporate competitiveness.

COMPOSITION AND PRACTICES OF THE BOARD

The Board collectively takes responsibility to all the shareholders in respect of managing and supervising the business of the Group so as to enhance value for our shareholders.

The Board is responsible for the leadership and management of the Company, and monitoring the business, decision-making and performance of the Group. The management was authorized by the Board the power and responsibility to manage the day-to-day affairs of the Group. The Board specifically delegates the management to deal with major corporate affairs, including the preparation of interim report and annual report and announcement to the Board for approval before they are issued, the implementation of business strategies and measures adopted by the Board, the implementation of adequate internal controls and risk management procedures, as well as the compliance of relevant laws and regulatory requirements, rules and regulations.

The Board comprises eleven Directors, including five executive Directors, two non-executive Directors and four independent non-executive Directors. The Board held 5 meetings during the Year. Each of the Directors and members of all committees and their attendance at the meetings were as follows:

	Board	Audit Committee	Remuneration Committee	Nomination Committee	2017 Annual General Meeting
No. of meetings held	5	3	1	1	1
Executive Directors					
Mr. Chen Yongdao	4/5		1/1		0/1
Mr. Gou Jianhui *(Resigned on 16 January 2018)*	0/0				0/0
Mr. Wang Zhengbing	4/5				1/1
Mr. Zhou Zhijin	5/5				1/1
Mr. Hu Jichun *(Chief Executive Officer)*	5/5				0/1
Ms. Zheng Qing	5/5				0/1
Non-Executive Directors					
Mr. Hu Yueming *(Chairman)*	5/5			1/1	1/1
Mr. Yuen Chi Ping	5/5				0/1
Independent Non-executive Directors					
Dr. Chan Yau Ching, Bob	4/5	3/3	1/1		1/1
Ms. Jiang Jianhua	5/5				1/1
Mr. Jiang Xihe	5/5	3/3	1/1	1/1	1/1
Mr. Nathan Yu Li	5/5	3/3		1/1	0/1

The biographies of each of Directors are in the "Biographies of Directors and Senior Management" set out on pages 20 to 25 in the Annual Report.

Each of the executive Directors has entered into a service contract with the Company, and each of non-executive Directors and independent non-executive Directors has entered into a letter of appointment with the Company with a term of three years. Each of the Directors (including the one with a specific service term) shall retire from office by rotation at least once every three years yet subject to re-election. In any event, such service term can be terminated subject to the articles of association of the Company and/or applicable laws or regulations.

Save as disclosed in the Annual Report, there is no financial, business, family or other major/related relationships among the members of the Board.

The Company has complied with Rule 3.10 of Listing Rules, as at least 3 independent non-executive Directors have been appointed and at least one of them has professional qualifacations or accounting or financial management expertise. The Company has also complied with Rule 3.10A of Listing Rules, as the number of independent non-executive Director represents at least one-third of the Board.

Each of independent non-executive Directors has confirmed in writing to the Company of his/her independence according to Rule 3.13 of Listing Rules, and the Company also considered all independent non-executive Directors are to be independent.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The roles of the chairman and chief executive of the Company are separate and exercised by different individuals. Since 1 December 2016, Mr. Hu Yueming, the Chairman of the Company, has been re-designated from the position of executive Director to non-executive Director, and has resigned as the Chief Executive Officer of the Company. Since 5 December 2016, Mr. Hu Jichun, an executive Director and the son of Mr. Hu Yueming, has been appointed as the Chief Executive Officer of the Company. Mr. Hu Yueming, being the Chairman of the Company, will be responsible for leading the Board while Mr. Hu Jichun, being the Chief Executive Officer of the Company, will be responsible for leading the formulation of the overall strategies and policies of the Company to enable efficient operation and discharge of duties of the management of the Company.

Non-executive Directors:

The service term of the current non-executive Director is:

Mr. Hu Yueming	Three years from the date of his re-election on 19 May 2017
Mr. Yuen Chi Ping	Three years from the date of his re-election on 19 May 2017
Dr. Chan Yau Ching, Bob	Three years from the date of his re-election on 19 May 2017
Ms. Jiang Jianhua	Three years from the date of her re-election on 19 May 2017
Mr. Jiang Xihe	Three years from the date of his re-election on 18 May 2018
Mr. Nathan Yu Li	Three years from the date of his re-election on 19 May 2017

The non-executive Director of the Company has entered into a letter of appointment with the Company with a term of three years. Each of the Directors (including the one with a specific service term) shall retire from office by rotation at least once every three years yet subject to re-election. In any event, such service term can be terminated subject to the articles of association of the Company and/or applicable laws or regulations.

EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

The five highest paid individuals of the Group during the Year are 3 Directors and 2 non-Directors, details of their emoluments are set out in note 9 to the consolidated financial statements.

The emoluments of the senior management of the Group (other than the Directors) whose profiles are included in the "Biographies of Directors and Senior Management" section of the Annual Report on page 26 were within the following bands:

	No. of employees
RMB2,500,001 to RMB3,000,000	2
RMB5,000,001 to RMB5,500,000	1

REMUNERATION COMMITTEE

The Company established the remuneration committee as approved by the Board on 8 June 2007. The remuneration committee currently comprises Dr. Chan Yau Ching, Bob, Mr. Jiang Xihe, who are independent non-executive Directors, and Mr. Chen Yongdao, who is an executive Director. Dr. Chan Yau Ching, Bob is the chairman of the remuneration committee.

The remuneration committee has established written terms of reference which have been published on the websites of the Company and the Hong Kong Stock Exchange. The primary duties of the remuneration committee are to make recommendations to the Board on the Company's remuneration policy (includes benefits in kind, pension rights and compensation payments, including any compensation payable for loss or termination of their office or appointment) and structure of the members of the Board and senior management, the remuneration packages of individual executive Director and senior management, and the remuneration of non-executive Directors.

During the Year, the remuneration committee made proposals to the Board on the remuneration of Directors and senior management.

During the Year, the number of meetings held by the remuneration committee and the attendances record of each member of the committee are set out in the section entitled "Composition and Practices of the Board" on pages 38 and 39 of the Annual Report.

NOMINATION COMMITTEE

The Company has established the nomination committee with effect from 1 April 2012. The nomination committee comprises Mr. Hu Yueming, who is a non-executive Director and Mr. Jiang Xihe and Mr. Nathan Yu Li, who are independent non-executive Directors. Mr. Hu Yueming, the Chairman of the Company, is the chairman of the nomination committee.

The nomination committee has established written terms of reference which have been published on the websites of the Company and the Hong Kong Stock Exchange. The primary duties of the nomination committee are to study the candidates of the members of the Board and senior management, the selection criteria and procedure of the Company's Directors and senior management and give recommendations, and review the structure, number and composition of the Board at least once annually to implement the Company's corporate strategies.

During the Year, the nomination committee reviewed the structure, number, composition and policy for diversity of the Board in respect of the Company's corporate strategy.

The Company adopted the board diversity policy on 1 September 2013 and strives to select the most appropriate candidates to be appointed as a member of the Board. The nomination committee considered an appropriate balance of diversity perspectives of the Board is maintained and neither the Board nor the nomination committee has set any measurable objective implementing the board diversity policy. When identifying suitable candidates for directorship, the nomination committee will carry out the selection process by making reference to the skills, education background, professional experience, skills, professional knowledge, and time commitments.

During the Year, the numbers of meetings held by the nomination committee and the attendances record of each member of the committee are set out in the section entitled "Composition and Practices of the Board" on pages 38 and 39 of the Annual Report.

AUDIT COMMITTEE

The Company established the audit committee as approved by the Board on 8 June 2007. The audit committee currently comprises three independent non-executive Directors, namely Mr. Jiang Xihe, Dr. Chan Yau Ching, Bob and Mr. Nathan Yu Li. Mr. Jiang Xihe is the chairman of the audit committee.

The audit committee has established written terms of reference (updated on 29 December 2015), which have been published on the websites of the Company and the Hong Kong Stock Exchange. The primary duties of the audit committee are to review and provide supervision on the financial reporting process, risks management and internal controls of the Company as well as nominating and supervising the external auditor and offering advice and recommendations to the Board.

During the Year, the audit committee (i) reviewed the internal control review reports, and reviewed the annual report for the year 2017 and the interim report for the year 2018 of the Group and report the review conclusions to the Board; (ii) made recommendations to the Board in respect of the change of external auditors; (iii) reviewed the independence of external auditors; and (iv) considered and approved the external auditor's fees and letter of engagement for the year 2018.

During the Year, the numbers of meetings held by the audit committee and the attendances record of each member of the committee are set out in the section entitled "Composition and Practices of the Board" on pages 38 and 39 of the Annual Report.

The audited consolidated financial report for the Year had been reviewed by the audit committee.

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for formulation of the Company's corporate governance policies and undertakes the following corporate governance roles:

(i) to develop and review the Group's corporate governance policy and practices and propose in this regard;

(ii) to review and monitor the training and ongoing professional development of the Directors and senior management;

(iii) to review and monitor the compliance of the Group's policy and practice with all laws and regulations, if applicable;

(iv) to develop, review and monitor the code of conduct and compliance guidance (if any) applicable for all employees of the Group and Directors; and

(v) to review the compliance of the Group with the disclosure requirements on corporate governance code and corporate governance report.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the model code set out in the Model Code as its internal code of conduct regarding Directors' securities transactions. The Company has made specific enquiries of all Directors and all Directors have confirmed that they have complied with the required standard set out in the Model Code during the year ended 31 December 2018.

COMPANY SECRETARY

Mr. Lui Wing Hong, Edward, company secretary of the Company, is responsible for facilitating the procedures of the Board and the communication among Directors, and between Directors and shareholders and the management. The biography of the company secretary is in "Biographies of Directors and Senior Management" set out on page 26 in the Annual Report. During the Year, Mr. Lui received in aggregate of more than 15 hours professional trainings to update his skills and knowledge.

ONGOING PROFESSIONAL DEVELOPMENT

The Company arranges induction trainings for all new Directors based on his/her experience and background, these trainings generally include the brief introduction of the Group's structure and business, corporate governance practices and directors' responsibilities under the Listing Rules and Hong Kong Companies Ordinance, etc. In addition, the Company also encourages all Directors to actively attend relevant training programs at the Company's expenses.

During the Year, the Directors received the updated information on the Group's business and operation, the directors' responsibilities under the regulations and common law, the Listing Rules, the law and other regulatory requirements. During the Year, the Company arranged training sessions and/or provided training materials for Directors and the contents mainly include introduction of directors' responsibilities under the Listing Rules and the introduction to the Corporate Governance Code. With effect from April 2012, all Directors shall provide his/her training record to the Company annually.

During the Year, the individual training record of each Director is set out as follows:

	Readings on updates and materials on business, operation and/or corporate governance affairs	Lectures/seminars on business/ director's responsibilities attended or participated
Executive Directors		
Mr. Chen Yongdao	✓	✓
Mr. Gou Jianhui *(Resigned on 16 January 2018)*	X	X
Mr. Wang Zhengbing	✓	✓
Mr. Zhou Zhijin	✓	✓
Mr. Hu Jichun *(Chief Executive Officer)*	✓	✓
Ms. Zheng Qing	✓	✓
Non-executive Directors		
Mr. Hu Yueming *(Chairman)*	✓	✓
Mr. Yuen Chi Ping	✓	✓
Independent Non-executive Directors		
Dr. Chan Yau Ching, Bob	✓	✓
Ms. Jiang Jianhua	✓	✓
Mr. Jiang Xihe	✓	✓
Mr. Nathan Yu Li	✓	✓

REMUNERATION OF AUDITOR

The statutory audit fee for the year ended 31 December 2018 payable to PricewaterhouseCoopers, the existing external auditor of the Group, amounted to RMB4,000,000 and non-audit service fee for the interim results of the Group for 2018 paid to the former external auditor of the Group amounted to RMB1,400,000.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL REPORTS

All Directors acknowledge their responsibility for the preparation of the financial reports of the Group. They also ensure the preparation is in compliance with the relevant laws, regulations and accounting principles and its publication are made in due course.

Reporting responsibility statement with respect to the financial reports of the Group made by the auditor of the Company is set out in the Independent Auditor's Report on pages 100 and 102 in the Annual Report.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board takes full responsibility to maintain a sound and efficient risk management and internal control system for the Group and is obligated to review the validity of the system to protect the shareholders' investment and the Group's assets, which is in the interest of the shareholders. The risk management and internal control system of the Group targets at management instead of elimination of the risk of failure in achieving our business goals, and it can only make reasonable but not absolute assurance that there would not be material misrepresentation or loss.

In order to achieve the long-term growth and sustainability of the Group's business, the successful management of risks is essential. The Group has established a risk management organizational structure, which consisted of the Board, the audit committee and the senior management of the Group. The Board determines the risk nature and degree shall be borne by the Group for achieving its strategic objective, and the senior management is responsible for the design, implementation and monitor of risk management and internal control systems. The Board, through the audit committee, evaluates and reviews the effectiveness of the relevant systems at least once a year, such evaluation includes taking into account the adequacy of resources, qualification and experience of staff of functions such as accounting, internal audit and financial reporting, and their training programmes and budget.

The main features of the risk management and internal control systems of the Group are to provide a clear governance structure, policies and procedures, as well as reporting mechanism to facilitate the Group to manage its risks across business operations.

The Group has formulated and adopted risk management policy in providing directions in identifying, evaluating and managing significant risks. At least on an annual basis, the senior management of the Group identifies risks that would adversely affect the achievement of the Group's objectives, and assesses and prioritizes the identified risks according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

The Group has engaged an independent professional advisor to assist the Board and the audit committee in ongoing monitoring of the risk management and internal control systems of the Group and in performing the internal audit functions for the Group. Deficiencies in the design and implementation of internal controls are identified and recommendations are proposed for improvement. Significant internal control deficiencies are reported to the audit committee and the Board on a timely basis to ensure prompt remediation actions are taken. Internal control review report is submitted to the audit committee and the Board at least twice a year.

The Board, through the audit committee, has performed annual review on the effectiveness of the Group's risk management and internal control systems, including but not limited to the Group's ability to cope with external environment; the scope and quality of management's review on risk management and internal control systems; result of internal audit work; the extent and frequency of communication with the Board in relation to result of risk and internal control review; significant failures or weaknesses identified and their related implications; and status of compliance with the Listing Rules. The Board considers the Group's risk management and internal control systems were sufficient and effective during the Year.

HANDLING OF INSIDE INFORMATION

The Group is aware of its obligations under the SFO and the Listing Rules, and the overriding principle that inside information should be announced immediately after such information comes to our attention and/or it is the subject of a decision unless it falls within the safe harbours as provided in the SFO.

The Group conducts its affairs with close regard to the applicable laws and regulations and the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensuring that information contained in announcements or circulars is not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts. The Group has conveyed the implementation of the relevant corporate information discloseable policy to all the relevant personnel and provided relevant training.

CONSTITUTIONAL DOCUMENTS

There was no change to the Company's memorandum of association and articles of association during the Year.

SHAREHOLDERS' RIGHTS

General meetings shall be convened on the written requisition of any two or more shareholders or a member, which is a recognised clearing house member (or its nominee(s)), of the Company deposited at the principal office of the Company in Hong Kong or, in the event the Company ceases to have such a principal office, the registered office specifying the objects of the meeting and signed by the requisionist(s), provided that such requisitionist(s) held as at the time of deposit of the requisition not less than one-tenth of the paid up capital of the Company which carries the right of voting at general meetings of the Company in accordance with Article 79 of the articles of association of the Company. If the Board does not within 21 days from the date of deposit of the written requisition proceed duly to convene the general meeting, requisitionist(s) or any of them representing one-half of the total voting rights of all of them, may convene the general meeting in the same manner as that in which general meetings may be convened by the Board.

There are no provision allowing shareholders to propose new resolutions at general meetings under the Cayman Islands Companies Law or the articles of association of the Company. Shareholders who wish to propose a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

As regards the procedure of nominating a person for election as a director, please refer to the procedures for shareholders of the Company to propose a person for election as a Director available on the websites of the Company.

Shareholders of the Company may at any time send their enquiries and questions to the Board in writing through the company secretary or make enquiries with the Board at the general meetings of the Company.

Contact details of the company secretary of the Company are as follows:

China High Speed Transmission Equipment Group Co., Ltd.
Room 1302, 13th Floor, COFCO Tower, 262 Gloucester Road, Causeway Bay, Hong Kong
Tel: (852) 2891 8361
Fax: (852) 2891 8760
Email: ir@chste.com

ABOUT THIS REPORT

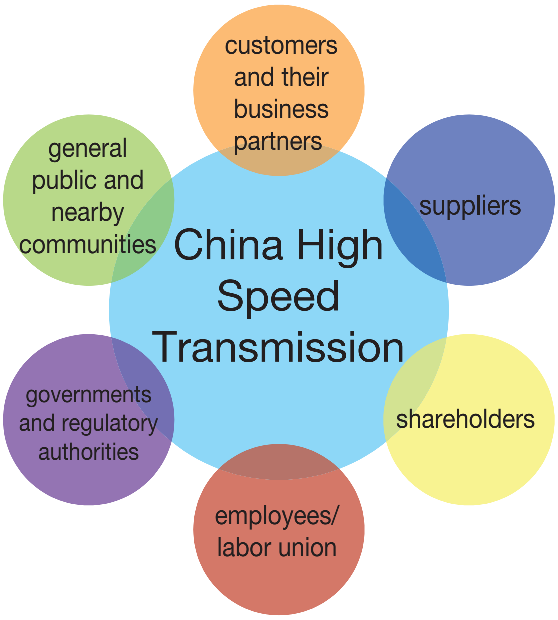
This is the third Environmental, Social and Governance ("ESG") Report (the "Report") of China High Speed Transmission Equipment Group Co., Ltd. (hereinafter referred to as "China High Speed Transmission", the "Company") and its subsidiaries (collectively referred to as the "Group" or "We"). Unless otherwise stated, this Report covers our sustainability performance during the period from 1 January 2018 to 31 December 2018 (the "Reporting Period"). It covers our major business segments – manufacturing of wind gear transmission equipment and industrial gear transmission equipment, and provides information and data of the previous year for comparison (Environmental KPI only covers the wind gear transmission equipment segment).

In preparation of this Report, we have adhered to the Environmental, Social and Governance Reporting Guide (the "ESG Guide") under Appendix 27 to the Rules Governing the Listing of Securities (the "Listing Rules") which is published by The Stock Exchange of Hong Kong Limited ("HKEX"), to describe our sustainability achievements in material and related aspects during the Reporting Period. For details regarding the corporate governance of the Group, please refer to the section of "Corporate Governance" of this Annual Report. This Report has been prepared in English and Chinese which both versions have been uploaded to the websites of the HKEX and the Company (www.chste.com).

This Report aims at strengthening the communication and relationship with stakeholders, and promoting the sustainable development of the Company. We also hope to provide a report of greater reference value to our stakeholders. To this end, we welcome opinions from different parties in regarding to this Report and our sustainable development performance by emailing to ir@chste.com.

STAKEHOLDERS ENGAGEMENT

Gauging the expectations and demands of stakeholders is the first stage in the process of developing our sustainable development. Our key stakeholders include customers and their business partners, suppliers, shareholders, employees and labor union; governments and regulatory authorities, general public and nearby communities etc. The Group communicates closely with our stakeholders through daily operation, forums, meetings, shareholder meetings, trainings, sharing sessions and seminars etc., to actively understand their thoughts, concerns and needs, build trust with them and convey our business ideology of committing sustainable development, thereby achieving a balance which will result in a win-win situation.



ABOUT CHINA HIGH SPEED TRANSMISSION

China High Speed Transmission Equipment Group Co., Ltd. mainly engages in the manufacture of high-speed and heavy-duty gears. The Company, founded in 1969, has been embracing the mission of "transmitting power to civilization" since then. Our target is to build up an international reputation by becoming a gear box and transmission technology solution expert. The Company has been featuring advanced gear manufacturing technologies for nearly half a century, our productshave widely been applied to various industries, such as wind power, rail vehicles, building materials, metallurgy, high-speed drives, general drives, mining, as well as rubber and plastic machinery. The Company pays attention to the continuous innovation in the fields of clean energy, low wastage and high efficiency, and has been one of the suppliers with the fastest growth, most stable quality and most comprehensive services in the global wind power transmission equipment industry.

SUSTAINABLE DEVELOPMENT MANAGEMENT

The Group has formulated a series of risk management policies in order to constantly monitor and regularly review ESG-related risks (such as environmental protection, business ethics, etc.). The senior management of the Group is responsible for identifying, evaluating and mitigating ESG-related risks arising from the development of the Group, and reporting these risks to the Board. The Board is responsible for formulating targets related to the environment, society and governance; and monitoring the implementation of relevant targets.

The Group has also established a safety & environmental department at the subsidiary level, which is responsible for identifying and managing material environmental factors. The relevant subsidiaries have established an Environmental and Occupational Health and Safety Management System, in which it has already obtained ISO14001 and OHSAS18001 certificates.

SUSTAINABILITY PERFORMANCE SUMMARY

	2018	2017	Unit
Air emissions			
Nitrogen Oxides (NO_x)	**7,444.61**	7,217.52	kg
Sulphur Oxides (SO_x)	**19.85**	19.29	kg
Particulate Matter (PM)	**187.66**	182.00	kg
Greenhouse gas (GHG) emissions			
Total GHG emissions	**135,464.64**	150,755.57	tonnes of CO_2e
Direct emissions (Scope 1)	**5,659.17**	8,943.98	tonnes of CO_2e
Indirect emissions (Scope 2)	**129,828.75**	141,825.85	tonnes of CO_2e
GHG removal (Scope 1)	**23.28**	14.26	tonnes of CO_2e
GHG emissions intensity	**19.64**	22.16	kg of CO_2e/thousand RMB
Hazardous waste			
Total hazardous waste produced	**756.68**	1,467.06	tonnes
Hazardous waste intensity	**0.11**	0.22	kg/thousand RMB
Non-hazardous waste[1]			
Total non-hazardous waste produced	**3,677.88**	3,671.43	tonnes
Non-hazardous waste intensity	**0.53**	0.54	kg/thousand RMB
Energy consumption			
Total energy consumption	**226,003.57**	204,619.09	Mwh
Energy consumption intensity	**32.96**	30.08	kWh/thousand RMB
Water consumption			
Total water consumption	**458,709.00**	527,683.00	m^3
Water consumption intensity	**0.067**	0.084	m^3/thousand RMB
Packaging material[2]			
Total packaging material	**6,519.36**	6,587.05	tonnes
Packaging material intensity	**0.95**	0.97	kg/thousand RMB

1 The total non-hazardous waste production and intensity reported do not cover recycled electronic waste. 2017 data was adjusted to reflect the actual non-hazardous waste generation.

2 Packaging material covers the wood, metal and plastic used for product package. Total packing material data for 2017 was adjusted to reflect the actual use.

ENVIRONMENTAL PROTECTION

"To be the leader of sustainable development in transmission area"

Enhancing Efficiency and Reducing Use of Resources

We understand that it is insufficient for an individual or an individual enterprise to promote environmental sustainability only by themselves. Therefore, the Group hopes to become a paradigm of establishing sustainable development in the transmission field. We act as a role model to streamline and handle environmental impacts of the Company by establishing an environmental management system compliant with an ISO 14001:2015 certificate. We formulate environmentally friendly policies and approaches of the Group. Moreover, we analyze the efficiency of relevant implementations in daily operations with appropriate monitoring, review and crucial corrective measures, thereby to continuously enhancing the overall environmental performance.

We entrust a third party to carry out environmental protection inspections in our factories every year, to ensure that emission and waste disposal during the manufacturing process is handled in compliance with the national emission standards. During the Reporting Period, we were not aware of any situation in relation to environmental laws and regulations.

Exhaust and Greenhouse Gas

The major sources of exhaust gas and greenhouse gas emissions from our operations include direct emissions from vehicles and the use of fuels for our stoves in canteens, and also indirect emissions associated with power consumption. We make tremendous effort in reducing exhaust gas emissions. Ageing forklifts are eliminated gradually by replacing old-styled forklifts which are fueled with fuel oil or gas with electrical ones and installing exhaust gas purifier for current forklifts, thereby reducing impact to the environment by the exhaust gas.

Exhaust gas purifier

Electric forklift

In addition, in accordance to the national laws and regulations, we have established the Procedures of Air Pollution Prevention and Control for other exhaust gas created from the manufacturing process, including shot blasting dust, exhaust gas from pickling, roll milling fume from quenching oil and paint, volatile matters and etc. For monitoring and managing purposes, we have assigned a specific department for performing these tasks.

The low viscosity lubricant, which can also be seen in hobbing, gear milling and other cutting processes, could produce oil mist particles during the production process. Therefore, we installed oil mist purifying devices and set up electrostatic oil mist separators with an accurate airflow, to filter and absorb oil mist particles produced during the process, so that we can reduce the air pollution caused.

Moreover, we added an exhaust gas treatment system for paint coating lines during the Reporting Period, to reduce VOCs emissions at the discharge port by collecting exhaust gas produced from painting and adopting concentrated incineration measures etc.

The annual total reduction in VOCs is expected to reach 67 tonnes

We also entrusted a qualified third party to inspect the gas emissions of our factories. Concentration of non-methane hydrocarbon, benzene, toluene, xylene and others gas emissions, within the factory are inspected to see whether Class II standards as set out in table 2 under the Comprehensive Air Emission Standards (GB16297-1996) are met.

Our performance on exhaust and greenhouse gas emissions in 2017 and during the Reporting Period were as follows:

	2018	2017	Unit
Exhaust			
Nitrogen Oxides (NO_x)	**7,444.61**	7,217.52	kg
Sulphur Oxides (SO_x)	**19.85**	19.29	kg
Particulate Matter (PM)	**187.66**	182.00	kg
Greenhouse Gas			
Total GHG emissions	**135,464.64**	150,755.57	tonnes of CO_2e
Direct emissions (Scope 1)	**5,659.17**	8,943.98	tonnes of CO_2e
Indirect emissions (Scope 2)	**129,828.75**	141,825.85	tonnes of CO_2e
GHG removal (Scope 1)	**23.28**	14.26	tonnes of CO_2e
GHG emissions intensity	**19.64**	22.16	kg of CO2e/thousand RMB

Solid Wastes

In terms of waste treatment, we have formulated and revised timely the Procedures of Solid Waste Control to handle general solid wastes and hazardous wastes produced from our activities, production and services according to the requirement of latest laws and regulations. We recycled as many as possible of the metal dust originated from cutting, wooden pallets from suppliers' packaging and food waste. Recycled wastes are collected by our warehouse center regularly and sold to recycling companies. Besides, we engaged a qualified third party to dispose of other general garbage and other non-recyclable solid waste at a timely manner to maintain a hygienic environment.

We have more stringent standards and requirements over the treatment of hazardous waste. To handle these wastes stored at hazardous waste storage area, we have set up special hazardous waste storage areas in accordance with the Standard for Pollution Control on Hazardous Waste Storage to collect them separately, store them properly, label and record the hazardous waste. We also have a qualified third party to collect these hazardous wastes.

Storage of Hazardous Waste

Hazardous wastes of different types are stored separately and are normally hold in tonne bags, leak-proof trays or containers to prevent secondary pollution. While high-risk items stored at the warehouse are guarded by two personnel with the use of double locks, which means the warehouse can only be opened upon an agreement on both parties simultaneously. This measure can help to safe-guard against unauthorized access to these hazardous wastes.

Some paint residue and other volatile flammable wastes stored at the warehouse are monitored on a real-time basis with CCTV. The warehouse has also installed gas concentration inspection instruments. The siren will be sounded when gas concentration exceeds the preset limit; relevant personnel will be informed for emergency response. We perform emergency response drill annually as to improve response plan continuously.

The amount of solid wastes produced and disposed by us in 2017 and in the Reporting Period are as follows:

	2018	2017	Unit
Hazardous waste			
Total hazardous waste produced	**756.68**	1,467.06	tonnes
Waste of paint bucket	**77.70**	74.00	tonnes
Waste of paint residue	**153.72**	217.62	tonnes
Waste of lead acid battery	**N/A**	25.33	tonnes
Waste oil	**89.61**	673.67	tonnes
Contaminants	**82.82**	230.21	tonnes
Washable waste containers	**157.51**	187.36	tonnes
Sludge	**32.66**	58.86	tonnes
Waste chemical containers	**1.08**	N/A	tonnes
Waste cleaner	**161.58**	N/A	tonnes
Hazardous waste intensity	**0.11**	0.22	kg/thousand RMB
Non-hazardous waste[3]			
Amount of non-hazardous waste produced[4]	**3,677.88**	3,671.43	tonnes
Amount of non-hazardous waste disposed	**507.65**	N/A	tonnes
Amount of non-hazardous waste recycled	**3,170.23**	3,749.40	tonnes
Non-hazardous waste intensity	**0.53**	0.54	kg/thousand RMB

3 The non-hazardous waste production and intensity reported do not cover recycled electronic waste. Non-hazardous waste disposal in 2018 covers food waste and other general refuse.

4 2017 data point were adjusted to reflect actual non-hazardous waste production.

Wastewater

We have formulated the Procedures of Wastewater Control, which clearly listed the treatment procedures of wastewater and diversion of sewage and rain. Wastewater generated from production will be identified and treated (such as demulsification/fenton oxidation, flocculation, flotation, anaerobic treatment, sedimentation, etc.) depending on the nature of wastewater in order to comply with the Comprehensive Wastewater Discharger Standard. It will then undergo aerobic and anaerobic biological treatment with domestic sewage. Finally, it will be discharged to the Sewage Treatment Plant of the Science Park for centralized treatment. We introduced sewage monitoring devices and performed online effluent quality monitoring. By setting up early warning threshold, we ensure all sewage are complied with the discharge standards. We also engaged a qualified third party to conduct regular measurement on the drainage system and tested for indicators that are beyond the standard requirement. All of these are used for sewage quality assurance.

Capacity Expansion and Upgrading of Sewage Treatment facility

In order to maintain the sewage discharge quality and reduce pollutant at source, we upgrade the sewage treatment facility during the Reporting Period. Advanced sewage treatment technology such as Fenton, electrocoagulation, electroflotation are adopted to enable high efficiency on concentrated industrial sewage treatment. By the upgrade, we can control the Chemical Oxidation Demand (CODcr) and Suspended Solid (ss) value of the sewage to the level of 40% or below of the national discharge standard. By adopting practical strategies for more environmentally friendly manufacturing, companies help promote a sustainable future.

RESOURCE CONSUMPTION

"Wise Use of Resources"

Enhancing energy efficiency and recycling rate, using renewable energy and reducing the use of resources

Our machining process, heat treatment, manufacturing processes, office activities constantly consume electricity. Therefore, energy consumed in the process of production mainly come from the use of purchased electricity. Meanwhile, our vehicles consume diesel and petrol, and the canteens of our factories also use natural gas, alcohol-based liquid fuel and other fuels for operations. We continuously launch energy-saving, environmental-friendly campaigns and set assessment indicators, and implement these measures in phases, so as to save production costs and make a contribution to environmental protection at the same time. The following table shows our energy consumption in 2017 and during the Reporting Period:

	2018	2017	Unit
Energy consumption			
Total energy consumption	**206,844.97**	204,619.09	MWh
Purchased electricity	**184,546.91**	201,600.36	MWh
Renewable energy- solar photovoltaic energy[5]	**19,158.60**	N/A	MWh
LPG	**2,287.00**	1,740.52	MWh
Diesel oil[6]	**303.66**	699.95	MWh
Unleaded petrol	**321.67**	356.84	MWh
Alcohol-based liquid fuel	**220.84**	218.15	MWh
Others	**6.29**	3.28	MWh
Energy consumption intensity	**29.99**	30.08	kWh/thousand RMB

Renewable Energy

We have been actively developing and deploying renewable energy. During the Reporting Period, distributed solar power systems with an installed capacity of approximately 41 megawatts were installed on the rooftops of the factories on five of our production plant sites. It is expected that the annual average power generation will be approximately 46.27 million kWh, which can reduce our reliance on non-renewable energy.

5 The Group started to collect non-renewable energy data in 2018

6 Within the Reporting period, two diesel passenger cars were sold.

Intelligent Centralized Oil Supply

As the grinding oil of the original design machine tool of the factories is replenished and added manually, the oilers transfer the oil product from oil depot to the site for manual addition. The oil-containing grinding swarf generated each day is collected manually on a regularly basis for oil dropping. The dirty cutting oil discharged from the oil-dropping machine is recycled after simple steps in sedimentation and filtration. Nowadays, the centralized oil supply and filtration of equipment are currently the predominant and mature methods, which has met the concept and requirement of an automated factory. These are widely applied in the automobile and precision manufacturing industries in particular.

Expected annually saving of oil consumption of approximately 150 tonnes

We move with times by improving our manufacturing facilities. At present, the gear grinding machines and hobbing machines in our factories use oil which is added in a centralized basis after modification, while the oil-contenting iron ashes generated from grinding and the iron scraps are filtrated intelligently. It lightens employee workload, enhances the reusing efficiency of cutting fluid and reduces the consumption of lubricant. Not only does the oil supply system improve employee efficiency but also reduces the energy consumption in long run.

Centralized Oil Supply system

Water Resources Management

Water is a valuable resource. Hence, we carried out strict supervision on the water consumption equipment by analysing water balance. We also inspect and maintain the equipment regularly, spread the water-efficiency message to our employees, and adopt water circulation treatment systems during the production process to reduce the demand for water resources. During the Reporting Period, we did not have any issues in sourcing water as we purchased water from the local municipal water supply organization. Our water consumption during the reporting period and in 2017 are listed below:

	2018	2017	Unit
Water consumption			
Total water consumption	**458,709.00**	527,683.00	m^3
Water consumption intensity	**0.067**	0.084	m^3/'thousand RMB

Centralized fluid delivery system

Traditionally, machining process machine and cooling system are stand-alone devices. The large number of devices create heavy workload relating to maintenance work and shorten the coolant change interval, which leads to high labour, coolant and fresh water losses. It then results in a larger burden borne by the sewage treatment facility. In this regard, we establish a centralized fluid supply system to direct fluid collectively to all designated points instead of one by one and adopt the use of liquid level control. Coolant in all standalone devices is pumped to the centralized water tank for filtration, de-oil and inspection. Designated personnel is responsible for the water tank management in order to lengthen the lifespan of the coolant. The coolant change interval has been extended to 4 times longer the traditional method. Meanwhile, the water consumption relating to coolant supply system has been reduced efficiently.

Centralized Fluid Supply system

QUALITY

"Ensuring the quality with honesty ranking first"

To ensure safe and stable operation of products by following and introducing the industry's best practices persistently!

Our customers attach great importance to the quality and safety of transmission gears. Therefore, product quality is of foremost importance for the operations of the Group. We monitor all production processes meticulously ranging from design, process, production, installation to quality assurance. We are committed to ensure all transmission gears are operated stably even under extreme conditions. Six indispensable on-site management essentials, which include people, machine, things, laws, environment and inspection, are integrated with others. We have formulated effective mid-term and precise long-term strategic goals and implementation measures in order to organize, coordinate and monitor with well-developed systems and standards effectively.

Key on-site management essentials

- People — Certification and training of employees
- Machine — Advanced equipment and management
- Things — Stringent management of suppliers and raw materials
- Laws — Clear practice guidelines and code of process control
- Environment — 6S management system
- Inspection — Inspecting the materials, production and delivery painstakingly

Management system

In terms of quality management system, we have obtained the ISO9001:2015 Quality Management System Certification. A definitive guideline for the procedures of managing suppliers, raw materials and finished products is provided, and the whole process of production is closely monitored with advanced technology. Under the premise of achieving the objective of "zero defect", we actively adopt management models such as VDA6.3 Process Audit, Root Cause Analysis (RCA) closed-loop quality management and Failure Modes and Effects Analysis (FMEA). Investigations are carried out based on any undesirable incidents happened in the past; corrections and continuous improvements are made on a timely basis, which are the keys to maintain a high level of product quality.

We started to adopt Six Sigma Management in 2015, the Group to actively provide trainings for its employees, maintain a stable quality and reduce the defect rate of our products.

Six sigma theoretical study

Product certification

Our wind power products have been certified by China Classification Society (CCS), China General Certification Center (CGC), Technische Überwachungsvereine (TÜV), Germanischer Lloyd (DNVGL), DEWI Offshore Wind Power; Wind Turbine Certification Center (DEWI-OCC), European Union's CE and ETL certificate. Series of industrial transmission gear have been certified with the European Union's CE certificate, American Petroleum Institute (API) Specification 11E and Mining Products Safety Approval and Certification Center Co., Ltd. (MA); Rail transportation products have obtained ISO/TS 22163 Certificate for the Quality Management System of International Railway Industry. We prove to our clients that the safety and quality of our products have met international standards through the recognition of the third-party certification bodies.

Detection equipment

In order to maintain strict control over raw materials inspection, production and quality control processes, we established a research laboratory center which is responsible for acidification, ultrasonic flaw detection and magnetic particle testing etc. We also imported sophisticated precision testing equipment from European countries, such as trolley optical spectrum analyzer, carbon sulfur analyzer, nitrogen-hydrogen gas analyzer; upright metallographic microscope, grinding and polishing machine, mounting machine, magnetic particle flaw detector and semi-automatic fluorescent magnetic particle inspection machine etc. By utilizing a variety of advanced technologies, our raw materials, semi-finished products and finished products are able to go through a multi-step quality assessment and inspection to ensure the products meet our quality standards.

AWARDS AND HONORS

As a global leading solution expert of gear box and transmission technology, the Group has extensive experience and profound understanding of the design, manufacture and maintenance of gear box and key transmission components. We were honored to be invited to take part in the drafting of Design Requirements of Gear Box of Wind Power Turbine" (GB/T 19073-2018) issued by the Standardization Administration of the PRC. Other honors obtained by us during the Reporting Period were as follows:

National Development and Reform Commission

√ State-Certified Enterprise Technology Center

Department of Commerce of Jiangsu Province, Department of Finance of Jiangsu Province, SAT of Jiangsu Province

√ 2018 First Batch of R&D Centers of Foreign Enterprises of Jiangsu Province Certified to be Compliant with the Tax Refund Policy for the Purchase of Domestically Manufactured Equipment

The Ministry of Industry and Information Technology of the People's Republic of China

√ National Model Enterprise of Technology Innovation

Department of Science and Technology of Jiangsu Province

√ 2018 Small and Medium Technology Enterprise of Jiangsu Province

The Association of Machinery Industry of Jiangsu Province

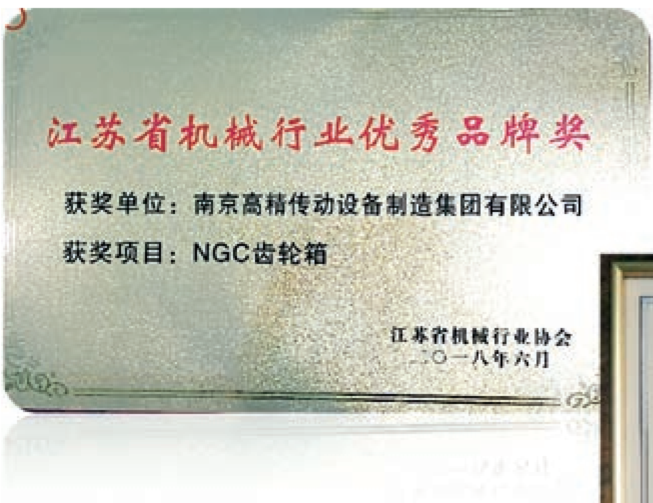
√ Excellent Brand Award for Machinery Industry of Jiangsu Province

Department of Commerce of Jiangsu Province, Department of Finance of Jiangsu Province, SAT of Jiangsu Province

√ 2018 First Batch of R&D Centers of Foreign Enterprises of Jiangsu Province Certified to be Compliant with the Tax Refund Policy for the Purchase of Domestically Manufactured Equipment

China Machinery Industry Federation, The China Association of Automobile Manufacturers

√ Top 100 in China Machinery Industry

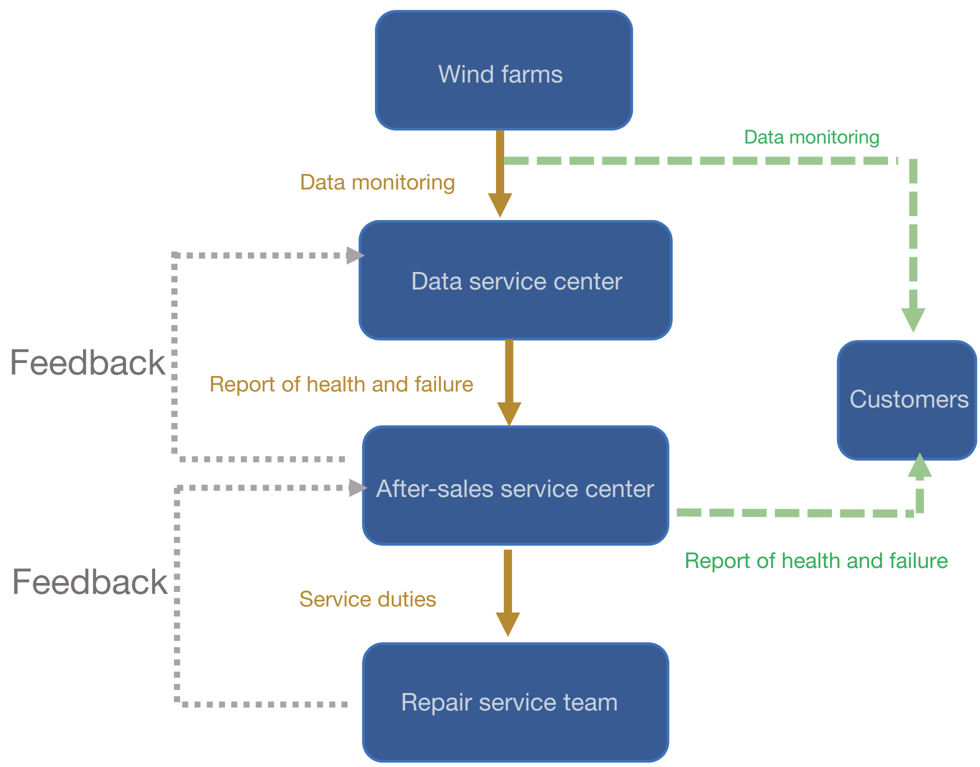


INNOVATING ACHIEVEMENTS

The Development of Transmission Equipment Online Status Monitoring and Health Management System

A full lifecycle management system, along with an integration of one-stop-services

We had preliminarily released our brand-new Gear-Sight 3000, the wind power gearbox online states monitoring and health management system series, in 2018; which were showcased at the International Wind Energy Exhibitions held in Hamburg, Germany. By utilizing the Group's transmission equipment for monitoring and diagnosing the big data platform, aiding users in reducing operation and maintenance costs; this will help the users in setting up active and rational strategies in operation and maintenance. The goal is to achieve full lifecycle management of equipment; optimize the production plan, reduce any unexpected down time of fans and increase the efficiency of wind power, which will also increase its economic benefits as a whole. We hope to contribute in producing clean energy and lessen the pressure of worldwide in relying on non-renewable energy.



Data collection process

Results of research and development

The Group remained at a high level in R&D investment. We optimized the equipment of international R&D teams who own competitiveness internationally. Together with cooperation with well-known entities including RWTH Aachen University, Shanghai Jiao Tong University, Chongqing University, Dalian University of Technology, I-DEW SYSTEM, East China Branch of CISRI and so on, we achieved a breakthrough in a series of new technology research and development project. While as in the area of technological innovation, we have been granted with 26 national patents during the year, which mainly involve the improvement of the core technology in gearbox products. These patents assisted the Group in further consolidating and leveraging our products' competitiveness. In addition, 49 national patent applications have been submitted and pending for approval.

The new products of wind energy are gearing towards into larger sizes, higher reliability, light weighted and with a platformized approach. By reaching out to new overseas clients and putting efforts in developing new products, the overseas new products projects accounted for approximately 30% of all new product projects during the year. This year we had successfullydeveloped a new generation of wind turbine platform products including 3MW, 4MW, 5MW etc., which our clients were satisfied with us as we fulfilled their demands for the quality difference in applying these models onshore and offshore.

Intellectual property rights

The Group respects the interests of customers. We enter into confidentiality agreements with customers to protect information provided by both parties. No information shall be disclosed to subcontractors without the authorization of the providers by both parties. We also issued and have implemented the General Provisions of Intellectual Property Right Management, Patent Management System, Copyright Management System, Intellectual Property Right Confidentiality System, Technological Contract Management System and so on, to ensure that employees at all levels are covered by the intellectual property right management system of the Company.

We provide internal trainings of exploring, preparing and applying patents on a regular basis, to improve the skill and awareness of our R&D personnel in innovation and intellectual property right protection; invest more on intellectual property rights, strengthen the R&D management and innovation management, and improve the conversion rates of intellectual property right.

Within the Reporting Period, our business in wind power gear transmission business had passed the evaluation from the Jiangsu Province Intellectual Property Rights Strategy Promotion Project, it strengthened the company's performance in the area of protecting intellectual property rights and breadth of self-construction. Moreover, we have declared and passed the 2018 review of Nanjing High Value Patent Cultivation Center for our Center in Wind Power Gearbox Patent Cultivation. Our Center focuses on the R&D process of intellectual property right management system, patent information utilization practice and patent application pre-qualification mechanism. Through our continuous hard work in exploring, the centre has become a patent creation high ground with great influence in the area of highly reliable wind power gearbox technology research and a R&D base with key technologies, as well as, has achieved a leading position in the regional innovative development, nurturing a batch of high-value patents of wind power transmission gear products and technologies.

SUPPLY CHAIN MANAGEMENT

"Each gear complements and integrates with the others"

To develop a sustainable world with collaboration

Our customers have relatively high requirements for the quality of gearboxes as wind energy generation units are generally operated under adverse environment. Due to this reason, it is crucial for our procurement department to understand the quality of raw materials. While sustainable development is trending worldwide, we promote effective green procurement.We have further controls and expectations for the enterprise social responsibility performance of our suppliers apart from its quality.

Green Procurement

As our products are exported to overseas, the Group strives to catch up with the world market, and comply with the environmental laws and regulations of various countries, such as RoHS 2002/95/EC, EC 1907/2006, 1999/13/EC and RD 117/2003 etc. We select environmental-friendly parts and materials reasonably, and strengthen the management of suppliers at the same time. We will in particular consider the durability and environmental performance of products in the process of procurement, without sacrificing the quality of products. We select products and equipment with less environmental pollution and less energy consumption whichever possible, if permissible, we also prioritize local suppliers to reduce gas emissions derived from logistics demand.

Social Responsibility

The Group requests suppliers to comply with the Environment and Safety Notice Commitment, which states our environment and safety principles and relevant requirements. Suppliers who offended against the commitment shall be subjected to corresponding penalties. This not only advocates our philosophy of sustainability to our suppliers directly, but also works jointly with our cooperation units to perform social responsibility.

Meanwhile, regardless whether in selecting new suppliers or conducting annual appraisals for existing suppliers, the evaluation criteria shall include product quality, cost, resources, logistics, service technologies and other capabilities. We also take suppliers' environmental protection, ethics, health and safety of products, occupational health and safety of employees and other factors into considerations, as these will directly affect their potential in being employed. In order to better understand the social responsibility performance of suppliers, we strive to improve the audit assessment mechanism, thereby we will be able to select business partners with sustainability in a more holistic and effective manner.

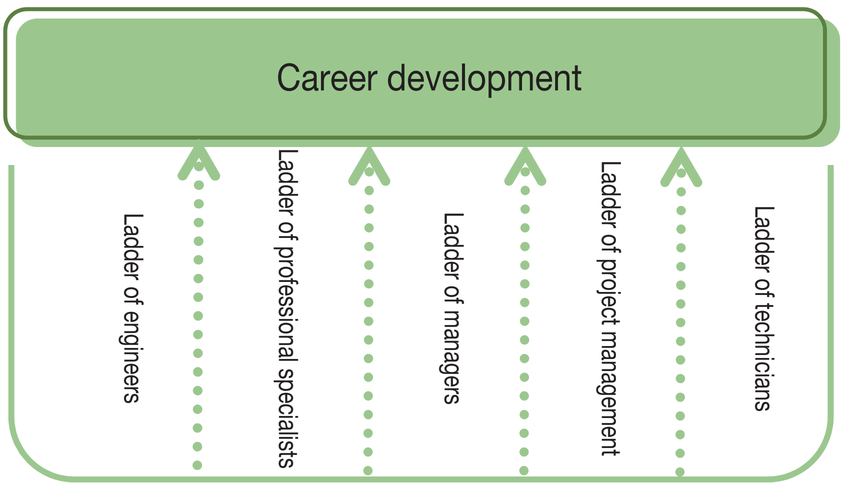
TEAM BUILDING[9]

"Moving ahead in pursuit of excellence"

"To view the continuous training of professional manager team with high level of professionalism, enthusiasm and responsibility as an important mission of our development"

Career planning

We value talented employees and provide appropriate talent fostering module and diversified opportunities for employees to develop their career. The career paths of our Company can be divided into five categories, namely engineers, professional specialists, manages, project management and technicians. At the same time, we provide comprehensive training system to support our people in developing their skills at fast pace. We organize a variety of events for team members to increase their sense of belongings and happiness in working for us. The Group aims to create a win-win situation for both the company and employees through inputting values in developing and fostering talents.



People are the Group's valuable assets. We recruit talents through different recruitment channels, including recruitment website, social media and job placement advertisements on our official website. Also, we organize school recruitment fairs, internship programs and touring activities with over 40 tertiary institutions to attract talents with decent communication, coordination skills and learning abilities.

9 In Year 2018 data reported in this chapter cover over 95% of full-time employee in Mainland China, which was 5,406 people in total.

Coexistence of fairness and harmony

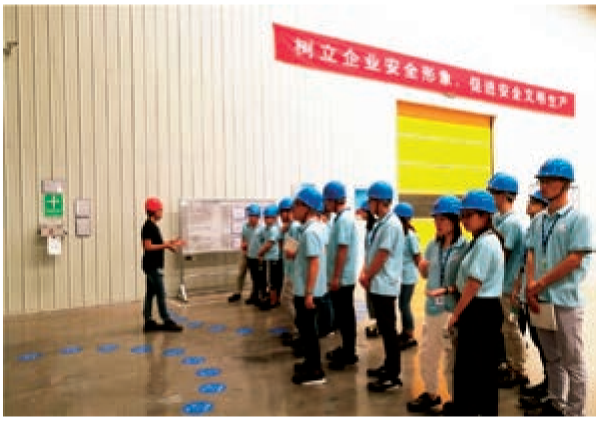
We respect occupational diversity and adhere to the principle of allocating appropriate people to appropriate position in our recruitment and promotion processes. We are committed to providing equal opportunities and fair treatment to all employees regardless of their nationality, ethnicity, race, gender, religion and culture. A grievance mechanism is clearly stated in our employees handbook to eliminate discrimination and inequality. To ensure strict compliance with relevant regulations, we carry out regular self-check of our compliance of labor and employment regulations, including the Labor Contract Law of the People's Republic of China, Regulation on Labor Security Supervision, Regulation on Labor Contract of Jiangsu Province and other employee-related laws and regulations. During the Reporting Period, we did not receive any complaints regarding violation of compensation, dismissal, recruitment, promotion, working hours, holidays, equal opportunities, diversity, discrimination, and other employee-related laws and regulations.

"2018 Top Human Resources Management Award"

In view of the unprecedented impact of sharing economy, AI and big data on all sectors, new businesses and cross-industry operation have become normal and pose new challenges to the human resources management of enterprises. Our human resources department continuously promotes the implementation of strategies and practices and has been listed in the 2018 Top Human Resources Management Award leveraging on its excellent performance. The Top Human Resources Management Award organized by 51job.com is one of the most authoritative, largest and appealing selection campaigns of human resources in China. The selection campaign aims to promote and facilitate the development of human resources management, and has been highly recognized by the human resources sector for its large scale and high authority. The selection themed "Exploring new opportunities with new people" this year evaluated the ability of Chinese enterprises in terms of achieving their business goals by attracting, nurturing, rewarding and retaining talents based on the contribution of human resources management to the enterprises' strategies, and select the best practices representing the human resources industry in China.

"Innovative and Extraordinary Employer" Award

On Nov 2018, the Group received the "Innovative and extraordinary Employer" Award at the "Extraordinary Employer" Touring Event 2018 – Nanjing Station presented by Liepin.com. Keeping up with innovation, the Group creates new value for customer continuously. We have established a comprehensive system that encourages creativity in the workplace and shapes civilization. It is highly recognized by many parties.



Employee development

We attach importance to the educational training and development of employees and the construction of study-based organization, to provide our employees diversified trainings and a comprehensive training system based on the development goals of the Company and the requirements of the positions.

We formulate annual training program based on the requirements of each department. Various training courses are tailored to different levels and positions, including professional knowledge course, employee development course, and general course,etc. In addition, comprehensive new entry trainings are provided to employees who are newly-employed, re-designated or promoted to facilitate their integration with the Company.

Technology forum

In addition to the scheduled trainings, we also organize information sessions and production salons on an irregular basis, to invite departmental heads to share their knowledge or management experiences in various areas, so that the technique of the masters can be inherited and a top-down learning culture can be promoted.

The second equipment management and technology form

Graduates

We care about and have rising expectations for university students; we pay high attention to talents development. In order to nurture new employees, we organize “seminars for university students” every year to provide a platform for fresh graduates who have worked for half a year to share their growth and changes during the period;for department heads to share their working experiences over the years, thereby conveying the importance of “on-site learning”.

Training data Summary

To popularize the culture of sharing knowledge, we establish a social learning platform for all employees to better understand and review information related to the trainings.

During the Reporting Period, we held 2,153 courses with training hours of 402,827 in total and around 74.5 hours per staff in average.

Male

- 340,903 Hours

- Percentage of trainees: 90%
- Training hours per employee: 70.4 Hours

Female

- 61,924 Hours

- Percentage of trainees: 69%
- Training hours per employee: 109.8 Hours

Senior management

- 704 Hours

- Percentage of trainees: 92%
- Training hours per employee: 58.6 hours

Middle-level management

- 55,529 Hours

- Percentage of trainees: 98%
- Training hours per employee: 226.7 hours

General and technical staff

- 346,594 Hours

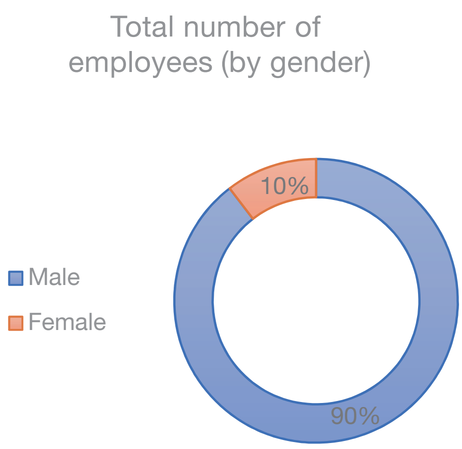
- Percentage of trainees: 87%
- Training hours per employee: 67.3 hours

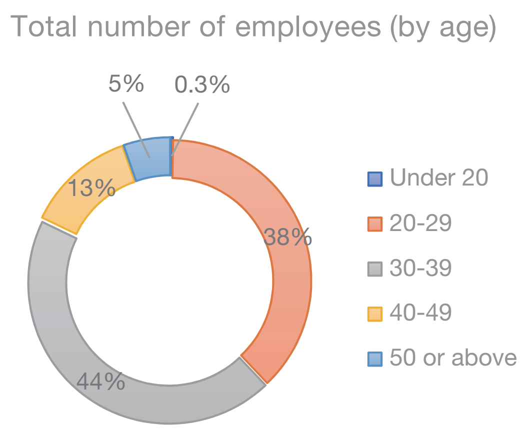
Concerns for labor

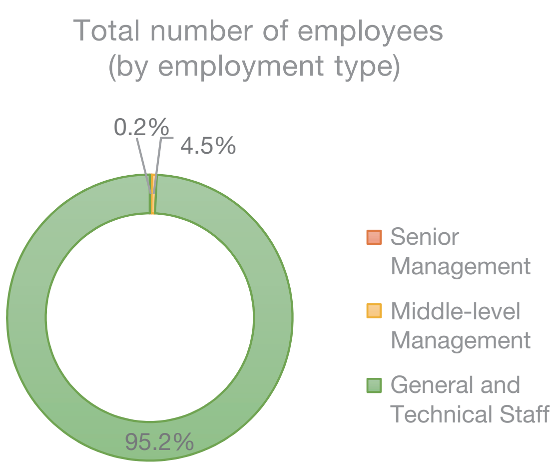
To strictly comply with the requirements of the Regulation on Labor Security Supervision, all of our employees shall go through interviews, selection process and medical examinations. Our human resources department will check the personal information of applicants during recruitment, to ensure they are qualified in terms of age. Qualified applicants will be given offer letters and labor contracts are signed on an equal and voluntary basis in strict compliance with the Labor Contract Law of the People's Republic of China. If illegal child labor or forced labor is found, we will handle the case properly as soon as possible based on the relevant emergency plan formulated by the Group, we will stand along with the child labor or forced labor, and report the case to the labor union or local labor welfare department. During the Reporting Period, we did not aware of any non-compliance regarding violation of laws and regulations of child labor or forced labor.

Employee overview

As of 31 December 2018, we have in total 5,406 employees.







Employee benefits

To protect the interests and benefits of employees, they are entitled to paid annual leave, marriage leave, maternity leave, funeral leave and other statutory leaves and holidays in accordance with the laws. As our business nature belongs to a heavy manufacturing industry, providing adequate rest to employees plays an important role in safeguarding their occupational safety. We have strict requirements in working overtime, and normally do not encourage our employees to work overtime. If overtime working is necessary, the employees should receive compensation leave or payment in lieu as regulatory requirements. Working hours and shift-work arrangements are clearly stated in the employees handbook; we ensure our employees to have at least one day off each week. The Group has contributed to the social insurance funds, including basic pension insurance, basic medical insurance, unemployment insurance, work injury insurance, maternity insurance and housing provident fund. In addition, employees are also entitled to physical examinations in every two years, in the hope of enhancing their self-awareness on health conditions.

Mutual communication

We believe that our success is built upon the teamwork of our employees. The Group organizes various sports competitions and recreational activities each year, including fitness run, tug-of-war contest, choir, dragon boat racing, Spring Festival Gala, birthday celebrations, welcome parties for new employees and so on, to enhance the sense of belonging of our employees via games and sports, and to reward our employees for their hard work. We strive to build a harmonious working environment by fostering mutual communication at all levels within the Company.

Fitness Running

"New Year's fitness running"was held in wind and electrical manufacturing factory area. There were 35 teams in total, which were consisted of over 1,000 employees and their relatives and friends, attended and celebrated the New Year together. It is worth mentioned that the factory was hit hard with snow and ice before the race. Most of the race track and factory areas were covered with snow. Plenty of employees and sanitary workers had worked hard to clear snow and ice on pavement for a few days in order to remove any potential safety hazard. They all gave a big hand on running the race.

The choir of our Group

The choir of our Group outperformed 17 participating units and won the champion at the Themed Singing Contest celebrating the 40th anniversary of reform and opening up organized by Nanjing New Industrial Investment Group by performing with passion, showcasing a splendid performance and overall effect.

Communication channels

Apart from maintaining an open communication channel between management and employees by organizing leisure activities, we provide various alternatives for our employees to express their opinions, including General Manager’s mailbox, seminars, emails and employees’ annual satisfaction surveys. In 2018, the Group introduced a new OA system to facilitate our employees to express opinions via mobile phones and computers. To encourage the use of this system and enhance its penetration across the Company, we adopted the measure of “redeeming gifts with advice” to encourage our employees to submit their opinions. Afterall, we have received over 200 improvement proposals.

OCCUPATIONAL HEALTH AND SAFETY

"Prioritizing Life Safety and Conducting Safe Development"

To ensure the personal and property safety of our staff based on the principles of "prevention and self-rescue as primary, centralized directives and division of responsibilities"

Safety Management

Safe production is the core mission of the Group. We are committed in providing a safe working environment to our employees, and have been awarded with the OHSAS18001: 2007 Occupational Health and Safety Management System certificate. We have formulated an Occupational Health and Safety Management Handbook based on the standard requirements, in which it elaborates the principles and code of conduct implemented by the Company. We also work hard to enhance the safety awareness of our employees and promote safe acts, and believe that using this dual measure is effective.

We established the Environmental Health and Safety ("EHS") department, which is responsible for supervising and reviewing the Company's safety production management structure, coordinating and managing the Company's production safety. We set up occupational health and safety targets every year, including input of resources into occupational health facilities and employees safety trainings, and follow up with the progress of implementation, in order to strengthen the prevention and control of risks in production safety and eliminate any potential hazards during the manufacturing process.

During the Reporting Period, we were not aware of any non-compliance in relation to laws and regulations of occupational safety for employees and working environment.

Workplace safety

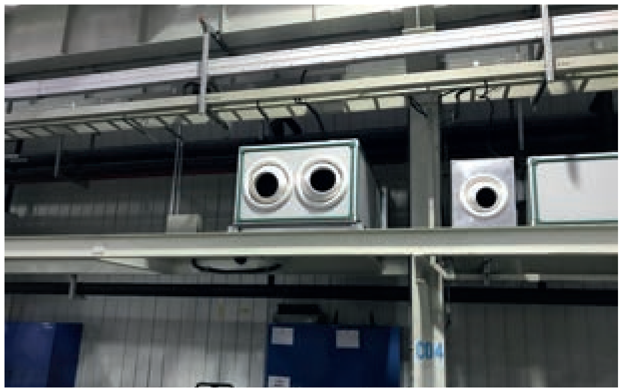
To strictly regulate workplace safety and eliminate safety hazards, we engaged a qualified third party monitoring institution to inspect hazards at workplaces annually based on the Monitoring of Dust in Workplace, Measurement of Physical Agents in Workplace, Monitoring of Toxic Substances in Workplace and other standard requirements.

Segregation of vehicles and pedestrians

Clear signs and sufficient lightings are provided to ensure vehicles and pedestrians are segregated; in particularly for vehicles loading and unloading materials. Safety passageways with vehicles passing by should be wide enough for workers to use without bumping into obstacles.

Pickling workshops

The surface of gears is washed with acid liquid to improve quality. As the liquid and air emitted from the liquid are corrosive, various occupational health facilities are installed at the pickling workshops to protect the safety of operators, such as air-curtains that segregate the air inside and outside of the workshops. Also, smoke vents are installed outside the workshops to provide fresh air for the pickling area. Air emissions inside the workshops are collected and handled after the treatment. Moreover, the access of workshops is installed with infrared alarms,if anyone inadvertently intrudes into the workshops while the pickling equipment is operating, the alarm will be sounded to avoid accident. We have been proactively importing automated pickling line in order to reduce the workload of being operated by personnel. Eye washers are equipped at these workshops in case the acid liquid enters into eyes accidentally.



Safety awareness of employees

We formulated the Measures for the Administration of Contingency Plans for Work Safety Incidents according to the Production Safety Law of the PRC and in reference to the Guidelines for Enterprises to Develop Emergency Response Plan for Workplace Accidents. Regular drills for emergency situations are conducted to timely control and prevent spreading of any significant incidents, and also, to ensure rescue is effectively organized to guarantee the safety of employees and properties.

- **Emergency drills**

  Regular emergency drills can improve the strain response, self-help, coordination and rescue ability of our employees. It minimizes the damage to people or loss of property when incidents occur. The practices of the drills include leakage of hazardous chemicals, fire, explosion, natural disasters, mechanical damage etc., so that our employees can clearly understand the actual handling procedures in the event of these related accidents, including communication methods, emergency rescue, medical rescue, transfer of the injured, evacuation, reception and placement of family, resources supply, production commanding, reporting, rescue action plan, etc.

- **The Month of Production Safety**

  The management of the Company and all our employees were fully committed to support the Month of Production Safety this year. All factories and departments earnestly implemented various activities to promote the education of production safety and construct culture of safety under the theme of "Prioritizing Life Safety and Conducting Safety Development". It strengthened the safety awareness and incidents prevention and handling ability of employees; enhanced the construction culture of safety and further implemented basic safety management. In addition to the direct leadership and planning by the representatives of the management, slogan and banners publicizing safety are also added on display at the factories. We also invited personnel from local safety inspection bureau to provide training for the production safety accountability mechanism, and strengthened the inspection of occupational hygiene, workplace environment, protective equipment and apparel of employees, and so on. Our employees had participated in this event actively as we invited them to propose rational suggestions on production safety on a "suggestion platform", these may include but not limited to system management, operating procedure, inspection of potential risks, equipment, prevention of occupational hazards, etc. to eliminate safety hazards in an efficient way.

CODE OF ETHICS

“Achieving mutual benefits with honesty and integrity”

To create a culture of high integrity and maintain sound commercial operation

Anti-corruption

We firmly adopted a zero-tolerance attitude towards corruption, extortion, fraud, money laundering and other unethical behaviours. We have formulated and launched the Guideline to Code of Business Conduct and Ethics and the Procurement Compliance and Management System, which reiterates the Company’s principle of fair trade in starting new business and requires employees of relevant departments to commit to refuse accepting any improper advantages given in any forms. We also provide compliance trainings for relevant employees and incorporates their performances into the appraisal scope. We also expect the same from our suppliers; our suppliers shall comply with the Supplier Compliance Commitment and are refrained from providing any forms of improper advantages. We will actively report and assist in investigations in the event of any intention from our employees who are trying to obstruct.

During the Reporting Period, we were not aware of any non-compliance of the Supplier Compliance Commitment from our partners.

Whistleblowing policy

To protect the right of whistleblowing of our employees and other stakeholders in accordance with laws, we have formulated the Anti-Fraud Whistleblowing Management Procedures. It elaborates the scope of whistleblowing, and establishes diversified channels, including reporting hotline, email, mailbox or in-person, this helps enable all employees to report the issues conveniently and perform mutual supervision functions. We also post the Notice of Anti-Fraud Whistleblowing Channels in our quarterly newsletter and public areas of the workplace, to make the reporting channels more transparent. We maintain strict confidentiality of the relevant reporting information, protect the legitimate rights and interests of the whistle-blowers, investigate each case which can establish a sound enterprise operating environment and reporting mechanism. Our employees handbook clearly stated that employees who commit serious misconduct, such as corruption and accepting bribes, will be dismissed immediately. The Company will take legal actions against concerned employees if substantial losses of the Company have incurred. The Group strictly follows the Anti-Unfair Competition Law of the PRC, the Anti-Money Laundering Law of the PRC and the Interim Provisions on Banning Commercial Bribery issued by the State Administration of Industry and Commerce.

During the Reporting Period, there was no corruption lawsuit against the Company and its employees.

CHARITABLE ACTIVITIES

"Help our teenagers accomplish youth dreams"

We understand the importance of education and heritage, and are committed to support our next generation, to create opportunities for our teenagers to fulfil their dreams

As always, we continued to uphold the charitable focus of "education" in 2018 and are concerned with the growth of our children. We cooperated with the Red Cross of Yongping County, Yunnan Province and the Amity Foundation, to provide economic and goods donations to primary and secondary school students. By making on-site visits, we hope to show them our care and concern from the Company. We also placed significant emphasis on poverty alleviation, and concerned the needs of people in the impoverished mountainous regions by providing appropriate donations.

Poverty alleviation and assistance

Children is our future. We always dedicate ourselves by reaching out our helping hands and care for them. In June 2018, we donated RMB50,000 to the Red Cross of Yongping County, Yunnan Province to support the academic excellence yet disadvantaged primary and secondary school students in the Yongping County to complete their education. Three months later, we also organized a team of volunteers to visit the aided students and their families, and on top of that, the Group donated school bags, pencil cases, notebooks, clothings and other supplies to these students, as well as, gave away gifts to local poor households. We were warmly welcomed by these beneficiaries, they also gifted us with thank you letters to express their appreciation.

The beneficiary, Wang Huihong

Please believe that we will not fail to live up to your expectations, and will not forget the feeling of being touched today. Please believe that we will work harder from now on with great confidence, effort and gratitude. Please believe that the gratitude will be consolidated through generations. Please believe that we will certainly contribute to the country and give back to the society when we are rich in erudition.

Caring about school children

In 2018, we also made donations to the Amity Foundation to construct a “Rainbow Book Club” for Yuexi Qingtian Yifu Elementary School in Qingtian Town, Yuexi County, Anhui Province. The Book Club provided picture books to the disadvantaged students. The themes of these picture books include self-cognitive ability, interpersonal communication ability, emotional management ability, social adaptability and so on. The reason is to let the children learn more about themselves and reinforce their ties with society. In September 2018, the representatives of our corporate management department, volunteers of the Company and the representatives of the Amity Foundation hosted an inauguration ceremony of the Book Club. Again, the Group donated school bags, pencil cases, ooks, clothings and other supplies to the aided students, as well as, gave away gifts to local poor households.

Moreover, the volunteers brought the children to visit the windmills at Niu Cao Shan (牛草山) where the gearboxes operated stably inside these windmills were manufactured by the Group. Under the leadership of the Group's volunteers and teachers, the children had a close-up view and entered the interior of the windmills for the first time. Understanding the operating principle of a windmill made these children very excited and also broadened their visions.

Community care

"Warm Up the Winter with Actions, Bringing Warmth to the Mountains" is a Winter charity event in donating clothes. This event has been held for three years, it has given warmth to nearly a hundred children and families who live on mountains in poverty, In the end of 2018, we conducted a padded coats donation activity. As one of the leading enterprises in owning social responsibilities and by taking advantage of the Group's influential power, we hereby hope to deliver a message to the children about values in warmth, justice and harmony. Not only we encourage our management team to participate in this event, we also emphasized on attendance from other employees. Same as one; forming a big family, we hope to make every effort to help others.

Through receiving notifications from our internal platform, employees were encouraged to collect their padded coats or other idle clothings from homes and donate them to the people in need in Houqiao Town, Yunan Province and Lagu village, Honghe County, Yunan Province with the help of the Poverty Alleviation Office after being organized by the Company. We hope that the donation not only give them warm clothing but also can deliver our love and care.

HKEX ESG REPORTING GUIDE CONTENT INDEX

Subject Areas, Aspects, General Disclosure and KPIs		Chapter/Disclosure	Page
A. Environmental			
Aspect A1: Emissions			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	Environmental Protection	52-56
KPI A1.1	The types of emissions and respective emissions data.	Environmental Protection	53
KPI A1.2	Greenhouse gas emissions in total and where appropriate, intensity.	Environmental Protection	53
KPI A1.3	Total hazardous waste produced and where appropriate, intensity.	Environmental Protection	55
KPI A1.4	Total non-hazardous waste produced and where appropriate, intensity.	Environmental Protection	55
KPI A1.5	Description of measures to mitigate emissions and results achieved.	Environmental Protection	52-56
KPI A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	Environmental Protection	54-55
Aspect A2: Use of Resources			
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials. Note: Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.	Resource Consumption	57-60
KPI A2.1	Direct and/or indirect energy consumption by type in total and intensity.	Resource Consumption	57
KPI A2.2	Water consumption in total and intensity.	Resource Consumption	58
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	Resource Consumption	57-60
KPI A2.4	Descr8iption of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	We only consume water from the water supply company. Resource Consumption (Water Resources Management)	58
KPI A2.5	Total packaging material used for finished products, and if applicable, with reference to per unit produced.	Sustainability Performance Summary	51
Aspect A3: The Environment and Natural Resources			
General Disclosure	Policies on minimising the issuer's significant impact on the environment and natural resources.	Our business activities have no significant negative impact on the environment and natural resources.	N/A
KPI A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	Our business activities have no significant negative impact on the environment and natural resources.	N/A

Subject Areas, Aspects, General Disclosure and KPIs		Chapter/Disclosure	Page
B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	Team Building	70-79
KPI B1.1	Total workforce by gender, employment type, age group and geographical region.	Team Building	76
KPI B1.2	Employee turnover rate by gender, age group and geographical region.	Within the Reporting Period, we updated the workforce data collection system. Thus, employee turnover rate is not disclosed.	N/A
Aspect B2: Health and Safety			
General Disclosure	Information on: (a)the policies; and (b)compliance with relevant laws and regulations that have a significant impact on the issuer. relating to providing a safe working environment and protecting employees from occupational hazards.	Occupational Health And Safety	80-84
KPI B2.1	Number and rate of work-related fatalities.	No work-related death incident occurs during the Reporting Period.	N/A
KPI B2.2	Lost days due to work injury.	Not disclosed during the Reporting Period	N/A
KPI B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	Occupational Health And Safety	80-84
Aspect B3: Development and Training			
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	Team Building	70-75
KPI B3.1	The percentage of employees trained by gender and employee category.	Team Building	75
KPI B3.2	The average training hours completed per employee by gender and employee category.	Team Building	75

Subject Areas, Aspects, General Disclosure and KPIs		Chapter/Disclosure	Page
Aspect B4: Labour Standards			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	Team Building	76
KPI B4.1	Description of measures to review employment practices to avoid child and forced labour.	Team Building	76
KPI B4.2	Description of steps taken to eliminate such practices when discovered.	Team Building	76
Operating Practices			
Aspect B5: Supply Chain Management			
General Disclosure	Policies on managing environmental and social risks of the supply chain.	Supply Chain Management	69
KPI B5.1	Number of suppliers by geographical region.	Not disclosed during the Reporting Period	N/A
KPI B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	Not disclosed during the Reporting Period	N/A
Aspect B6: Product Responsibility			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	Quality	61-63
KPI B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	Not disclosed during the Reporting Period	N/A
KPI B6.2	Number of products and service related complaints received and how they are dealt with.	Not disclosed during the Reporting Period	N/A
KPI B6.3	Description of practices relating to observing and protecting intellectual property rights.	Innovating Achievements	67-68
KPI B6.4	Description of quality assurance process and recall procedures.	Not disclosed during the Reporting Period	N/A
KPI B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	Our business does not involve any consumer privacy data.	N/A

Subject Areas, Aspects, General Disclosure and KPIs		Chapter/Disclosure	Page
Aspect B7: Anti-corruption			
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to bribery, extortion, fraud and money laundering.	Code of Ethics	85
KPI B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	During the Reporting Period, no corruption lawsuit against the Company or the Company's employees occurs.	N/A
KPI B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	Code of Ethics	85
Community			
Aspect B8: Community Investment			
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	Charitable Activities	86-90
KPI B8.1	Focus areas of contribution.	Charitable Activities	86-90
KPI B8.2	Resources contributed to the focus area.	Charitable Activities	86-90

羅兵咸永道

TO THE SHAREHOLDERS OF
CHINA HIGH SPEED TRANSMISSION EQUIPMENT GROUP CO., LTD.
(incorporated in the Cayman Islands with limited liability)

OPINION

What we have audited

The consolidated financial statements of China High Speed Transmission Equipment Group Co., Ltd. (the "Company") and its subsidiaries (the "Group") set out on pages 103 to 266, which comprise:

- the consolidated statement of financial position as at 31 December 2018;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

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BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Fair value measurement of financial instruments with significant inputs not based on observable market data (level 3)
- Recoverability of trade receivables

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial instruments with significant inputs not based on observable market data (level 3)	
Refer to Note 3.3 (Fair value estimation), Note 22 (Financial assets at fair value through other comprehensive income) and Note 27 (Financial assets at fair value through profit or loss) to the consolidated financial statements. As at 31 December 2018, the balance of the Group's investments in unlisted financial instruments measured at fair value through profit or loss and at fair value through other comprehensive income amounted to approximately RMB6,137 million. These unlisted financial instruments were valued with inputs not based on active market prices nor observable market data and were categorized as level 3 in the fair value hierarchy.	We understood and tested management's procedures and key controls over the measurement of fair value in level 3 financial instruments; We evaluated the competence, independence, capabilities and objectivity of the Group's external valuers; We involved our valuation specialists to assess the appropriateness of the valuation methodologies applied by the Group based on the market practice and our industry knowledge;

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Fair value measurement of financial instruments with significant inputs not based on observable market data (level 3)	
The fair values of level 3 financial instruments were determined through the application of valuation techniques. With assistance from external valuers, management has exercised significant judgements and estimates in identifying the appropriate valuation models and inputs including revenue growth rate, operating margin, discount rate, liquidity discounts, earnings multiples and recent transaction prices. We have therefore focused on this area.	We re-performed valuations on a sample basis to evaluate the valuation models and key inputs adopted by the Group including: • Examining the contractual agreements and checking the calculation made by management and obtaining the investment confirmation to verify the existence and accuracy of each level 3 financial instruments; • Comparing the revenue growth rate and operating margin to the forecast of future profits and historical data; • Assessing the reasonableness of the discount rate by comparing cost of capital of comparable companies in the open market; and • Evaluating the liquidity discounts, earnings multiples and recent transaction prices used by comparing with similar types of companies. Based on the procedures above, we found the judgements and estimates made by management in measuring the fair values of level 3 financial instruments were supported by the available evidence.

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables	
Refer to Note 3.1(b) (Financial risk management – Credit risk), Note 4 (Critical accounting estimates and judgements) and Note 25 (Trade and other receivables) to the consolidated financial statements. As at 31 December 2018, the Group had approximately RMB4,982 million trade receivables and an impairment provision of RMB536 million. Management applied significant judgement in assessing the expected credit losses. Trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. Expected credit losses are also estimated by grouping the remaining receivables based on similar credit risk characteristics and collectively assessed for likelihood of recovery, taking into account the nature of the customers and its ageing category. The expected credit loss rates are determined based on historical credit losses experienced from the past 48 months and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables. We focused on this area because significant management judgements and estimates are applied in determining the provision for impairment of such balances.	We understood and tested key controls on a sample basis over management's policies, processes and controls over assessment on recoverability of trade receivables balance and determination of impairment provision; We assessed the appropriateness of the credit loss provisioning methodology used by the Group; For trade receivables assessed individually, we obtained management's assessment of the collectability (both amount and timing) of receivables balances. We corroborated against available evidences, including interviewing sales personnel, examining the correspondences with the relevant customers and inquiring the Group's internal legal counsel as to whether there are any disputes with customers; We challenged the assumptions used to determine the expected credit losses by considering cash collection performance against historical trends and current and forward-looking information such as the impact of macroeconomic factors on probability of default and loss given default based on our understanding of the industry and with reference to external data source; and We tested on a sample basis, the accuracy of management's ageing report of trade receivables by checking to sales invoices and other supporting documents. Based upon the above, we found that the judgement and estimation made by management in respect of the impairment provision were supportable by the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The audit committee is responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

We communicate with the audit committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the audit committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with the audit committee all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the audit committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Esmond S.C. Kwan.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 29 March 2019

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 RMB'000	2017 Restated* RMB'000
Continuing operations			
Revenue from contracts with customers	5	8,203,500	7,990,604
Cost of sales	8	(6,672,511)	(5,686,722)
Gross profit		1,530,989	2,303,882
Selling and distribution expenses	8	(292,946)	(293,685)
Administrative expenses	8	(494,546)	(633,447)
Research and development costs	8	(337,457)	(286,203)
Net impairment losses on financial assets	3.1(b)	(57,059)	(61,630)
Other income	6	209,879	135,612
Other gains – net	7	192,107	305,836
Operating profit		750,967	1,470,365
Finance income	10	143,895	116,141
Finance costs	10	(630,963)	(554,780)
Finance costs - net		(487,068)	(438,639)
Share of net profit of associates and joint ventures accounted for using the equity method	19	15,884	83,931
Profit before income tax		279,783	1,115,657
Income tax expenses	11	(10,781)	(173,857)
Profit for the year from continuing operations		269,002	941,800
Loss for the year from discontinued operation	29	(62,530)	(588,984)
Profit for the year		206,472	352,816

CONSOLIDATED INCOME STATEMENT *(Continued)*

For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 RMB'000	2017 Restated* RMB'000
Profit/(loss) attributable to:			
Owners of the Company		**208,401**	451,699
Non-controlling interests		**(1,929)**	(98,883)
		206,472	352,816
Profit/(loss) attributable to owners of the Company arises from:			
Continuing operations		**282,805**	948,090
Discontinued operation		**(74,404)**	(496,391)
		208,401	451,699
Earnings per share for profit from continuing operations attributable to the ordinary equity holders of the Company for the year (expressed in RMB per share)			
Basic and diluted earnings per share	12	**0.173**	0.580
Earnings per share for profit attributable to the ordinary equity holders of the Company for the year (expressed in RMB per share)			
Basic and diluted earnings per share	12	**0.128**	0.276

* See Note 29 for details regarding the restatement as a result of the discontinued operation.

The above consolidated income statement should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000
Profit for the year		**206,472**	352,816
Other comprehensive income/(loss):			
Items that may be reclassified to profit or loss			
Changes in the fair value of debt instruments at fair value through other comprehensive income		**15,317**	—
Changes in the fair value of available-for-sale financial assets		**—**	(344,848)
Currency translation difference		**(4,486)**	(3,445)
Income tax relating to these items	36	**(3,829)**	85,689
		7,002	(262,604)
Items that will not be reclassified to profit or loss			
Changes in the fair value of equity investments at fair value through other comprehensive income		**(85,519)**	—
Income tax relating to these items	36	**18,846**	—
		(66,673)	—
Other comprehensive loss for the year, net of tax		**(59,671)**	(262,604)
Total comprehensive income for the year		**146,801**	90,212
Attributable to:			
Owners of the Company		**149,085**	190,460
Non-controlling interests		**(2,284)**	(100,248)
		146,801	90,212
Total comprehensive income for the year attributable to owners of the Company arises from:			
Continuing operations		**223,489**	698,648
Discontinued operation	29	**(74,404)**	(508,188)
		149,085	190,460

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For the year ended 31 December 2018

	Notes	As at 31 December 2018 RMB'000	2017 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	14	**3,815,283**	4,414,536
Land lease prepayments	15	**531,801**	669,236
Goodwill	16	**272**	2,991
Intangible assets	17	**14,825**	37,875
Investments accounted for using the equity method	19	**418,819**	257,972
Financial asset at fair value through other comprehensive income	22	**2,548,454**	—
Financial assets at fair value through profit or loss	27	**518,602**	—
Other receivables	25	**—**	71,429
Other financial assets at amortised cost	21	**517,327**	—
Available-for-sale financial assets	22	**—**	3,612,278
Deposit for land lease	23	**116,800**	116,800
Deferred income tax assets	36	**271,427**	241,182
		8,753,610	9,424,299
Current assets			
Inventories	24	**2,313,001**	2,415,777
Land lease prepayments	15	**11,486**	14,860
Trade receivables	25	**4,445,523**	4,620,080
Bills receivable	25	**—**	1,895,179
Other receivables	25	**984,693**	1,593,635
Other financial assets at amortised cost	21	**205,861**	—
Prepayments	26	**361,851**	442,981
Financial asset at fair value through other comprehensive income	22	**1,368,456**	—
Financial assets at fair value through profit or loss	27	**1,993,594**	—
Income tax prepaid		**82,362**	—
Structured bank deposits	28	**—**	108,000
Pledged bank deposits	28	**2,922,234**	2,892,955
Cash and cash equivalents	28	**2,062,624**	4,030,409
Assets of disposal group classified as held-for-sale	29	**1,243,244**	—
		17,994,929	18,013,876
Total assets		**26,748,539**	27,438,175

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

For the year ended 31 December 2018

	Notes	As at 31 December 2018 RMB'000	2017 RMB'000
LIABILITIES			
Non-current liabilities			
Borrowings	33	**1,105**	844,275
Corporate bonds	33	**2,411,465**	1,912,018
Deferred income	34	**54,283**	85,658
Warranty provision	35	**72,528**	—
Deferred tax liabilities	36	**162,198**	178,981
		2,701,579	3,020,932
Current liabilities			
Borrowings	33	**4,960,387**	5,030,608
Trade payables	32	**1,716,846**	1,855,137
Bills payable	32	**4,526,958**	4,781,908
Other payables	32	**1,021,963**	980,533
Advance from customers		**—**	542,429
Contract liabilities		**302,533**	—
Deferred income	34	**17,196**	6,239
Income tax payable		**43,125**	123,724
Warranty provision	35	**90,373**	120,664
Liabilities of disposal group classified as held-for-sale	29	**502,315**	—
		13,181,696	13,441,242
Total liabilities		**15,883,275**	16,462,174

For the year ended 31 December 2018

	Notes	As at 31 December 2018 RMB'000	2017 RMB'000
EQUITY			
Equity attributable to owners of the Company			
Share capital	30	**119,218**	119,218
Reserves	31	**10,672,614**	10,785,744
		10,791,832	10,904,962
Non-controlling interests		**73,432**	71,039
Total equity		**10,865,264**	10,976,001
Total equity and liabilities		**26,748,539**	27,438,175

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Hu Jichun
Director

Chen Yongdao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company					
	Share capital RMB'000	Other reserves RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
Balance at 1 January 2017	119,218	6,179,481	4,755,174	11,053,873	186,475	11,240,348
Profit/(loss) for the year	—	—	451,699	451,699	(98,883)	352,816
Other comprehensive loss for the year	—	(261,239)	—	(261,239)	(1,365)	(262,604)
Total comprehensive (loss)/income for the year	—	(261,239)	451,699	190,460	(100,248)	90,212
Dividends in respect of 2016	—	(332,412)	—	(332,412)	—	(332,412)
Acquisition of non-controlling interest	—	(6,959)	—	(6,959)	(7,441)	(14,400)
Disposal of subsidiaries	—	—	—	—	(10,247)	(10,247)
Capital contributions by non-controlling shareholders of subsidiaries	—	—	—	—	2,500	2,500
Appropriation to statutory reserve	—	131,308	(131,308)	—	—	—
Balance at 31 December 2017	119,218	5,710,179	5,075,565	10,904,962	71,039	10,976,001

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the year ended 31 December 2018

	Notes	Attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital	Other reserves	Retained earnings	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2018		119,218	5,710,179	5,075,565	10,904,962	71,039	10,976,001
Change in accounting policy	2.2	—	(39,547)	16,435	(23,112)	—	(23,112)
Restated total equity at 1 January 2018		119,218	5,670,632	5,092,000	10,881,850	71,039	10,952,889
Profit/(loss) for the year		—	—	208,401	208,401	(1,929)	206,472
Other comprehensive loss for the year		—	(59,316)	—	(59,316)	(355)	(59,671)
Total comprehensive (loss)/income for the year		—	(59,316)	208,401	149,085	(2,284)	146,801
Dividends in respect of 2017	13	—	(239,103)	—	(239,103)	—	(239,103)
Disposal of subsidiaries	29	—	—	—	—	4,677	4,677
Appropriation to statutory reserve		—	41,856	(41,856)	—	—	—
Balance at 31 December 2018		119,218	5,414,069	5,258,545	10,791,832	73,432	10,865,264

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Notes	Year ended 31 December 2018 RMB'000	2017 RMB'000
Cash flows from operating activities			
Cash generated from operations	37	738,796	2,507,029
Income tax paid		(183,066)	(304,306)
Net cash generated from operating activities		555,730	2,202,723
Cash flows from investing activities			
Placement in pledged bank deposits		(9,476,003)	(8,140,895)
Withdrawal of pledged bank deposits		9,427,658	7,765,779
Investment in structured bank deposits		(933,000)	(458,000)
Redemption of structured bank deposits		108,000	559,000
Purchase of intangible assets	17	—	(208)
Payment for land lease prepayments		(91,755)	(4,297)
Purchases of property, plant and equipment		(490,555)	(546,874)
Proceeds from disposal of property, plant and equipment		31,791	59,699
Dividend from an associate		5,897	—
Capital injection in associates		(120,733)	(12,000)
Payment for acquisition of subsidiaries, net of cash acquired	41	(15,164)	(149,031)
Capital withdrawal from a joint venture		—	877,500
Disposal of a joint venture		—	40,000
Disposal of associates		—	23,565
Disposal of subsidiaries, net of cash disposed	29	(2,972)	699,022
Interests received on financial assets held as amortised cost		260,128	108,293
Proceeds from sale of available-for-sale investments		—	773,292
Purchase of available-for-sale investments		—	(3,854,329)
Purchase of financial assets at fair value through other comprehensive income		(5,000)	—
Proceeds from sale of financial assets at fair value through other comprehensive income		2,150	—
Dividends from financial assets at fair value through other comprehensive income		46,901	—
Purchase of financial assets at fair value through profit or loss		(454,752)	—
Dividends from financial assets at fair value through profit or loss		36,275	—
Proceeds from sale of financial assets at fair value through profit or loss		536,228	—

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the year ended 31 December 2018

		Year ended 31 December	
	Notes	2018 RMB'000	2017 RMB'000
Purchase of other financial assets at amortised cost		(705,861)	—
Redemption of other financial assets at amortised cost		500,000	—
Receipt of government grants		—	16,853
Loans to third parties		(630,107)	(2,386,038)
Cash collected from borrowings from third parties		594,000	2,386,038
Other investment income received		—	7,814
Receipt of land resumption		—	600,000
Net cash used in investing activities		(1,376,874)	(1,634,817)
Cash flows from financing activities			
Proceeds from borrowings and corporate bonds		7,592,874	8,880,981
Capital contribution by non-controlling shareholders		—	2,500
Repayment of borrowings		(7,838,506)	(7,285,893)
Interest paid		(657,860)	(526,289)
Repayment of finance lease payables		—	(7,007)
Acquisition of additional interests in subsidiaries		—	(14,400)
Dividends paid to the Company's shareholders		(239,103)	(332,412)
Net cash (used in)/generated from financing activities		(1,142,595)	717,480
Net (decrease)/increase in cash and cash equivalents		(1,963,739)	1,285,386
Cash and cash equivalents at beginning of year	28	4,030,409	2,745,023
Exchange gains on cash and cash equivalents		21,211	—
Included in the assets of the disposal group classified as held-for-sale		(25,257)	—
Cash and cash equivalents at end of year	28	2,062,624	4,030,409

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 GENERAL INFORMATION

China High Speed Transmission Equipment Group Co., Ltd. (the "Company") is a limited liability company incorporated in the Cayman Islands as an exempted company on 22 March 2005 and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") with effect from 4 July 2007. The registered office of the Company is located at 3rd Floor, Royal Bank House, 24 Shedden Road, Grand Cayman KY1-1110, Cayman Islands. The head office and principal place of business is located at Room 1302, 13th Floor, COFCO Tower, No.262 Gloucester Road, Causeway Bay, Hong Kong.

In the opinion of the directors, the immediate holding company is Five Seasons XVI Limited, a limited company incorporated in the British Virgin Islands ("BVI"), the intermediate holding company is Fullshare Holdings Limited ("Fullshare Holdings"), an exempted company with limited liability incorporated in the Cayman Islands and shares listed on the Hong Kong Stock Exchange, and the ultimate holding company of the Company is Magnolia Wealth International Limited ("Magnolia"), a limited company incorporated in the BVI.

As at 31 December 2018, total shares of the Company were approximately 1,635,291 thousands (31 December 2017: 1,635,291 thousands).

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

These financial statements have been approved for issue by the Board of Directors on 29 March 2019.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs") as issued by International Accounting Standards Board ("IASB"). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities which are carried at fair value.

The preparation of financial statements in conformity with IFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2018:

- IFRS 9 'Financial Instruments'
- IFRS 15 'Revenue from Contracts with Customers'
- Annual Improvements 2014-2016 cycle
- Amendments to IFRS 2 'Classification and Measurement of Share-based Payment Transactions'
- Amendments to IAS 40 'Transfers to Investment Property'
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration'

The Group changed its accounting policies and made modified retrospective adjustments following the adoption of IFRS 9 and IFRS 15. This is disclosed in Note 2.2. The other amendments listed above did not have significant impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2018 reporting periods and have not been early adopted by the Group.

- IFRS 16 Leases, effective for the accounting period beginning on or after 1 January 2019.
- Interpretation 23 uncertainty over Income Tax Treatment, effective for the accounting period beginning on or after 1 January 2019.
- Amendments to IAS 28 'Long-term interests in Associates and Joint Ventures', effective for the accounting period beginning on or after 1 January 2019.
- Annual Improvements to IFRS Standards 2015 – 2017 Cycle, effective for the accounting period beginning on or after 1 January 2019.
- Amendments to IFRS 10 and IAS 28 'Sale or contribution of assets between an investor and its associate or joint venture', the effective date of this amendment has been deferred by IASB.
- Amendments to IFRS 9 'Prepayment Features with Negative Compensation', effective for the accounting period beginning on or after 1 January 2019.
- Amendments to IAS 19 'Plan Amendment, Curtailment or Settlement', effective for the accounting period beginning on or after 1 January 2019.
- Amendments to IFRS 3 'Business Combinations', effective for the accounting period beginning on or after 1 January 2020.
- Amendments to conceptual Framework of IASB, effective for the accounting period beginning on or after 1 January 2020.
- IFRS 17 'Insurance Contracts', effective for the accounting period beginning on or after 1 January 2021.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New standards and interpretations not yet adopted *(Continued)*

The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 16, 'Leases', was issued in January 2016. It will result in almost all leases being recognised on the statement of financial position, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases.

The Group has set up a project team which has reviewed all of the Group's leasing arrangements over the last year in light of the new lease accounting rules in IFRS 16. The standard will affect primarily the accounting for the Group's operating leases. The Group will adopt the practical expedient in IFRS 16 for leases which end within 12 months from the date of initial application as short-term leases and will recognise the lease cost on a straight-line basis as expenses in profit or loss.

As at the reporting date, the Group has non-cancellable operating lease commitments of RMB3,210 thousands (Note 39). Of these commitments, approximately RMB1,914 thousands relate to short-term leases and RMB52 thousands to low value leases which will both be recognised on a straight-line basis as expense in profit or loss.

For the remaining lease commitments the Group expects to recognise right-of-use assets, lease liabilities and deferred tax assets. It is not expected to have significant impact on the consolidated financial statements of the Group.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New standards and interpretations not yet adopted *(Continued)*

The Group's activities as a lessor are not material and hence the Group does not expect any significant impact on the financial statements. However, some additional disclosures will be required from next year.

The Group will apply the standard from its mandatory adoption date of 1 January 2019. The Group intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. Right-of-use assets for property leases will be measured on transition as if the new rules had always been applied. All other right-of-use assets will be measured at the amount of the lease liability on adoption (adjusted for any prepaid or accrued lease expenses).

Apart from fore-mentioned impact of IFRS 16, there are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Changes in accounting policies

This note explains the impact of the adoption of IFRS 9 "Financial Instruments" and IFRS 15 "Revenue from Contracts with Customers" on the Group's consolidated financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

2.2.1 Impact on the consolidated financial statements

The following tables show the adjustments recognised for each individual line item in the opening consolidated statement of financial position on 1 January 2018 as a result of changes in the Group's accounting policies. Line items that were not affected by the changes have not been included. As a result, the sub-totals and totals disclosed cannot be recalculated from the numbers provided. The adjustments are explained in more detail by standard below.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2.1 Impact on the consolidated financial statements *(Continued)*

Consolidated statement of financial position (extract)	31 December 2017 RMB'000	IFRS 9 RMB'000	IFRS 15 RMB'000	1 January 2018 RMB'000
Non-current assets				
Deferred income tax assets	241,182	18,695	—	259,877
Financial assets at fair value through other comprehensive income ("FVOCI")	—	2,665,138	—	2,665,138
Financial assets at fair value through profit or loss ("FVPL")	—	1,019,487	—	1,019,487
Available-for-sale financial assets	3,612,278	(3,612,278)	—	—
Current assets				
Trade receivables	4,620,080	(64,322)	—	4,555,758
Bills receivable	1,895,179	(1,895,179)	—	—
Financial assets at FVOCI	—	1,863,434	—	1,863,434
Financial assets at FVPL	—	108,000	—	108,000
Structured bank deposits	108,000	(108,000)	—	—
Total assets	27,438,175	(5,025)	—	27,433,150
Non-current liabilities				
Deferred tax liabilities	178,981	18,087	—	197,068
Current liabilities				
Contract liabilities	—	—	542,429	542,429
Advance from customers	542,429	—	(542,429)	—
Total liabilities	16,462,174	18,087	—	16,480,261
Other reserves	5,710,179	(39,547)	—	5,670,632
Retained earnings	5,075,565	16,435	—	5,092,000
Total equity	10,976,001	(23,112)	—	10,952,889

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2.1 Impact on the consolidated financial statements *(Continued)*

The total impact on the Group's retained earnings as at 1 January 2018 is as follows:

	RMB'000
Closing retained earnings 31 December 2017 – IAS 39	5,075,565
Increase in provision for trade receivables	(64,322)
Remeasure investments from available-for-sale to FVPL	9,056
Reclassify prior year provision for equity investment at FVOCI from retained earnings to FVOCI reserve	63,206
Increase in deferred tax assets	10,759
Increase in deferred tax liabilities	(2,264)
Opening retained earnings 1 January 2018 – IFRS 9	5,092,000

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2.2 IFRS 9 "Financial Instruments"

IFRS 9, "Financial Instruments" was adopted by the Group using the modified retrospective approach. The reclassifications and the adjustments arising from the new impairment rules are therefore not reflected in the comparative information, but are recognised in the opening consolidated statement of financial position on 1 January 2018.

(a) Impact of adoption

(i) Classification and measurement

On 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The main effects resulting from this reclassification as at 1 January 2018 are as follows:

Financial assets – 1 January 2018	Notes	FVPL	FVOCI (Available-for-sale 2017)	Amortised cost (Receivables 2017)*
		RMB'000	RMB'000	RMB'000
Closing balance 31 December 2017 – IAS 39		—	3,612,278	8,180,323
Reclassify investments from available-for-sale to FVPL	(1)	1,010,431	(1,010,431)	—
Remeasure investment from available-for-sale to FVPL	(1)	9,056	—	—
Remeasure non-trading equities from available-for-sale to FVOCI	(2)	—	63,291	—
Reclassify structured bank deposits from structured bank deposits to FVPL	(3)	108,000	—	—
Reclassify bills receivable from receivables to FVOCI	(4)	—	1,895,179	(1,895,179)
Remeasure bills receivable from receivables to FVOCI	(4)	—	(31,745)	—
Opening balance 1 January 2018 - IFRS 9		1,127,487	4,528,572	6,285,144

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2.2 IFRS 9 "Financial Instruments" *(Continued)*

(a) Impact of adoption (Continued)

(i) Classification and measurement (Continued)

The impact of these changes on the Group's equity is as follows:

	Notes	Effect on AFS reserves RMB'000	Effect on FVOCI reserve RMB'000	Effect on retained earnings RMB'000
Closing balance				
31 December 2017 – IAS 39		247,644	—	5,075,565
Remeasure investments from				
available-for-sale to FVPL	(1)	—	—	6,792
Reclassify non-trading equities				
from available-for-sale to FVOCI	(2)	(247,644)	184,438	63,206
Remeasure non-trading equities				
from available-for-sale to FVOCI	(2)	—	47,468	—
Remeasure bills receivable				
from receivables to FVOCI	(4)	—	(23,809)	—
Opening balance 1 January 2018 -				
IFRS 9		—	208,097	5,145,563

* Before adjustment for impairment. See Note 3.1(b) below.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2.2 IFRS 9 "Financial Instruments" *(Continued)*

(a) Impact of adoption *(Continued)*

(i) Classification and measurement (Continued)

(1) Reclassification of investments from available-for-sale to FVPL

Certain equity investments were reclassified from available-for-sale at cost to financial assets at FVPL with a fair value RMB1,019,487 thousands as at 1 January 2018. Fair value gains net of tax of RMB6,792 thousands (net of RMB2,264 thousands of deferred tax assets) were recognised in retained earnings on 1 January 2018.

(2) Equity investments previously classified as available-for-sale

The Group elected to present in OCI changes in the fair value of its certain equity investments previously classified as available-for-sale. These investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of RMB2,665,138 thousands were reclassified from available-for-sale financial assets to financial assets at FVOCI.

(3) Structured bank deposits classified as FVPL

Structured bank deposits were reclassified to financial assets at FVPL with an amount of RMB108,000 thousands as at 1 January 2018. They no longer meet the IFRS 9 criteria for classification at amortised cost, because their cash flows do not represent solely payments of principal and interest. There was no impact on the amounts recognised in relation to these assets from the adoption of IFRS 9.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2.2 IFRS 9 "Financial Instruments" *(Continued)*

(a) Impact of adoption (Continued)

(i) Classification and measurement (Continued)

(4) Bills receivable carried as FVOCI

Bills receivable with a fair value of RMB1,863,434 thousands were reclassified from financial assets at amortised cost to financial assets at FVOCI, because the bills receivable are held for collection of contractual cash flows and for selling the financial assets, where its cash flows represent solely payments of principal and interest. Fair value loss net of tax of RMB23,809 thousands were recognised in FVOCI reserve on 1 January 2018.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2.2 IFRS 9 "Financial Instruments" *(Continued)*

(a) Impact of adoption (Continued)

(i) Classification and measurement (Continued)

(5) Reclassifications of financial instruments on adoption of IFRS 9

On the date of initial application, 1 January 2018, the financial instruments of the Group were as follows, with any reclassifications noted:

	Measurement category		Carrying amount		
	Original (IAS 39)	New (IFRS 9)	Original RMB'000	New RMB'000	Difference RMB'000
Non-current financial assets					
Listed and unlisted equity securities	Available for sale	FVOCI	2,601,847	2,665,138	63,291
Unlisted equity securities	Available for sale	FVPL	1,010,431	1,019,487	9,056
Other receivables	Amortised cost	Amortised cost	71,429	71,429	—
Current financial assets					
Trade receivables	Amortised cost	Amortised cost	4,620,080	4,555,758	(64,322)
Bills receivables	Amortised cost	FVOCI	1,895,179	1,863,434	(31,745)
Structured bank deposits	Amortised cost	FVPL	108,000	108,000	—
Pledged bank deposits	Amortised cost	Amortised cost	2,892,955	2,892,955	—
Cash and cash equivalents	Amortised cost	Amortised cost	4,030,409	4,030,409	—
Other receivables	Amortised cost	Amortised cost	1,593,635	1,593,635	—

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2.2 IFRS 9 "Financial Instruments" *(Continued)*

(a) Impact of adoption (Continued)

(ii) Impairment of financial assets

The Group considers the probability of default upon initial recognition of a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information.

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected loss rates, the Group considers historical loss rates for each category of receivables and adjusts for forward looking macroeconomic data.

(b) Accounting policies applied from 1 January 2018

Accounting policies applied by the Group from 1 January 2018 has been modified according to the adoption, please refer to Note 2.13 and Note 3.1(b) for detail information

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

2.2.3 IFRS 15 "Revenue from Contracts with Customers"

The Group has adopted IFRS 15, "Revenue from Contracts with Customers" by using the modified retrospective approach which means that the cumulative impact of the adoption (if any) will be recognised in retained earnings as at 1 January 2018 and that comparatives will not be restated.

(a) Impact of adoption

The Group has adopted IFRS 15 "Revenue from Contracts with Customers" from 1 January 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In summary, the following adjustments were made to the amounts recognised in the consolidated statement of financial position at the date of initial application (1 January 2018):

	IAS 18 carrying amount 31 December 2017 RMB'000	Reclassification RMB'000	IFRS 15 carrying amount 1 January 2018 RMB'000
Advance from customers	542,429	(542,429)	—
Contract liabilities	—	542,429	542,429

The contract liabilities of the Group are advance for goods from customers. Revenue from contracts with customers amounted to RMB450,216 thousands has been recognised in the current year relates to carried forward contract liabilities.

The Group is principally engaged in manufacturing and distribution of a broad range of mechanical transmission equipment that is used in wind power and industrial appliances. The adoption of IFRS 15 does not change revenue recognition policy of fore-mentioned activities.

The Group does not introduce any customer loyalty programme which is likely to be affected by the IFRS 15.

The Group does not expect to have any contracts where the period between the transfer to the promised goods to the customer and payment by the customer exceeds one year. As a consequence, the Group does not adjust any of the transaction prices for the time value of money.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Changes in accounting policies *(Continued)*

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

(a) Impact of adoption (Continued)

The Group has elected to apply the practical expedient that contract costs incurred related to contracts with an amortization period of less than one year have been expensed as incurred. The Group also applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

Except for the reclassifications of contract liabilities, there is no other line items affected in the current year and year to date by the application of IFRS 15 as compared to IAS 18 that were previously in effect before the adoption of IFRS 15.

(b) Accounting polices applied from 1 January 2018

Accounting policies applied by the Group from 1 January 2018 has been modified according to the adoption, please refer to Note 2.27 for detail information.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Subsidiaries

2.3.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRSs.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognised in profit or loss.

Any contingent consideration to be transferred by the Group is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Subsidiaries *(Continued)*

2.3.1 Consolidation *(Continued)*

***(a) Business Combinations** (Continued)*

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If the total consideration transferred, non-controlling interest recognised and previously held interest measured is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the income statement.

Intra-group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognised in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified by applicable IFRSs.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Subsidiaries *(Continued)*

2.3.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Investments in joint ventures and associates are accounted for using the equity method of accounting.

2.4 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognised at cost, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Associates *(Continued)*

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognised in the income statement, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount adjacent to share of net profit of associates and joint ventures accounted for using the equity method in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognised at cost and adjusted thereafter to recognise the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

2.6 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within "finance income or costs". All other foreign exchange gains and losses are presented in the consolidated income statement within "Other gains – net".

Translation differences on non-monetary financial assets and liabilities such as equities held at FVPL are recognised in profit or loss as part of the fair value gains or losses. Translation differences on non-monetary financial assets, such as equities classified as financial assets at FVOCI, are included in other comprehensive income.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Foreign currency translation *(Continued)*

(c) Group companies

The results and statement of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each consolidated income statement are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognised in other comprehensive income.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign operation and translated at the closing rate. Currency translation differences arising are recognised in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On the disposal of a foreign operation (that is, a disposal of the Group's entire interest in a foreign operation, or a disposal involving loss of control over a subsidiary that includes a foreign operation, a disposal involving loss of joint control over a joint venture that includes a foreign operation, or a disposal involving loss of significant influence over an associate that includes a foreign operation), all of the currency translation differences accumulated in equity in respect of that operation attributable to the owners of the company are reclassified to profit or loss.

In the case of a partial disposal that does not result in the Group losing control over a subsidiary that includes a foreign operation, the proportionate share of accumulated currency translation differences are re-attributed to non-controlling interests and are not recognised in profit or loss. For all other partial disposals (that is, reductions in the Group's ownership interest in associates or joint ventures that do not result in the Group losing significant influence or joint control), the proportionate share of the accumulated exchange difference is reclassified to profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

Freehold land	Nil
Buildings	30-35 years
Leasehold improvements	over the shorter of the lease term or 3 years
Machinery and equipment	5-10 years
Furniture and fixtures	5 years
Transportation equipment	5 years

Freehold land is stated at cost less any impairment losses and is not amortised.

Construction in progress represents buildings, various machinery and equipment under construction and pending installation, and is stated at cost less provision for impairment losses. Cost includes the costs of construction and acquisition and capitalised borrowing costs. When the assets concerned are available for use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated above.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "Other gains – net" in the consolidated income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Land lease prepayments

Land lease prepayments mainly represent prepayments for land use right. These assets are carried at cost less accumulated amortisation and impairment losses. Land lease prepayments are initially stated at cost and subsequently amortised on the straight-line basis over the lease terms net of impairment losses, as follows:

Land use rights	30-50 years

2.10 Intangible assets

(a) Goodwill

Goodwill arises on the acquisition of subsidiaries represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identified net assets acquired.

Goodwill is not amortised but it is reviewed and tested for impairment annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination. Each unit or group of units to which the goodwill is allocated represents the lowest level within the entity at which the goodwill is monitored for internal management purposes. Goodwill is monitored at the operating segment level.

(b) Technical know-how

Technical Know-how is stated at cost less any impairment losses and is amortised on the straight-line basis over its estimated useful lives of 5 to 10 years.

(c) Research and development costs

Research and development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products of 5 to 10 years, commencing from the date when the products are put into commercial production.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Impairment of non-financial assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

2.12 Disposal groups of assets held for sale and discontinued operations

Disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the disposal group to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of the disposal group, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the disposal group is recognised at the date of derecognition.

Non-current assets that are part of a disposal group are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Disposal groups of assets held for sale and discontinued operations *(Continued)*

The assets of a disposal group classified as held for sale are presented separately from the other assets in the consolidated statement of financial position. The liabilities of a disposal group classified as held for sale are presented separately from other liabilities in the consolidated statement of financial position.

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated income statement.

2.13 Investment and financial assets

2.13.1 Classification

From 1 January 2018, the Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortised cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or other comprehensive income ("OCI"). For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at FVOCI.

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investment and financial assets *(Continued)*

2.13.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2.13.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at FVPL, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investment and financial assets *(Continued)*

2.13.3 Measurement *(Continued)*

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Interest income from these financial assets is included in other income using the effective interest rate method. Any gain or loss arising on derecognition is recognised directly in profit or loss and presented in "Other gains – net", together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest income and foreign exchange gains and losses which are recognised in profit or loss. When the financial asset is derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Other gains – net" or "Finance costs". Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in"Other gains – net" and impairment expenses are presented as separate line item in the consolidated income statement.

- FVPL: Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognised in profit or loss and presented net within "Other gains – net" in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investment and financial assets *(Continued)*

2.13.3 Measurement *(Continued)*

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognised in profit or loss as other income when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognised in "Other gains – net" in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investment and financial assets *(Continued)*

2.13.4 Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investment and financial assets *(Continued)*

2.13.5 Impairment

From 1 January 2018, the Group assesses on a forward looking basis the expected credit losses associated with its debt instruments carried at amortised cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For financial instruments that have low risk of default at the balance sheet date, except for receivables related to revenue, the Group assumes that there is no significant increase in credit risk since the initial recognition, on first stage, and measures the loss allowance at an amount equal to 12-month expected credit losses. If there has been a significant increase in credit risk or credit impairment has occurred since the initial recognition of a financial instrument, on second stage, the Group recognises a loss allowance at an amount equal to lifetime expected credit losses. If credit impairment has occurred since the initial recognition of a financial instrument, on third stage, the Group recognises a loss allowance at an amount equal to lifetime expected credit losses.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for further details.

2.13.6 Accounting policies applied until 31 December 2017

(a) Initial recognition and measurement

Financial assets are classified, at initial recognition, as loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets recorded at FVPL.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investment and financial assets *(Continued)*

2.13.6 Accounting policies applied until 31 December 2017 *(Continued)*

(b) Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income and net gains in profit or loss. The loss arising from impairment is recognised in profit or loss in finance costs for loans and in other expenses for receivables.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investment and financial assets *(Continued)*

2.13.6 Accounting policies applied until 31 December 2017 *(Continued)*

(b) Subsequent measurement *(Continued)*

Available-for-sale financial assets

Available-for-sale financial investments are non-derivative financial assets in listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at FVPL. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the investment revaluation reserve to profit or loss in net gains. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in profit or loss as other income in accordance with the policies set out for “Revenue recognition” below.

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

The Group evaluates whether the ability and intention to sell its available-for-sale financial assets in the near term are still appropriate. When, in rare circumstances, the Group is unable to trade these financial assets due to inactive markets, the Group may elect to reclassify these financial assets if management has the ability and intention to hold the assets for the foreseeable future or until maturity.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investment and financial assets *(Continued)*

2.13.6 Accounting policies applied until 31 December 2017 *(Continued)*

***(b) Subsequent measurement** (Continued)*

Available-for-sale financial assets (Continued)

For a financial asset reclassified from the available-for-sale category, the fair value carrying amount at the date of reclassification becomes its new amortised cost and any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the effective interest rate. Any difference between the new amortised cost and the maturity amount is also amortised over the remaining life of the asset using the effective interest rate. If the asset is subsequently determined to be impaired, then the amount recorded in equity is reclassified to profit or loss.

(c) Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investment and financial assets *(Continued)*

2.13.6 Accounting policies applied until 31 December 2017 *(Continued)*

(d) Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investment and financial assets *(Continued)*

2.13.6 Accounting policies applied until 31 December 2017 *(Continued)*

***(d) Impairment of financial assets** (Continued)*

Financial assets carried at amortised cost (Continued)

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

Assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Investment and financial assets *(Continued)*

2.13.6 Accounting policies applied until 31 December 2017 *(Continued)*

(d) Impairment of financial assets *(Continued)*

Available-for-sale financial investments

For available-for-sale financial investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

If an available-for-sale asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortisation) and its current fair value, less any impairment loss previously recognised in profit or loss, is removed from other comprehensive income and recognised in profit or loss.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. “Significant” is evaluated against the original cost of the investment and “prolonged” against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is “significant” or “prolonged” requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.14 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2.15 Derivative financial instruments

Derivative financial instruments of the Group are separate derivative derived from the investment of financial assets, which are not designated as hedges.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, and through the use of valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognises profits (losses) on that day.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

2.17 Trade receivables, bills receivable and other receivables

Trade receivables, bills receivable and other receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade receivables, bills receivable and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables and other receivables is unconditional unless they contain significant financing components when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less allowance for impairment. See Note 2.13 for further information about the Group's accounting for receivables and for a description of the Group's impairment policies.

2.18 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, and other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the Group's consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 Restricted cash

Restricted cash represents guarantee deposits held in a separate reserve account that is pledged to the bank for issuance of trade facilities such as bills payable and bankers' guarantee and as security deposits under bank borrowing agreements. Such restricted cash will be released when the Group repays the related trade facilities or bank loans.

2.20 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.21 Trade payables, bills payable and other payables

Trade payables, bills payable and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables, bills payable and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables, bills payable and other payables are recognised initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.23 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the date of the statement of financial position in the countries where the Company's subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the date of the statement of financial position and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Employee benefits

(a) Pension obligations

The People's Republic of China ("PRC") employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expensed as incurred and contributions paid to the defined contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans. The non-PRC employees are covered by other defined-contribution pension plans sponsored by the government of their respective country of residence. The Group also operates a Mandatory Provident Fund Scheme (the "MPF Scheme") for all employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. These subsidiaries are required to contribute certain fixed percentages of their payroll costs to the central pension scheme or the MPF Scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme and the MPF Scheme.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: when Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.26 Provisions

Provisions for product warranties are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount can be reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense.

Provisions for product warranties granted by the Group on certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Revenue recognition

(a) Accounting policies applied by the Group from 1 January 2018 has been modified according to the adoption as follows:

(i) Sales of mechanical transmission equipment

The Group manufactures and sells a broad range of mechanical transmission equipment that is used in wind power and a wide range of industrial appliances. Sales are recognised when the control of the products has been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold, which is usually at the date when a Group entity has delivered products to the customer, the customer has accepted the products, and there is no unfulfilled obligation that could affect the customer's acceptance of the products.

Revenue excludes value added tax and is after deduction of any trade discounts.

(ii) Rental income

Rental income is recognised in the consolidated income statement on a straight-line basis over the term of the lease.

(b) Accounting policies applied until 31 December 2017

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

- from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold;
- rental income, on a time proportion basis over the lease terms;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.28 Interest income

Interest income from financial assets at FVPL is included in "Other gains – net", see Note 7 below.

Interest income on financial assets at amortised cost calculated using the effective interest method is recognised in the consolidated income statement as part of "Other income", see Note 6 below.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as "Finance income" where it is earned from financial assets that are held for cash management purposes, see Note 10 below.

2.29 Dividend income

Dividend income is recognised when the right to receive payment is established.

2.30 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

2.31 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.33 Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Research and development costs are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the research and development project so that it will be available for use or sale;
- management intends to complete the research and development project, and use or sell it;
- it can be demonstrated how the research and development project will generate economic benefits; there are adequate technical, financial and other resources to complete the development and the ability to use or sell the research and development project; and
- the expenditure attributable to the research and development project during its development phase can be reliably measured.

Other research and development expenditure that do not meet these criteria are recognised as an expense as incurred. Research and development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.34 Financial guarantee contracts

Financial guarantee contracts are recognised as a financial liability at the time the guarantee is issued. The liability is initially measured at fair value and subsequently at the higher of:

(i) the amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments; and

(ii) the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from Contracts with Customers.

The fair value of financial guarantees is determined based on the present value of the difference in cash flows between the contractual payments required under the debt instrument and the payments that would be required without the guarantee, or the estimated amount that would be payable to a third party for assuming the obligations.

Where guarantees in relation to loans or other payables of associates are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.35 Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same Group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a Group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i) (1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and equity price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States dollar ("USD"), Euro ("EUR"), and Hong Kong dollar ("HKD"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities and net investments in foreign operations. Approximately 34% (2017: 28%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 4% (2017: 1%) of costs were not denominated in the functional currency. The Group's finance department at its headquarter is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk.

The carrying amounts of the Group's foreign currency denominated monetary assets and monetary liabilities including trade and other receivables, cash and cash equivalents, trade and other payables and borrowings at the end of the reporting period are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Assets		
USD	**926,729**	691,294
EUR	**279,273**	337,108
HKD	**21,813**	112,934
Liabilities		
USD	**483,671**	512,919
EUR	**287,668**	190,441
HKD	—	27,041

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(i) Foreign exchange risk (Continued)

The Group is mainly exposed to the fluctuation of HKD, USD and EUR against RMB. The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB exchange rates, with all other variables held constant, of the Group's profit after tax (due to changes in the fair value of monetary assets and liabilities).

	Increase/ (decrease) in RMB rate %	Increase/ (decrease) in profit after tax RMB'000	Increase/ (decrease) in equity* RMB'000
2018			
If the USD weakens against the RMB	5%	(16,277)	—
If the USD strengthens against the RMB	(5%)	16,277	—
If the EUR weakens against the RMB	5%	(315)	—
If the EUR strengthens against the RMB	(5%)	315	—
If the HKD weakens against the RMB	5%	(357)	(702)
If the HKD strengthens against the RMB	(5%)	357	702
2017			
If the USD weakens against the RMB	5%	(6,689)	—
If the USD strengthens against the RMB	(5%)	6,689	—
If the EUR weakens against the RMB	5%	(5,500)	—
If the EUR strengthens against the RMB	(5%)	5,500	—
If the HKD weakens against the RMB	5%	(2,392)	(1,106)
If the HKD strengthens against the RMB	(5%)	2,392	1,106

* Excluding retained profits

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from short-term and long-term interest bearing borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2018, the Group's short-term and long-term interest bearing borrowings denominated with floating rates amounted to RMB1,476,160 thousands, which represented 20% of total borrowing balance (31 December 2017: RMB1,166,360 thousands as above, representing 15% of total borrowing balance).

The Group's finance department at its headquarter continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's consolidated statement of financial position. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. For the year ended 31 December 2018 and 2017, the Group did not enter into any interest rate swap agreements.

As at 31 December 2018, if interest rates on the floating rate borrowings had risen/fallen by 50 basis points while all other variables had been held constant, the Group's net profit would have decreased/increased by approximately RMB5,512 thousands as above (31 December 2017: RMB2,250 thousands as above), mainly as a result of higher/lower interest expense on floating rate borrowings.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(iii) Equity price risk

The Group's equity price risk is mainly exposed to equity price risk through its investments in listed equity securities. The Group's equity price risk is mainly concentrated on equity instruments quoted in the Shanghai Stock Exchange and Hong Kong Stock Exchange. The Group closely monitors the price risk and will consider hedging the risk exposure should the need arise. The Group also diversifies its portfolio to manage its price risk arising from investments in equity securities. Diversification of the portfolio is done in accordance with the limits set by the Group.

The sensitivity analyses below have been determined based on the exposure to equity price risk at the end of the reporting period. If the prices of the respective listed equity instruments had been 10% (2017: 10%) higher/lower, the total comprehensive income for the year ended 31 December 2018 would have increased/decreased by approximately RMB22,246 thousands as above (2017: RMB33,302 thousands as above) as a result of the changes in fair value of the listed equity instruments.

(b) Credit risk

(i) Risk management

Credit risk is managed on group basis. It mainly arises from cash and cash equivalents, structured bank deposits, pledged bank deposits, trade receivables, other receivables, other financial assets at amortised cost, bills receivable and financial guarantee contracts, etc.

The Group has policies to limit the credit exposure on trade receivables, other receivables, other financial assets at amortised cost and bills receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. Management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

3 **FINANCIAL RISK MANAGEMENT** *(Continued)*

3.1 **Financial risk factors** *(Continued)*

(b) **Credit risk** *(Continued)*

(i) ***Risk management*** *(Continued)*

The Group has concentration of credit risk in respect of bank balances, structured bank deposits and pledged bank deposits. As at 31 December 2018, approximately 70% (2017: 51%) of the total bank balances, structured bank deposits and pledged bank deposits were deposited at 9 (2017: 3) banks, with deposits at each bank with a balance exceeding 8% (2017: 10%) of total bank balances, structured bank deposits and pledged bank deposits. The credit risk on liquid funds is limited because the majority of counterparties are banks with high credit ratings assigned by international credit-rating agencies or state-owned banks with good reputation.

Other than concentration of the credit risk on liquid funds which are deposited with several banks with high credit ratings, the Group also has concentration of credit risks with exposure limited to certain counterparties and customers. As at 31 December 2018, trade receivables from five customers engaged in the wind milling industry accounted for approximately 48% (2017: 38%) of the Group's trade receivables and bills receivable. Apart from delegating a team for determining the credit limits, credit approval and other monitoring procedures on customers, the Group had also explored new markets and new customers in order to minimise the concentration of credit risk. Other than the above, there is no other concentration of credit risk on the Group's trade and bills receivable.

For other receivables and other financial assets at amortised cost, management makes periodic collective assessment as well as individual assessment on the recoverability of other receivables and other financial assets at amortised cost based on historical settlement records and experience. The directors believe that there is no material credit risk inherent in the Group's outstanding balance of other receivables and other financial assets at amortised cost.

In this regard, the directors of the Group consider that the Group's credit risk is significantly reduced.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets

The Group has four types of financial assets that are subject to the expected credit loss model:

- trade receivables for sales of goods,
- other receivables carried at amortised cost,
- bills receivable carried at FVOCI, and
- financial guarantee contracts

The Group was required to revise its impairment methodology under IFRS 9 for each of these classes of assets.

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. This resulted in an increase of the loss allowance on 1 January 2018 by RMB64,322 thousands as above (Note 2.2.2).

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 48 month before 31 December 2018 or 1 January 2018 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables. The Group has identified the Gross Domestic Product ("GDP") and Producer Price Index ("PPI") in which it sells its goods to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

On that basis, the loss allowance as at 31 December 2018 and 1 January 2018 (on adoption of IFRS 9) was determined as follows for trade receivables:

31 December 2018	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 4 years RMB'000	Over 4 years RMB'000	Total RMB'000
Expected credit loss rate	2%	16%	24%	77%	100%	9%
Gross carrying amount – trade receivables	4,038,831	391,590	183,972	59,803	217,059	4,891,255
Loss allowance under ECL model	75,008	62,662	44,668	46,335	217,059	445,732
100% specifically provided	26,734	56,462	6,510	269	681	90,656
Loss allowance	101,742	119,124	51,178	46,604	217,740	536,388

1 January 2018	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 3 years RMB'000	Between 3 and 4 years RMB'000	Over 4 years RMB'000	Total RMB'000
Expected credit loss rate	2%	10%	31%	76%	100%	11%
Gross carrying amount – trade receivables	3,860,838	656,438	206,262	100,110	289,045	5,112,693
Loss allowance under ECL model	61,653	67,454	62,936	75,847	289,045	556,935
100% specifically provided	75,505	7,030	269	529	152	83,485
Loss allowance	137,158	74,484	63,205	76,376	289,197	640,420

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets (Continued)

Trade receivables (Continued)

The closing loss allowances for trade receivables as at 31 December 2018 reconcile to the opening loss allowances as follows:

	Trade receivables RMB'000
As at 31 December 2017 – calculated under IAS 39	576,098
Amounts restated through opening retained earnings	64,322
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	640,420
Provision for loss allowance recognised in profit or loss	34,937
Receivables written off during the year as uncollectible	(7,782)
Transferred to disposal group classified as held-for-sale	(131,187)
As at 31 December 2018 – calculated under IFRS 9	536,388

For the year ended 31 December 2018, the provision for loss allowance were recognised in profit or loss in net impairment losses on financial assets within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

*(ii) **Impairment of financial assets** (Continued)*

Financial assets at amortised cost (excluding trade receivables)

Financial assets at amortised cost (excluding trade receivables) include other receivables and other financial assets at amortised cost.

The Group uses three-stage model for financial assets at amortised cost (excluding trade receivables) which reflect their credit risk and how the expected credit loss provision is determined for each of those categories. The Group accounts for its credit risk by providing for lifetime expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers both historical loss rates and forward looking macroeconomic data. A summary of the assumptions underpinning the Group's expected credit loss model is as follow:

Category	Group definition of category	Basis for recognition of expected credit loss provision	Expected credit loss rate
Stage one	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected credit losses. Where the lifetime of an asset is less than 12 months, losses are measured at its expected lifetime	0% - 0.5%
Stage two	Receivables for which there is a significant increase in credit risk since initial recognition	Lifetime expected credit losses	0.5% - 5%
Stage three	Receivables for which there is credit loss since initial recognition	Lifetime expected credit losses	5% - 50%

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets (Continued)

Financial assets at amortised cost (excluding trade receivables) (Continued)

The closing loss allowance provision for other financial assets at amortised cost as at 31 December 2018 reconciles to the opening loss allowance for that provision as follows:

	Other receivables RMB'000
As at 31 December 2017 – calculated under IAS 39	16,470
Amounts restated through opening retained earnings	—
Opening loss allowance as at 1 January 2018 – calculated under IFRS 9	16,470
Provision for loss allowance recognised in profit or loss	17,778
Amount written off as uncollectible	(7,656)
Transferred to disposal group classified as held-for-sale	(3,083)
As at 31 December 2018 – calculated under IFRS 9	23,509

For year ended 31 December 2018, the provision for loss allowance were recognised in profit or loss in net impairment losses on financial assets in relation to the financial assets at amortised cost (excluding trade receivables).

3 **FINANCIAL RISK MANAGEMENT** *(Continued)*

3.1 **Financial risk factors** *(Continued)*

(b) **Credit risk** *(Continued)*

(ii) ***Impairment of financial assets*** *(Continued)*

Previous accounting policy for impairment of receivables

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor
- probability that the debtor will enter bankruptcy or financial reorganisation, and
- default or late payments (more than 180 days overdue).

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

Bills receivable carried at FVOCI

The Group expects that there is no significant credit risk associated with bills receivable since they are held with state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

Financial guarantee contracts

Management considered the internal credit risk of financial guarantee contracts were performing as they have a low risk of default and the counterparties have a strong capacity to meet its contractual payment obligations in the near term, and thus the impairment provision recognised during the period was limited to 12 months expected losses. For year ended 31 December 2018, no provision for loss allowance were recognised in profit or loss in net impairment losses on financial assets in relation to the financial guarantee contracts.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets *(Continued)*

Cash and cash equivalents and pledged bank deposit

Cash and cash equivalents and pledged bank deposits are also subject to the impairment requirements of IFRS 9, the identified impairment loss was not material.

Net impairment losses on financial recognised in profit or loss

For the year ended 31 December 2018 and 2017, the following gains/(losses) were recognised in profit or loss in relation to impaired financial assets:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
From continuing operations:		
Impairment losses for trade receivables	**41,320**	47,180
Impairment losses for other receivables	**15,739**	14,450
	57,059	61,630
From discontinued operations:		
Loss from discontinued operation (Note 29)	**(4,344)**	60,653
Net impairment losses on financial assets	**52,715**	122,283

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(iii) Financial assets at FVPL

As at 31 December 2018, the Group is also exposed to credit risk in relation to debt investments that are measured at FVPL. The maximum exposure at the end of the reporting period is the carrying amount of these investments, which is RMB1,983,279 thousands as above (2017: RMB108,000 thousands as above).

(c) Liquidity risk

Cash flow forecast is performed by the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations, the renewal of its short-term bank loans and its ability to obtain adequate external financing to support its working capital and meet its debt obligation when they become due.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. As at 31 December 2018, the Group held cash and cash equivalents of RMB2,062,624 thousands as above (31 December 2017: RMB4,030,409 thousands as above) (Note 28) and trade receivables of RMB4,445,523 thousands as above (31 December 2017: RMB4,620,080 thousands as above) (Note 25), that are expected to readily generate cash inflows for managing liquidity risk.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

The table below analyses the Group's financial liabilities into relevant maturity Groupings based on the remaining period at the date of statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The table includes both interest and principal cash flows. To the extent that interest flows are floating rates, the undiscounted amount is derived from interest rate curve at the end of the reporting period.

Contractual maturities of financial liabilities as at 31 December 2018	**Less than 1 year RMB'000**	**Between 1 and 2 years RMB'000**	**Between 2 and 5 years RMB'000**	**Over 5 years RMB'000**	**Total RMB'000**
Non-derivatives					
Borrowings	5,251,410	165,260	2,673,117	—	8,089,787
Trade payables	1,716,846	—	—	—	1,716,846
Bills payable	4,526,958	—	—	—	4,526,958
Other payables	699,101	—	—	—	699,101
Financial guarantee contracts	656,671	7,221	21,663	124,835	810,390
	12,850,986	172,481	2,694,780	124,835	15,843,082

Contractual maturities of financial liabilities as at 31 December 2017	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Non-derivatives					
Borrowings	5,673,773	164,647	2,650,553	—	8,488,973
Trade payables	1,855,137	—	—	—	1,855,137
Bills payable	4,781,908	—	—	—	4,781,908
Other payables	455,826	—	—	—	455,826
Financial guarantee contracts	214,867	—	30,576	140,575	386,018
	12,981,511	164,647	2,681,129	140,575	15,967,862

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

The amounts included above for variable interest rate instruments for non-derivative financial liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of each reporting period.

The amount included above for financial guarantee contracts are the maximum amounts the Group could be required to settle under the arrangement for the full guaranteed amount if that amount is claimed by the counterparty to the guarantee for loans procured by the purchasers of the Group's properties. Based on the expectations at the end of the reporting period, the Group considers that no amount will be payable under the arrangement. However, this estimate is subject to change depending on the probability of the counterparty claiming under the guarantee which is a function of the likelihood that the financial receivables held by the counterparty which are guaranteed suffer credit losses.

3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or debts, redeem the existing debts, or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total liabilities divided by total assets.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Capital management *(Continued)*

The gearing ratios as at 31 December 2018 and 2017 are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Total assets	**26,748,539**	27,438,175
Total liabilities	**15,883,275**	16,462,174
Gearing ratio	**59.4%**	60.0%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2018 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.
- The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

The following table set out the Group's financial assets that were measured at fair value as at 31 December 2018 and 2017:

Recurring fair value measurements As at 31 December 2018	**Level 1 RMB'000**	**Level 2 RMB'000**	**Level 3 RMB'000**	**Total RMB'000**
Financial assets				
Financial assets at FVPL	—	—	2,512,196	2,512,196
Financial assets at FVOCI	292,507	—	3,624,403	3,916,910
	292,507	—	6,136,599	6,429,106

Recurring fair value measurements As at 31 December 2017	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Available-for-sale financial assets	436,660	—	—	436,660

The management obtains valuation quotations from counterparties or uses valuation techniques to determine the fair values of financial instruments except as detailed above, including the discounted cash flow analysis and market comparison approach, etc. The fair values of these financial instruments may be based on unobservable inputs which may have significant impact on the valuation of these financial instruments, and therefore have been classified by the Group as level 3. The unobservable inputs which may have impact on the valuation include weighted average cost of capital, liquidity discount, price to book ratio and etc.

There were no transfers among levels during the year ended 31 December 2018.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(i) Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the years ended 31 December 2018 and 31 December 2017:

	Financial assets at FVPL					Financial assets at FVOCI		Financial assets
	Unlisted equity investments RMB'000	Unlisted Debt investments RMB'000	Trade receivables RMB'000	Derivatives instrument RMB'000	Structured bank deposits RMB'000	Unlisted equity investments RMB'000	Bills receivables RMB'000	Total RMB'000
Opening balance 1 January 2017	—	—	—	—	—	—	—	—
Acquisitions	—	—	—	—	—	—	—	—
Disposals	—	—	—	—	—	—	—	—
Gains/(losses) recognised in profit or loss	—	—	—	—	—	—	—	—
Gains/(losses) recognised in other comprehensive income	—	—	—	—	—	—	—	—
Closing balance 31 December 2017	–	–	–	–	–	–	–	–
Change in accounting policy	519,487	—	—	500,000	108,000	2,228,478	1,863,434	5,219,399
Opening balance 1 January 2018	519,487	—	—	500,000	108,000	2,228,478	1,863,434	5,219,399
Acquisitions	—	454,752	558,300	—	933,000	5,000	1,382,219	3,333,271
Disposals	(536,228)	—	—	—	(108,000)	(2,151)	(1,895,179)	(2,541,558)
Transferred to disposal group classified as held-for-sale (Note 29)	—	—	—	—	—	(2,002)	—	(2,002)
Gains/(losses) recognised in profit or loss	27,056	30,320	(7,243)	18,602	14,150	—	—	82,885
Gains recognised in other comprehensive income	—	—	—	—	—	29,287	15,317	44,604
Closing balance 31 December 2018	10,315	485,072	551,057	518,602	947,150	2,258,612	1,365,791	6,136,599

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(ii) Valuation inputs and relationships to fair value

Financial instruments	Fair value hierarchy	Valuation Techniques and key inputs	Significant Unobservable inputs	Relationship of unobservable inputs to fair value
Financial assets at FVPL				
– Unlisted equity investments – Unlisted debt securities – Trade receivables – Structured bank deposits	Level 3	Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level	Expected future cash flow; expected recovery date; discounted rates that correspond to the expected risk level	The higher the future cash flow, the higher the fair value; the earlier the recovery date, the higher the fair value; the lower the discount rate, the higher the fair value
Financial assets at FVOCI				
– Unlisted equity investments – Bills receivable	Level 3	Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level	Expected future cash flow; expected recovery date; discounted rates that correspond to the expected risk level	The higher the future cash flow, the higher the fair value; the earlier the recovery date, the higher the fair value; the lower the discount rate, the higher the fair value

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(iii) Sensitivity analyses

The sensitivity analysis below has been determined based on the change of rate of return in isolation used in the expected future cash flow that reflect the expected risk level of the financial assets at the end of the reporting period. If the respective rate of return of the respective financial assets had been 10% higher/lower, the total comprehensive income (net of tax), for the year ended 31 December 2018 would have increased/decreased by approximately RMB10,892 thousands as a result of the changes in fair value of the financial assets.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Estimation of the fair value of certain financial assets

The fair value of financial instruments that are not traded in an active market is determined using valuation techniques. The Group uses its judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(b) Expected credit loss for receivables

The impairment provision for trade receivables, bills receivable and other receivables are based on assumptions about the expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period. For details of the key assumptions and inputs used, see Note 2.2, Note 2.13 and Note 3.1(b) (ii). Changes in these assumptions and estimates could materially affect the result of the assessment and to may be necessary to make additional impairment charge to the consolidated income statement.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(c) Net realisable value ("NRV") of inventories

The NRV is determined based on the estimated selling prices less the estimated costs to completion, if relevant, other costs necessary to make the sale, and the related taxes. Determination of estimated selling prices requires significant management judgement, taking into consideration of historical selling prices and future market trend. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than the estimate.

(d) Impairments for non-financial assets

In determining the value in use, expected cash flows generated by the non-financial assets or the cash-generating unit are discounted to their present value. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(e) Useful life and residual value of property, plant and equipment

Property, plant and equipment, are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. Management reviews the estimated useful lives of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets, taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

(f) Estimation of provision for warranty claims

The Group generally offers 36-66 months warranties for its mechanical transmission equipments. Management estimates the related provision for future warranty claims based on historical warranty claim information, as well as recent trends that might suggest that past cost information may differ from future claims. The assumptions made in relation to the current period are consistent with those in the prior year. Factors that could impact the estimated claim information include the success of the Group's productivity and quality initiatives, as well as parts and labour costs. As at 31 December 2018, this particular provision had a carrying amount of RMB162,901 thousands (2017: RMB120,664 thousands).

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(g) Current and deferred income taxes

The Group is subject to income taxes in a number of jurisdictions. Significant judgement is required in determining the provision for income taxes in various jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

(h) Withholding tax arising from the distribution of dividends

The Group's determination, as to whether to accrue withholding taxes arising from the distributions of dividends by certain subsidiaries according to the relevant tax rules enacted in the jurisdictions, is subject to judgement on the plan of the distribution of dividends. As at 31 December 2018, the carrying value of deferred tax liabilities relating to withholding tax was approximately RMB49,087 thousands (2017: RMB60,669 thousands).

5 OPERATING SEGMENT INFORMATION

The Group is organised in one business division only. The Group's chief operating decision maker (the "CODM"), being the Company's Board of Directors, make decisions according to the revenue and operating results of each geographical area by location of customers and the related reports on the ageing analysis of trade and bills receivables for the purposes of resource allocation and performance assessment. Accordingly, the Group's operating segments are based on geographical location of customers.

No information of liabilities is provided to CODM for the assessment of performance of different geographical area. Therefore, only segment revenue, segment results and segment assets are presented.

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

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2.6. Segment results represent the gross profit (including depreciation of production plants), government grants, sales of scraps and materials, and selling and distribution expenses earned/incurred by each segment. The remaining items in the profit or loss are unallocated.

5 OPERATING SEGMENT INFORMATION *(Continued)*

Only trade receivables and bills receivable of each segment are reported to the CODM for the purposes of resources allocation and performance assessment. Hence, total segment assets represent the trade and bills receivable of the Group while the unallocated assets represent the assets of the Group excluding trade and bills receivable. The related impairment loss on trade and bills receivable is not reported to the CODM as part of segment results.

(a) Segment information

Year ended 31 December 2018	PRC RMB'000	USA RMB'000	Europe RMB'000	Other countries RMB'000	Total RMB'000
Segment revenue					
Total segment revenue	7,680,083	1,866,388	459,020	536,670	10,542,161
Inter segment revenue	(2,279,964)	(58,697)	—	—	(2,338,661)
Revenue from external customers	5,400,119	1,807,691	459,020	536,670	8,203,500
Timing of revenue recognition					
At a point in time	5,400,119	1,807,691	459,020	536,670	8,203,500
Segment results	817,220	322,124	79,273	87,640	1,306,257
Unallocated other income					141,664
Unallocated other gains - net					192,107
Unallocated impairment losses on financial assets					(57,059)
Finance costs - net					(487,068)
Share of profits and losses of associates and joint ventures					15,884
Corporation and other unallocated expenses					(832,002)
Profit before income tax					279,783

5 OPERATING SEGMENT INFORMATION *(Continued)*

(a) Segment information *(Continued)*

Year ended 31 December 2018	PRC RMB'000	USA RMB'000	Europe RMB'000	Other countries RMB'000	Total RMB'000
Segment assets	5,579,604	57,343	45,411	131,621	5,813,979
Corporate and other unallocated assets					20,934,560
Total assets					26,748,539
Other segment information					
Write-down of inventories	(10,566)				(10,566)
Impairment losses on financial assets	57,196	(126)	(2)	(9)	57,059
Other Impairment losses	16,076				16,076
Depreciation and amortisation	460,900	8,596	1,218	310	471,024
Capital expenditure	678,077	12,172	992	125	691,366

5 OPERATING SEGMENT INFORMATION *(Continued)*

(a) Segment information *(Continued)*

Year ended 31 December 2017	PRC	USA	Europe	Other countries	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment revenue					
Total segment revenue	7,531,527	1,986,955	364,977	334,764	10,218,223
Inter segment revenue	(2,172,837)	(54,782)	—	—	(2,227,619)
Revenue from external customers	5,358,690	1,932,173	364,977	334,764	7,990,604
Segment results	1,402,270	489,630	67,355	78,913	2,038,168
Unallocated other income					44,775
Unallocated other gains - net					305,836
Unallocated impairment losses on financial assets					(61,630)
Finance costs-net					(438,639)
Share of profits and losses of associates and joint ventures					83,931
Corporation and other unallocated expenses					(856,784)
Profit before income tax					1,115,657

5 OPERATING SEGMENT INFORMATION *(Continued)*

(a) Segment information *(Continued)*

Year ended 31 December 2017	PRC	USA	Europe	Other countries	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Segment assets	6,114,535	157,480	96,857	146,387	6,515,259
Corporate and other unallocated assets					20,922,916
Total assets					27,438,175
Other segment information					
Write-down of inventories	135,368	—	—	2,686	138,054
Impairment losses on financial assets	61,630	—	—	—	61,630
Other impairment losses	31,213	—	—	—	31,213
Depreciation and amortisation	455,563	6,942	1,455	179	464,139
Capital expenditure	530,181	157	1,648	206	532,192

(b) Other geographical information

Non-current assets by the locations of the assets and excludes financial assets at FVOCI (2017: available-for-sale investments), financial assets at FVPL, other financial assets at amortised cost and deferred tax assets are detailed below:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
PRC	**4,714,493**	5,372,805
USA	**159,705**	155,342
Europe	**3,306**	3,185
Other countries	**20,296**	39,507
	4,897,800	5,570,839

5 OPERATING SEGMENT INFORMATION *(Continued)*

(c) Revenue from major products and services

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wind gear transmission equipment	**6,896,966**	6,803,417
Industrial gear transmission equipment	**1,298,567**	1,001,004
Other products	**7,967**	186,183
	8,203,500	7,990,604

(d) Information about major customers

Revenue from customers of the corresponding years individually amounted to over 10% of the total sales of the Group is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Customer A (i)	**3,001,454**	2,603,785
Customer B (ii)	**1,051,823**	N/A

(i) Revenue from sale of wind and industrial gear transmission equipment in the segments of PRC, USA, Europe and other countries.

(ii) Revenue from sale of wind gear transmission equipment in the PRC segment.

6 OTHER INCOME

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Dividends(i)	83,176	7,813
Interest income(ii)	36,919	31,650
Government grants (iii)	36,072	19,866
– Deferred income recognised (Note 34)	20,418	7,538
– Other government subsidies	15,654	12,328
Sale of scraps and material	23,357	29,821
Gross rental income	12,246	9,176
Investment income	—	34,841
Others	18,109	2,445
	209,879	135,612

(i) Dividends

Dividends are received from financial assets measured at FVPL and at FVOCI (2017 – from financial assets at FVPL and available-for-sale financial assets).

(ii) Total interest income on financial assets that are measured at amortised cost for the year was RMB36,919 thousands (2017: RMB31,650 thousands interest income from financial assets not measured at FVPL).

(iii) Government grants

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. See Note 34 for further details.

There are no unfulfilled conditions or the contingencies attaching to these grants.

7 OTHER GAINS - NET

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
(Losses)/gains on disposal of property, plant and equipment, net	(1,442)	905
Gains on disposal of a subsidiary, net (Note 42)	69,362	129,608
(Losses)/gains on disposal of associates, net	(583)	58
Foreign exchange differences, net	38,434	16,613
Net fair value gains on financial assets at FVPL (Note 27)	82,885	—
Net gain on sale of available-for-sale financial assets	—	3,666
Gain on land resumption (i)	—	159,163
Others	3,451	(4,177)
	192,107	305,836

(i) On 14 March 2015, Nanjing High Speed entered into an agreement (the "Land Resumption Agreement") with the local district government of Jiangning. Pursuant to the Land Resumption Agreement, Nanjing High Speed returned the land to the Jiangning Government (the "Land Resumption") with a consideration of RMB1.3 billion, paid by the Jiangning Government by three instalments. For the year ended 31 December 2017, the Land Resumption was completed and the Group received all the consideration. By crediting all the related costs, the net gain on the Land Resumption was RMB159,163 thousands.

8 EXPENSES BY NATURE

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cost of inventories sold	5,522,586	4,385,434
Employee benefits expenses (Note 9)	1,253,724	1,264,981
Depreciation (Note 14)	423,191	412,617
Amortisation of intangible assets (Note 17)	15,964	24,640
Amortisation of land lease prepayments (Note 15)	13,477	13,295
Auditors remuneration	4,000	4,200
(Reversal of) provision recognised for decline in the value of inventories (Note 24)	(10,566)	138,054
Other expense	575,084	656,836
Total cost of sales, selling and distribution expenses, research and development costs and administrative expenses	7,797,460	6,900,057

9 EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Wages and salaries	897,294	905,653
Pension scheme contributions	116,513	108,462
Other benefit	239,917	250,866
Total employee benefit expense	1,253,724	1,264,981

9 EMPLOYEE BENEFIT EXPENSE *(Continued)*

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the group for the year include three (2017: five) directors whose emoluments are reflected in the analysis shown in Note 47. The emoluments payable to the remaining two (2017: nil) individuals during the year are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Salaries, allowances and benefits	**8,544**	—
Pension scheme contributions	**106**	—
	8,650	—

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
HK$3,500,001 to HK$4,000,000 (equivalent to RMB3,067,001 to RMB3,505,000)	**1**	—
HK$6,000,001 to HK$6,500,000 (equivalent to RMB5,257,001 to RMB5,695,000)	**1**	—

10 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Interest income	**143,895**	116,141
Finance income	**143,895**	116,141
Interest expense	**(618,150)**	(508,223)
Net exchange losses	**(12,813)**	(46,557)
Finance costs	**(630,963)**	(554,780)
Finance costs – net	**(487,068)**	(438,639)

11 INCOME TAX EXPENSES

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Current income tax – charge for the year	20,083	208,199
– PRC	14,057	124,129
– Hong Kong	5,435	84,070
– Singapore	591	—
Deferred taxation	(9,302)	(34,342)
Income tax expense	10,781	173,857

A reconciliation of the expected income tax calculated at the applicable tax rate and total profit, with the actual income tax is as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	279,783	1,115,657
Tax calculated at statutory tax rate of 25%	69,946	278,914
Tax effect of:		
Lower tax rate for specific provinces or enacted by local authority	(42,834)	(133,782)
Overprovision in respect of prior years	(10,254)	(8,488)
Share of profit of investments accounted for using the equity method	(3,971)	(20,983)
Other non-taxable income	(22,467)	(40,944)
Non-deductible loss, expenses and costs	23,353	20,390
Utilisation of previously unrecognised tax losses	—	(3,578)
Tax losses for which no deferred income tax assets was recognised	16,270	74,786
Temporary differences for which no deferred income tax assets was recognised in current year	12,963	5,938
Additional deduction of research and development expenses	(33,693)	(9,978)
Withholding tax at 5% on the undistributed earnings of the PRC subsidiaries	1,468	11,582
Actual income tax	10,781	173,857

11 INCOME TAX EXPENSES *(Continued)*

(a) PRC corporate income tax

PRC corporate income tax has been provided at the rate of 25% (2017: 25%) on the taxable profits of the Group's PRC subsidiaries for the year ended 31 December 2018.

The following subsidiaries are qualified as high technology development enterprises and thus subject to a preferential tax rate of 15% for 3 years from the date of approval:

Name of company	Year ended during which approval was obtained	Year ended/ending during which approval will expire/expired
Nanjing High Speed Gear Manufacturing Co., Ltd.	31 December 2017	31 December 2019
Nanjing High Speed & Accurate Gear (Group) Co., Ltd.	31 December 2017	31 December 2019
Nanjing High Accurate Rail Transportation Equipment Co., Ltd.	31 December 2017	31 December 2019

(b) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2018 (2017: 16.5%).

(c) Singapore corporate income tax

Singapore corporate income tax has been provided at the rate of 17% on the estimated assessable profits arising in Singapore for the year ended 31 December 2018 (2017: nil).

(d) Others corporate income tax

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of Cayman Islands and, accordingly, is exempted from payment of Cayman Islands income tax.

11 INCOME TAX EXPENSES *(Continued)*

(e) Withholding tax

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to 5% withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008. The aggregate amount of temporary differences associated with unremitted earnings of RMB6,485 million (31 December 2017: RMB6,327 million) of investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised totalled approximately RMB324 million as at 31 December 2018 (2017: RMB316 million), in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

12 EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit from continuing operations attributable to the owners of the Company	**282,805**	948,090
Loss from discontinued operation	**(74,404)**	(496,391)
Net profit attributable to the owners of the Company	**208,401**	451,699
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	**1,635,291**	1,635,291
Basic earnings per share (RMB per share)		
From continuing operations attributable to the ordinary equity holders of the company	**0.173**	0.580
From discontinued operation	**(0.045)**	(0.304)
	0.128	0.276

No adjustment is made to the diluted earnings per share for the years ended 31 December 2018 and 31 December 2017 as there was no potential dilutive shares in issue.

13 DIVIDENDS

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Final proposed – HK 8 cents (2017: HK 18 cents per share)	**114,627**	239,103

The proposed final dividend for the year is subject to the approval of the Company's shareholders at the forthcoming annual general meeting.

The final dividend in respect of the year ended 31 December 2017 was proposed by the directors of the Company on 29 March 2018, and subsequently approved at the annual general meeting on 18 May 2018 and recognised as distribution during the year ended 31 December 2018.

14 PROPERTY, PLANT AND EQUIPMENT

	Freehold land and buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture and fixtures RMB'000	Transport-ation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 1 January 2017							
Cost	2,440,678	23,259	5,095,596	272,876	269,497	949,085	9,050,991
Accumulated depreciation	(492,786)	(8,261)	(2,974,917)	(191,788)	(242,793)	(23,651)	(3,934,196)
Net book amount	1,947,892	14,998	2,120,679	81,088	26,704	925,434	5,116,795
Year ended 31 December 2017							
Opening net book amount	1,947,892	14,998	2,120,679	81,088	26,704	925,434	5,116,795
Transferred from construction in progress	142,806	—	102,866	7,938	37,283	(290,893)	—
Other additions	—	—	37,461	35,620	1,567	453,039	527,687
Acquisition of subsidiaries	238,663	—	514,136	4,066	2,057	25,000	783,922
Depreciation	(74,680)	(5,501)	(378,742)	(21,108)	(9,983)	—	(490,014)
Disposal of subsidiaries	(428,390)	—	(442,925)	(6,724)	(1,402)	(228,700)	(1,108,141)
Disposals	—	—	(50,062)	(7,366)	(1,438)	—	(58,866)
Land resumption (Note 7)	(171,714)	—	(38,821)	(1,205)	(3,062)	—	(214,802)
Impairment provided for the year	(102)	—	(107,485)	(3,636)	(414)	(30,408)	(142,045)
Closing net book amount	1,654,475	9,497	1,757,107	88,673	51,312	853,472	4,414,536
As at 31 December 2017							
Cost	2,105,331	23,259	4,858,981	277,775	247,242	907,533	8,420,121
Accumulated depreciation	(449,495)	(13,762)	(2,994,200)	(185,467)	(195,517)	(11,479)	(3,849,920)
Impairment loss	(1,361)	—	(107,674)	(3,635)	(413)	(42,582)	(155,665)
Net book amount	1,654,475	9,497	1,757,107	88,673	51,312	853,472	4,414,536

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

	Freehold land and buildings RMB'000	Leasehold improvements RMB'000	Machinery and equipment RMB'000	Furniture and fixtures RMB'000	Transport-ation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
As at 31 December 2017							
Cost	2,105,331	23,259	4,858,981	277,775	247,242	907,533	8,420,121
Accumulated depreciation	(449,495)	(13,762)	(2,994,200)	(185,467)	(195,517)	(11,479)	(3,849,920)
Impairment loss	(1,361)	—	(107,674)	(3,635)	(413)	(42,582)	(155,665)
Net book amount	1,654,475	9,497	1,757,107	88,673	51,312	853,472	4,414,536
Year ended 31 December 2018							
Opening net book amount	1,654,475	9,497	1,757,107	88,673	51,312	853,472	4,414,536
Transferred from construction in progress	2,273	11,809	310,664	2,543	54,449	(381,738)	—
Other additions	—	927	14,825	9,117	66	532,649	557,584
Acquisition of a subsidiary (Note 41)	—	223	118	284	234	—	859
Depreciation	(69,525)	(5,843)	(387,889)	(13,954)	(13,338)	—	(490,549)
Disposal of subsidiaries (Note 29, Note 42)	(76,826)	—	(2,333)	(136)	(620)	(35,447)	(115,362)
Disposals	—	—	(25,321)	(166)	(1,174)	(6,572)	(33,233)
Transferred to disposal group classified as held-for-sale (Note 29)	(275,688)	(4,896)	(167,206)	310	1	(71,420)	(518,899)
Currency translation differences	—	—	—	354	(7)	—	347
Closing net book amount	1,234,709	11,717	1,499,965	87,025	90,923	890,944	3,815,283
As at 31 December 2018							
Cost	1,581,315	18,842	4,633,951	257,452	288,916	903,118	7,683,594
Accumulated depreciation	(345,347)	(7,125)	(3,133,796)	(170,427)	(197,993)	—	(3,854,688)
Impairment loss	(1,259)	—	(190)	—	—	(12,174)	(13,623)
Net book amount	1,234,709	11,717	1,499,965	87,025	90,923	890,944	3,815,283

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation of property, plant and equipment has been charged to profit or loss and discontinued operation as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cost of sales	377,313	368,182
Selling and distribution expenses	3,986	3,673
Administrative expenses	32,417	38,479
Research and development costs	9,475	2,283
Other income	18,392	13,587
	441,583	426,204
Loss from discontinued operation (Note 29)	48,966	63,810
	490,549	490,014

The Group is in the process of obtaining property certificates for the buildings above with a carrying amount of RMB820,617 thousands (2017: RMB835,423 thousands) at the end of the reporting period.

The freehold land is located in the USA.

For the year ended 31 December 2017, impairment indicators were identified for the relevant non-current assets (including property, plant and equipment and intangible assets) relating to these cash-generating units (the "CGUs") of the machine tools, chips and diesel engine manufacturing and sales. The Group performed impairment test and recognised an impairment loss in profit or loss in aggregate of RMB142,045 thousands, because the recoverable amounts were lower than the carrying amounts of these CGUs.

15 LAND LEASE PREPAYMENTS

	Land use rights RMB'000
As at 1 January 2017	
Cost	782,617
Accumulated amortisation	(63,525)
Net book amount	719,092
Year ended 31 December 2017	
Opening net book amount	719,092
Additions	4,297
Acquisition of subsidiaries	112,790
Land resumption (Note 7)	(13,918)
Disposal of subsidiaries	(121,618)
Amortisation	(16,547)
Closing net book amount	684,096
As at 31 December 2017	
Cost	778,086
Accumulated amortisation	(93,990)
Net book amount	684,096
Year ended 31 December 2018	
Opening net book amount	684,096
Additions	91,755
Disposal of a subsidiary (Note 42)	(81,296)
Transferred to disposal group classified as held-for-sale (Note 29)	(134,776)
Amortisation	(16,492)
Closing net book amount	543,287
As at 31 December 2018	
Cost	615,710
Accumulated amortisation	(72,423)
Net book amount	543,287

15 LAND LEASE PREPAYMENTS *(Continued)*

The above prepaid land lease payments are land use rights located in the PRC. At 31 December 2018, the Group is in the process of obtaining land use rights certificates in respect of land use rights located in the PRC with a carrying amount of RMB247,655 thousands (2017: RMB185,940 thousands).

The amortisation of land lease prepayments has been charged to profit or loss and discontinued operation as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Cost of sales	**30**	—
Selling and distribution expenses	**9**	—
Administrative expenses	**13,438**	13,295
	13,477	13,295
Loss from discontinued operation (Note 29)	**3,015**	3,252
	16,492	16,547

16 GOODWILL

	RMB'000
As at 1 January 2017 and 31 December 2017	
Cost	17,715
Accumulated impairment	(14,724)
Net carrying amount as at 1 January 2017 and 31 December 2017	2,991
Addition from acquisition of a subsidiary (Note 43)	272
Transferred to disposal group classified as held-for-sale (Note 29)	(2,991)
Net carrying amount as at 31 December 2018	272

16 GOODWILL *(Continued)*

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the CGU of lighting engineering for impairment testing.

The recoverable amount of the lighting engineering CGU was determined based on a value-in-use calculation using cash flow projections based on financial budgets covering a five-year period approved by senior management. The discount rate applied to the cash flow projections was 11% (2017: 11%) and cash flows beyond the five-year period were extrapolated using a growth rate of 5% (2017: 5%), which was the same as the long term average growth rate of the infrastructure industry.

Assumptions were used in the value-in-use calculation of the engineering processing and manufacturing cash-generating units for 31 December 2018 and 2017. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.
- Discount rate – The discount rate used is before tax and reflects specific risks relating to the unit.

Based on the assessments, no goodwill as at 31 December 2018 was impaired.

17 INTANGIBLE ASSETS

	Technology know-how RMB'000	Research and development costs RMB'000	Total RMB'000
As at 1 January 2017			
Cost	41,782	758,731	800,513
Accumulated amortisation	(15,809)	(646,140)	(661,949)
Net book amount	25,973	112,591	138,564
Year ended 31 December 2017			
Opening net book amount	25,973	112,591	138,564
Additions	—	208	208
Disposal of subsidiaries	(410)	(20,649)	(21,059)
Amortisation	(2,596)	(24,735)	(27,331)
Impairment provided	(14,342)	(38,165)	(52,507)
Closing net book amount	8,625	29,250	37,875
As at 31 December 2017			
Cost	39,322	700,938	740,260
Accumulated amortisation	(16,355)	(633,523)	(649,878)
Impairment	(14,342)	(38,165)	(52,507)
Net book amount	8,625	29,250	37,875

17 INTANGIBLE ASSETS *(Continued)*

	Technology know-how RMB'000	Research and development costs RMB'000	Total RMB'000
Year ended 31 December 2018			
Opening net book amount	8,625	29,250	37,875
Disposal of subsidiaries (Note 29)	(3,591)	—	(3,591)
Amortisation	(1,037)	(16,272)	(17,309)
Transferred to disposal group classified as held-for-sale (Note 29)	(3,997)	308	(3,689)
Impairment reversed	—	1,539	1,539
Closing net book amount	—	14,825	14,825
As at 31 December 2018			
Cost	—	650,522	650,522
Accumulated amortisation	—	(635,697)	(635,697)
Net book amount	—	14,825	14,825

As detailed in Note 14, for the year ended 31 December 2017, the Group recognised an impairment loss of relevant intangible assets in profit or loss with an amount of RMB52,507 thousands.

The amortisation of intangible assets has been charged to profit or loss and discontinued operation as follows:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Administrative expenses	15,271	24,585
Research and development costs	693	55
	15,964	24,640
Loss from discontinued operation (Note 29)	1,345	2,691
	17,309	27,331

18 SUBSIDIARIES

Particulars of major subsidiaries of the Group are as follows:

Company	Place and date of incorporation and operation	Registered capital	Percentage of equity held by the Group %		Principal activities
			2018	2017	
Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate")	People's Republic of China ("PRC")/ Mainland China 16 August 2001	RMB693,800,000	100	100	Manufacture and sale of gear, gear box and fittings
Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed")	PRC/ Mainland China 8 July 2003	RMB2,000,000,000	100	100	Manufacture and sale of gear, gear box and fittings
Nanjing Ningkai Mechanical Co., Ltd.	PRC/Mainland China 19 November 2002	RMB41,077,000	85.83	85.83	Engineering processing and manufacturing
Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("Nanjing Drive")	PRC/ Mainland China 27 March 2007	USD500,644,000	100	100	Sale of gear box and fittings
China Transmission Holdings Limited	Hong Kong 7 November 2007	HKD100	100	100	Investment holding and sale of gear box and fittings
CHSTE (Beijing) Shougao Metallurgic Engineering & Equipment Co., Ltd. ("Beijing Shougao")**	PRC/ Mainland China 25 April 2008	RMB30,000,000	—	75	Metallurgical engineering and manufacturing
Nantong Diesel Engine Co., Ltd. ("Nantong Diesel")*	PRC/ Mainland China 27 November 1993	RMB300,000,000	—	89.36	Manufacture and sale of diesel engines
Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd. ("Gaochuan Sky")*	PRC/ Mainland China 27 February 1993	RMB26,000,000	—	99.16	Engineering processing and manufacturing

18 SUBSIDIARIES *(Continued)*

Particulars of major subsidiaries of the Group are as follows: (Continued)

Company	Place and date of incorporation and operation	Registered capital	Percentage of equity held by the Group %		Principal activities
			2018	2017	
Zhongchuan Heavy Duty Machine Tool Corporation Ltd. ("Zhongchuan Heavy Machine")*	PRC/ Mainland China 11 October 2010	USD31,380,000	—	90	Manufacture and sale of heavy duty machine tools
AE&E Nanjing Boiler Co., Ltd. ("Nanjing Boiler")*	PRC/ Mainland China 25 January 1991	RMB128,824,800	—	90	Manufacture and sale of industrial boilers, heat recovery equipment and related products
Nanjing Handa Import and Export Trading Co., Ltd.	PRC/ Mainland China 25 April 2012	RMB41,000,000	100	100	Trading business
Nanjing Gaote Gearbox Manufacturing Co., Ltd.	PRC/ Mainland China 26 November 2003	USD42,393,264	100	100	Manufacture and sale of gear, gear box and fittings
Nanjing Maifala Information Technology Co., Ltd.	PRC/ Mainland China 22 April 2016	RMB10,000,000	100	100	Sale of gear, gear box and fittings
Nanjing High Accurate Rail Transportation Equipment Co., Ltd.	PRC/ Mainland China 20 July 2011	RMB20,000,000	100	100	Manufacture and sale of gear, gear box and fittings
Nanjing Jiuyi Heavy Gearbox Manufacturing Co., Ltd.	PRC/ Mainland China 27 July 2011	RMB250,000,000	100	100	Manufacture and sale of gear, gear box and fittings
Tianjin Chuanzai Jingtong Financial Lease Co., Ltd.***	PRC/ Mainland China 23 December 2013	USD29,800,000	46.96	46.96	Rendering of financial lease service

18 SUBSIDIARIES *(Continued)*

Particulars of major subsidiaries of the Group are as follows: (Continued)

* For the year ended 31 December 2018, the Group transferred its entire equity interest in these subsidiaries to "Assets of disposal group classified as held-for-sale" and "Liabilities of disposal group classified as held-for-sale". Further details are included in Note 29 to the consolidated financial statements.

** For the year ended 31 December 2018, the Group disposed its entire equity interest in Beijing Shougao. Further details are included in Note 29 to the consolidated financial statements.

*** As at 31 December 2018, Tianjin Chuanzai Jintong Financial Leasing Co., Ltd. ("Tianjin Chuanzai") was considered as a subsidiary of the Group even though the Group has only 46.96% ownership interest. Based on the contractual arrangements between the Group and other investor, the Group has the power to appoint and remove the majority of the board of directors of Tianjin Chuanzai that has the power to direct the relevant activities of Tianjin Chuanzai. Therefore, the directors of the Company concluded that the Group has control over Tianjin Chuanzai.

The statutory financial statements of the above subsidiaries established in the PRC prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC, were not audited by PricewaterhouseCoopers LLP, Hong Kong or another member firm of the PricewaterhouseCoopers global network.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Associates		
– Share of net assets	**201,609**	140,701
– Goodwill on acquisition	**6,710**	6,205
– Contribution to an associate (Note 38)	**20,555**	11,108
	228,874	158,014
Joint ventures		
– Share of net assets	**189,945**	99,958
	418,819	257,972

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

The amounts recognised in the share of profit of investments accounted for using the equity method are as follows:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Associates	**11,145**	9,771
Joint ventures	**31,063**	74,160
Impairment losses provided for a joint venture	**(26,324)**	—
	15,884	83,931

(a) Investment in associates

	2018	2017
	RMB'000	RMB'000
As at 1 January	**158,014**	142,187
Addition	**120,734**	—
Contribution to an associate	**9,447**	11,108
Share of profit from continuing operations	**11,145**	9,771
Share of loss from discontinued operation	**(3,100)**	(4,634)
Cash dividends distribution	**(5,897)**	—
Disposal of an associate	**(583)**	—
Transferred to disposal group classified as held-for-sale (Note 29)	**(60,886)**	(418)
As at 31 December	**228,874**	158,014

The main addition of investment in associates include:

On 6 February 2018, the Group invested capital of RMB118,529 thousands in Zhongbang Finance Leasing (Jiangsu) Co., Ltd. ("Zhongbang Finance Leasing").

On 29 May 2018, the Group acquired 25.34% equity interest in Nanjing Zhiyuan Coal Mine Machinery Co., Ltd. at a consideration of RMB2,100 thousands.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(a) Investment in associates *(Continued)*

Principal activities of material associate as at 31 December 2018 and 2017 are as follows:

Name of entity	Place of business/ country of incorporation	% of ownership interest 2018	2017	Principal activities	Measurement method
Zhongbang Finance Leasing (Jiangsu) Co., Ltd. ("Zhongbang Finance Leasing")	PRC /Mainland China	37.21	—	Finance leasing	Equity
Nantong FLW Agriculture Equipment Co., Ltd. ("Nantong FLW")	PRC/ Mainland China	—	49.58	Manufacture and sale of agriculture equipment	Equity

Further details of the financial guarantees granted to an associate are given in note 43(b) to the consolidated financial statements.

As at 31 December 2018, the Group's investment in Nantong FLW was transferred to assets of disposal group classified as held-for-sale (Note 29).

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(a) Investment in associates *(Continued)*

Summarised financial information for material associates

Set out below are the summarised financial information for the above associates.

Summarised statement of financial position for material associates

Zhongbang Finance Leasing	**As at 31 December 2018 RMB'000**
Current	
Cash and cash equivalents	**370**
Other current assets (excluding cash)	**156,003**
Total current assets	**156,373**
Total current liabilities	**(67,634)**
Non-current	
Non-current assets	**241,109**
Non-current liabilities	**(550)**
Net Assets	**329,298**

Nantong FLW	As at 31 December 2017 RMB'000
Current	
Cash and cash equivalents	12,707
Other current assets (excluding cash)	65,483
Total current assets	78,190
Total current liabilities	(18,055)
Non-current	
Non-current assets	65,955
Net Assets	126,090

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(a) Investment in associates *(Continued)*

Summarised financial information for material associates *(Continued)*

Summarised income statement and statement of comprehensive income for material associates

Zhongbang Finance Leasing	Year ended 31 December 2018 RMB'000
Revenue	36,739
Post-tax profit from continuing operations	10,757
Total comprehensive income	10,757
Dividends declared by associate	—

Nantong FLW	Year ended 31 December 2017 RMB'000
Revenue	15,027
Post-tax loss	(9,347)
Total comprehensive income	(9,347)
Dividends declared by associate	—

The information above reflects the amounts presented in the financial statements of the associates (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(a) Investment in associates *(Continued)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in material associates

Reconciliation of summarised financial information for material associates

Zhongbang Finance Leasing	**2018**
	RMB'000
At the date of acquisition	**318,541**
Profit for the year	**10,757**
Closing net assets	**329,298**
% of ownership interest	**37.21**
Interest in associates	**122,532**
Carrying value	**122,532**

Summarised financial information for other associates

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Aggregate carrying value of investments at 31 December	**106,342**	94,029
Aggregate amounts of the Group's share of:		
Profit for the year	**4,042**	9,771
Total comprehensive income	**4,042**	9,771

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(b) Investment in joint ventures

	2018 RMB'000	2017 RMB'000
As at 1 January	**99,958**	1,008,254
Addition (Note 42)	**85,248**	—
Share of profit	**31,063**	74,160
Cash dividends distribution	—	(25,000)
Impairment losses provided for the year	**(26,324)**	—
Disposal	—	(957,456)
As at 31 December	**189,945**	99,958

Principal activities of material joint venture as at 31 December 2018 and 2017 are as follows:

Name of entity	Place of business/ country of incorporation	% of ownership interest	Principal activities	Measurement method
Nanjing High Accurate Construction Equipment Co., Ltd. ("Nanjing Construction")	PRC/ Mainland China	50	Metallurgical engineering and manufacturing	Equity

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(b) Investment in joint ventures *(Continued)*

Summarised financial information for material joint ventures

Set out below are the summarised financial information for joint ventures which are accounted for using the equity method.

Summarised statement of financial position for material joint ventures

Nanjing Construction	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current		
Cash and cash equivalents	90,461	77,177
Other current assets (excluding cash)	608,638	347,408
Total current assets	699,099	424,585
Total current liabilities	(514,245)	(297,359)
Non-current		
Non-current assets	2,938	1,069
Net Assets	187,792	128,295

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(b) Investment in joint ventures *(Continued)*

Summarised financial information for material joint ventures *(Continued)*

Summarised income statement and statement of comprehensive income for material joint ventures

Nanjing Construction	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Revenue	**621,340**	300,485
Post-tax profit from continuing operations	**59,497**	34,511
Total comprehensive income	**59,497**	34,511
Dividends declared by joint venture	—	25,000

The information above reflects the amounts presented in the financial statements of the joint ventures (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the joint ventures.

19 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(b) Investment in joint ventures *(Continued)*

Summarised financial information for material joint ventures *(Continued)*

Reconciliation of summarised financial information

Reconciliation of the summarised financial information presented to the carrying amount of its interest in material joint ventures

Reconciliation of summarised financial information for material joint ventures

Nanjing Construction	As at 31 December	
	2018 RMB'000	2017 RMB'000
Opening net assets 1 January	**128,295**	143,784
Profit for the year	**59,497**	34,511
Dividends distribution	**—**	(50,000)
Closing net assets	**187,792**	128,295
% of ownership interest	**50%**	50%
Interest in joint ventures	**93,896**	64,148
Carrying value	**93,896**	64,148

Summarised financial information for other joint ventures

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	Year ended 31 December	
	2018 RMB'000	2017 RMB'000
Aggregate carrying value of investments as at 31 December	**96,049**	35,810
Aggregate amounts of the Group's share of:		
Profit for the year	**1,315**	56,904
Total comprehensive income	**1,315**	56,904

20 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

		As at 31 December	
	Notes	2018	2017
Financial assets		RMB'000	RMB'000
Financial assets at amortised cost			
Trade receivables	25	**4,445,523**	4,620,080
Other receivables	25	**957,410**	1,584,960
Other financial assets at amortised cost	21	**723,188**	—
Bills receivable	25	**—**	1,895,179
Structured bank deposit	28	**—**	108,000
Pledged bank deposit	28	**2,922,234**	2,892,955
Cash and cash equivalents	28	**2,062,624**	4,030,409
Financial assets at FVOCI	22	**3,916,910**	—
Available-for-sale financial assets	22	**—**	3,612,278
Financial assets at FVPL	27	**2,512,196**	—
		17,540,085	18,743,861

		As at 31 December	
	Notes	2018	2017
Financial liabilities		RMB'000	RMB'000
Liabilities at amortised cost:			
Trade and other payables	32	**6,958,747**	7,103,979
Borrowings and corporate bonds	33	**7,372,957**	7,786,901
		14,331,704	14,890,880

The Group's exposure to various risks associated with the financial instruments is discussed in Note 3.1. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

21 OTHER FINANCIAL ASSETS AT AMORTISED COST

Financial assets at amortised cost include the following debt investments:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Non-current assets		
Insurance investment (i)	517,327	—
Current assets		
Corporate bond (ii)	205,861	—
	723,188	—

(i) Other financial assets at amortised cost of RMB583,174 thousands as at 31 December 2017 represented an advance made to an insurance company in the PRC with maturity at year 2018, which was classified as current asset at 31 December 2017 and included in other receivables, and carried interest at an annualised fixed rate at 6.33% per annum. The investment principal and interest was withdrew in 2018 upon maturity, and the Group renewed the contract and made the same principal of RMB500,000 thousands to the insurance company with a 5-year maturity at year 2023, carried interest at an annualised fixed rate at 6.50% per annum. Interest and the principal amount are repayable at the maturity date and it is stated at amortised cost less impairment, if any, at the end of the reporting period.

As at 31 December 2018, the carrying amount of other financial assets at amortised cost was RMB517,327 thousands.

(ii) On 26 April 2018, the Group acquired a corporate bond, issued by one of the Group's related parties in prior years, from an independent third party with the amount of approximately RMB205,861 thousands.

(iii) Impairment and risk exposure

Note 3.1 sets out information about the impairment of financial assets and the Group's exposure to credit risk.

All of the financial assets at amortised cost are denominated in RMB currency units. As a result, there is no exposure to foreign currency risk. There is also no exposure to price risk as the investments will be held to maturity.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(i) Classification of financial assets at FVOCI

Financial assets at FVOCI comprise:

- Equity securities which are not held for trading, and which the Group has irrevocably elected at initial recognition to recognise in this category. These are strategic investments and the Group considers this classification to be more relevant.
- Debt securities where the contractual cash flows are solely principal and interest and the objective of the Group's business model is achieved both by collecting contractual cash flows and selling financial assets.

(ii) Equity investments at FVOCI

Equity investments at FVOCI comprise the following individual investments:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Non-current assets		
Listed securities (a)	292,507	—
Unlisted securities (b)	2,255,947	—
	2,548,454	—
Current assets		
Unlisted securities	2,665	—
	2,551,119	—

In the prior financial year, the Group had designated equity investments as available-for-sale where management intended to hold them for the medium to long-term.

On disposal of these equity investments, any related balance within the FVOCI reserve is reclassified to retained earnings.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

(ii) Equity investments at FVOCI *(Continued)*

(a) Listed equity investments

The balances as at 31 December 2018 represent the fair values of equity shares of a portfolio of Hong Kong and Shanghai listed securities based on the closing prices of these securities quoted on the stock exchange of Hong Kong and Shanghai on that date. The directors of the Company consider that the closing prices of these securities are the fair values of the investments.

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Riyue Heavy Industry Co., Ltd.	**280,209**	—
Guodian Technology & Environment Group Co., Ltd.	**12,298**	—
	292,507	—

(b) Unlisted equity investments

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Zhejiang Zheshang Chanrong Equity Investment Fund L.P. *	**2,048,879**	—
Jiangsu Zhong Bang Business Factoring Co., Ltd.	**119,070**	—
Su Yin Financial Leasing Co., Ltd.	**82,147**	—
Others	**5,851**	—
	2,255,947	—

* On 17 April 2017, Nanjing Drive entered into a limited partnership agreement with thirty-four other partners in respect of the establishment of a permanent investment fund in the PRC named Zhejiang Zheshang Chanrong Equity Investment Fund L.P. ("Zhejiang Zheshang Chanrong") and the subscription of interest therein. Pursuant to the limited partnership agreement, the full registered capital contribution to the investment fund is RMB65,910,000 thousands, among which, RMB2,000,000 thousands was contributed by Nanjing Drive as a limited partner. As at 31 December 2017, RMB2,000,000 thousands had been paid up by Nanjing Drive to the investment fund.

As at 31 December 2018, the investment in Zhejiang Zheshang Chanrong had a fair value of RMB2,048,879 thousands and the fair value gain of RMB48,879 thousands was recognised in OCI for the year ended 31 December 2018.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

(iii) Debt investments at FVOCI

(a) Bills receivable carried at FVOCI

Bills receivable that are held for collection of contractual cash flows and for selling the financial assets are measured at FVOCI.

When bills receivable measured at FVOCI are derecognised, the cumulative gain or loss previously recognised in OCI is reclassified from equity to profit or loss and recognised in "Financial costs".

For the year ended 31 December 2018, fair value change of RMB15,317 thousands for bills receivable measured at FVOCI are recognised in OCI.

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Current assets		
Bills receivable	**1,365,791**	—

(iv) Amounts recognised in profit or loss and other comprehensive income

During the year, the following (losses)/gains were recognised in profit or loss and other comprehensive income.

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Losses recognised in other comprehensive income; (2017 relating to available-for-sale financial assets, see (vi) below)	**(70,202)**	(344,848)
Dividends from equity investments held at FVOCI recognised in profit or loss in other income (Note 6)	**46,901**	—

(v) Current assets pledged as security

Refer to Note 40 for information on current assets pledged as security by the Group.

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

(vi) Fair value, impairment and risk exposure

Information about the Group's exposure to equity price risk is provided in Note 3.1(a).

Information about the methods and assumptions used in determining fair value is provided in Note 3.3.

Information about the impairment consideration loss allowance measured on bills receivable classified debt investments at FVOCI is provided in Note 3.1(b).

All of the financial assets at FVOCI are denominated in RMB currency units. For an analysis of the sensitivity of the assets to price and interest rate risk refer to Note 3.1(a).

(vii) Financial assets previously classified as available-for-sale financial assets (2017)

Available-for-sale financial assets included the following classes of financial assets:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Non-current assets		
Listed equity investments at fair value (a)	—	436,660
Unlisted equity investments at cost (b)	—	3,175,618
	—	3,612,278

(a) The balances as at 31 December 2017 represent the fair values of equity shares of a portfolio of Hong Kong and Shanghai listed securities based on the closing prices of these securities quoted on the stock exchange of Hong Kong and Shanghai on that date. The directors of the Company consider that the closing prices of these securities are the fair values of the investments.

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Riyue Heavy Industry Co., Ltd.	—	380,794
Bank of Jiangsu Co., Ltd.	—	33,756
Guodian Technology & Environment Group Co., Ltd.	—	22,110
	—	436,660

22 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

(vii) Financial assets previously classified as available-for-sale financial assets (2017) *(Continued)*

(b) Unlisted equity investments

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Zhejiang Zheshang Chanrong	—	2,000,000
Shanghai Guiman Enterprise Management L.P.	—	500,000
Nanjing Crystal Industry Investment Centre L.P.	—	250,000
Nanjing Qiningfeng New Energy Automotive Industry Investment Fund L.P.	—	245,000
Jiangsu Zhong Bang Business Factoring Co., Ltd.	—	90,000
Su Yin Financial Leasing Co., Ltd.	—	50,000
Others	—	40,618
	—	3,175,618

23 DEPOSIT FOR LAND LEASE

The amount represents deposit for land lease paid partly in relation to the acquisition of land leases situated in the PRC and the transfer is subject to the approval of the PRC government and was recognised as non-current assets as at 31 December 2018 and 2017.

24 INVENTORIES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Raw materials	**416,984**	546,526
Work in progress	**971,305**	1,012,961
Finished goods	**924,712**	856,290
	2,313,001	2,415,777

The cost of inventories recognised as expense and included in "cost of sales" amounted to RMB6,683,077 thousands (2017: RMB5,548,668 thousands).

Write-downs of inventories to net realisable value amounted to RMB1,604 thousands (2017: RMB138,054 thousands). These were recognised as an expense during the year ended 31 December 2018 and included in "cost of sales" in profit or loss.

For the year ended 31 December 2018, provision for impairment of inventories amounted to RMB104,862 thousands were transferred to the disposal group classified as held-for-sale.

25 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade receivable*	4,981,911	5,196,178
– Amount due from third parties	4,949,044	5,181,926
– Amount due from joint ventures (Note 43(c))	32,867	14,252
Less: impairment provision	(536,388)	(576,098)
	4,445,523	4,620,080
Deposits and other receivables	980,919	1,601,430
– Amount due from third parties (Note 44)	779,774	1,563,735
– Amount due from associates (Note 43(c))	92,538	23,569
– Amount due from joint ventures (Note 43(c))	15,125	14,126
– Amount due from a fellow subsidiary (Note 43(c))	93,482	—
Less: impairment provision	(23,509)	(16,470)
	957,410	1,584,960
Bills receivable*	—	1,895,179
Value-added tax recoverable	27,283	80,104
	5,430,216	8,180,323
Current portion	5,430,216	8,108,894
Non-current portion	—	71,429
	5,430,216	8,180,323

* As at 31 December 2017, trade receivables included commercial acceptance notes amounting to RMB958,142 thousands. Bills receivable represented bank acceptance notes.

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

25 TRADE AND OTHER RECEIVABLES *(Continued)*

All the amounts due from the Group's joint ventures and associates are unsecured, interest-free and repayable on credit terms similar to those offered to the major customers of the Group.

As at 31 December 2018, deposits and other receivables comprised a deposit for land lease amounting to RMB75,000 thousands. During the year ended 31 December 2017, the Group entered into an agreement with Nanjing Yuhua Economic Development Zone Management Committee (the "Management Committee"), and the Management Committee agreed to return the land lease deposit previously paid by the Group of RMB75,000 thousands in 2019.

(i) Fair values of trade and other receivables

Due to the short-term nature of the current trade and other receivables, their carrying amount is considered to be the same as their fair value.

(ii) Impairment and risk exposure

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables. Note 3.1(b) provides for details about the calculation of the allowance.

Information about the impairment of trade receivables and the Group's exposure to credit risk, foreign currency risk and interest rate risk can be found in Note 3.1.

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade receivables and bills receivable based on invoice date:		
Less than 90 days	**3,039,728**	3,609,544
90 to 120 days	**121,754**	479,238
121 to 180 days	**377,462**	958,477
181 to 365 days	**424,881**	963,645
1 - 2 years	**328,927**	344,473
Over 2 years	**152,771**	159,882
	4,445,523	6,515,259

25 TRADE AND OTHER RECEIVABLES *(Continued)*

(ii) Impairment and risk exposure *(Continued)*

The movements in provision for impairment of trade and bills receivable are as follows:

	2018 RMB'000	2017 RMB'000
As at 1 January	**(576,098)**	(475,970)
Amount restated through opening retained earnings	**(64,322)**	—
Transferred to disposal group classified as held-for-sale (Note 29)	**131,187**	—
Disposal of subsidiaries	—	7,172
Impairment losses recognised during the year, net	**(34,937)**	(107,841)
Amount written off as uncollectible	**7,782**	541
As at 31 December	**(536,388)**	(576,098)

The ageing analysis of other receivables as at the end of the reporting period, based on the due date, is as follows:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Other receivables based on due date:		
Less than 1 year	**924,615**	1,559,377
Over 1 year	**32,795**	25,583
	957,410	1,584,960

25 TRADE AND OTHER RECEIVABLES *(Continued)*

(iii) Transfers of financial assets

The following were the Group's bills receivable accepted by banks in the PRC (the "Endorsed Bills") that were endorsed to certain of the Group's suppliers in order to settle the trade payables due to such suppliers (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled.

Bills receivable endorsed to suppliers with full recourse are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Carrying amount of transferred assets	**31,009**	176,747
Carrying amount of associated liabilities	**(31,009)**	(176,747)

26 PREPAYMENTS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Prepayments	**377,191**	516,239
– Amount due from third parties	**336,869**	516,239
– Amount due from associates (Note 43(c))	**40,322**	—
Impairment	**(15,340)**	(73,258)
	361,851	442,981

26 PREPAYMENTS *(Continued)*

The movements in provision for impairment of prepayments are as follows:

	2018 RMB'000	2017 RMB'000
As at 1 January	**(73,258)**	(2,036)
Impairment losses reversed/(recognised) during the year, net	7,637	(71,222)
Transferred to disposal group classified as held-for-sale (Note 29)	50,281	—
As at 31 December	**(15,340)**	(73,258)

The individually impaired prepayments relate to debtors that were in financial difficulties or were in default in principal payments and none of the receivables is expected to be recovered.

27 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(i) Classification of financial assets at FVPL

The Group classifies the following financial assets at FVPL:

- debt investments that do not qualify for measurement at either amortised cost (Note 21) or FVOCI (Note 22)
- equity investments that are held for trading, and
- equity investments for which the entity has not elected to recognise fair value gains and losses through OCI.

Financial assets mandatorily measured at FVPL include the following:

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Non-current assets		
Derivatives instrument measured at FVPL (a)	518,602	—
Current assets		
Structured bank deposits (b)	947,150	—
Trade receivables measured at FVPL (c)	551,057	—
Unlisted debt investments	485,072	—
Unlisted equity investments	10,315	—
	1,993,594	—
	2,512,196	—

27 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

(i) Classification of financial assets at FVPL *(Continued)*

(a) Derivatives financial instrument

On 31 August 2017, Nanjing Drive entered into a limited partnership agreement with Ningbo Zhongbang Chanrong Holding Co., Ltd. ("Ningbo Zhongbang") and Ningbo Jingbang Asset Management Co., Ltd. in respect of the establishment of an investment fund in the PRC named Shanghai Guiman Enterprise Management L.P. (the "Guiman Fund"). Nanjing Drive is a limited partner and has invested RMB500,000 thousands in the Guiman Fund. As mentioned in the investment agreement, Nanjing Drive would not bear any losses of Guiman Fund and was guaranteed with an annualised return rate no less than 9% during the 3-year investment period.

The separate derivative derived from the investment fund in Guiman Fund financial assets at FVPL was measured at FVPL and classified as non-current assets because the investment income would be guaranteed by the other limited partner Ningbo Zhongbang due to the provision of net liabilities of Guiman Fund as at 31 December 2018.

(b) Structured bank deposits

As at 31 December 2018, structured bank deposits of RMB947,150 thousands (2017: RMB108,000 thousands) (Note 28) represented financial instruments placed by the Group to two banks in the PRC for a term within one year. The contract guarantees principal and proceeds are related to the performance of the three-month LIBOR USD rate on the international market. Parts of the structured bank deposits amounted to RMB276,717 thousands were redeemed subsequent to the end of the reporting period.

(c) Trade receivables measured at FVPL

As at 3 September 2018, the Group entered into two agreements with ING BANK N.V. ("ING") to sell all of its eligible trade receivables under certain customers and all right, title, interest and benefit the Group has in each such eligible trade receivables on a non-recourse basis without the need for any further action or documentation on the part of the Group or ING, at a cost of discount calculated based on the base rate and number of days for early payment as specified in the agreements.

As at 31 December 2018, such trade receivables for solely selling purpose amounting to RMB551,057 thousands were classified as financial assets at FVPL. For the year ended 31 December 2018, fair value change of RMB7,243 thousands for trade receivables measured at FVPL are recognised in other gains - net.

27 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

(ii) Amounts recognised in profit or loss

For the year ended 31 December 2018 and 2017, the following gains were recognised in profit or loss:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Fair value gains on equity investments at FVPL recognised in other gains - net (Note 7)	**45,658**	—
Fair value losses on debt investments at FVPL recognised in other gains - net (Note 7)	**37,227**	—
Dividends from equity investment held at FVPL (Note 6)	**36,275**	—
	119,160	—

(iii) Risk exposure and fair value measurements

Information about the methods and assumptions used in determining fair value is provided in Note 3.3.

28 CASH AND CASH EQUIVALENTS, STRUCTURED BANK DEPOSITS AND PLEDGED BANK DEPOSITS

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Cash at bank and on hand	**4,984,858**	7,031,364
Less: Pledged bank deposits	**(2,922,234)**	(2,892,955)
Structured bank deposits	**—**	(108,000)
Cash and cash equivalents	**2,062,624**	4,030,409

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short term time deposits are made for varying periods of between one day and three months depending on the immediate cash requirements of the Group, and earn interest at the respective short term time deposit rates. The bank balances and pledged deposits are deposited with creditworthy banks with no recent history of default.

29 ASSETS AND LIABILITIES HELD-FOR-SALE AND DISCONTINUED OPERATION

On 19 July 2018, the Group entered into an equity transfer agreement with an independent third party to dispose of its entire 75% equity interests in Beijing Shougao for a cash consideration of nominal amount RMB1. The disposal was completed on 30 November 2018.

On 23 November 2018, the Group entered into a bundle transaction of equity transfer agreements (the "Bundle Transaction") with an independent third party Ningbo Gaoguang Enterprise Management Co., Ltd. to dispose of its entire equity interests of ten subsidiaries and four associates for an aggregate cash consideration of RMB299,432 thousands. The ten subsidiaries include Zhongchuan Heavy Machine, Gaochuan Sky, Nanjing Boiler, Nantong Diesel, Zhongchuan Heavy Machine Tool Nanjing Co., Ltd., Nantong City Zhenhua Hongsheng Heavy Forging Co., Ltd., Rugao City Hongmao Scrap Metal Recycling Co., Ltd., Nanjing Nanchuan Laser Equipment Co., Ltd., Nanjing Jingrui Semi-conductor Co., Ltd. and Jiangsu Jingrui Semi-conductor Co., Ltd.. The four associates include Nantong FLW, Nanjing Yijing Optoelectronics Technology Co., Ltd., Nanjing Yijing Energy Co., Ltd. and Inner Mongolia Jingjing Optoelectronics Technology Co., Ltd.. As at 31 December 2018, the Bundle Transaction was still on going and is expected to be completed in 2019.

The above companies are engaged in the manufacturing and sales of non-core business segment that the Group would discontinue and therefore were classified as discontinued operations. Accordingly, the operating results for the above companies and the gain arises from the disposal were separately presented as profit/(loss) from discontinued operation on the consolidated income statement for the years ended 31 December 2018 and 2017. The assets and liabilities related to the Bundle Transaction have been presented as assets/liabilities of disposal group classified as held-for-sale. As at 31 December 2018, the assets and liabilities classified as disposal group held-for-sale were RMB1,243,244 thousands and RMB502,315 thousands, respectively, excluding the amounts due from group companies of RMB10,989 thousands and the amounts due to group companies of RMB990,293 thousands eliminated in the consolidated financial statements which will be disposed of upon completion of the transaction. On 27 March 2019, the Group received the cash consideration amounted to RMB59,886 thousands from Ningbo Gaoguang.

29 ASSETS AND LIABILITIES HELD-FOR-SALE AND DISCONTINUED OPERATION *(Continued)*

29.1 Beijing Shougao

(a) Financial performance

	Form 1 January 2018 to the date of disposal RMB'000	Year ended 31 December 2017 RMB'000
Gross profit	**15,198**	2,736
Selling and distribution expenses	**(2,721)**	(3,693)
Administrative expenses	**(6,788)**	(6,343)
Research and development costs	**(2,786)**	(2,882)
Net impairment (loss) on financial assets	**2,044**	—
Other income	**718**	—
Other gains/(losses) - net	**(1,102)**	(36,517)
Operating profit/(loss)	**4,563**	(46,699)
Financial costs - net	**(2,253)**	(2,494)
Profit/(loss) before income tax	**2,310**	(49,193)
Income tax expenses	**(14)**	—
Profit/(loss) for the year from discontinued operation	**2,296**	(49,193)

29 ASSETS AND LIABILITIES HELD-FOR-SALE AND DISCONTINUED OPERATION *(Continued)*

29.1 Beijing Shougao *(Continued)*

(b) Cashflow information

	Form 1 January 2018 to the date of disposal RMB'000	Year ended 31 December 2017 RMB'000
Profit/(loss) before income tax	2,310	(49,193)
Adjustment for:		
– Reversal of impairment of trade and bills receivable	(2,044)	—
– Impairment of prepayments	1,073	40,009
– Gain on disposal of property, plant and equipment	—	324
– Depreciation of property, plant and equipment	807	869
– Amortisation of land lease prepayments	324	—
Operating profit/(loss) before changes in working capital	2,470	(7,991)
Net cash inflow from operating activities	1,620	988
Net cash outflow from investing activities	(35)	(908)
Net increase in cash generated by a subsidiary	1,585	80
Cash and cash equivalents at beginning of year	1,387	1,307
Cash and cash equivalents at the end of year	2,972	1,387

29 ASSETS AND LIABILITIES HELD-FOR-SALE AND DISCONTINUED OPERATION *(Continued)*

29.1 Beijing Shougao *(Continued)*

(c) Details of the sale of the subsidiary

The carrying amounts of assets and liabilities at the date of disposal at 30 November 2018 and the resulting gain or loss on disposal recognised were as follows:

	RMB'000
Property, plant and equipment	3,266
Intangible assets	3,591
Inventories	90,338
Trade and bills receivable	106,542
Bank balances and cash	2,972
Trade and bills payables	(101,286)
Other payables and accruals	(51,986)
Contract liabilities	(72,480)
Net liabilities disposed	(19,043)
Total consideration for the disposal	—
Net liabilities disposed	19,043
Non-controlling interests	(4,677)
Gain from disposal of a subsidiary	14,366

29 ASSETS AND LIABILITIES HELD-FOR-SALE AND DISCONTINUED OPERATION *(Continued)*

29.1 Beijing Shougao *(Continued)*

(c) Details of the sale of the subsidiary *(Continued)*

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

	Beijing Shougao RMB'000
Total consideration	—
Less: cash and cash equivalents in the subsidiary disposed	(2,972)
Net cash inflows from the disposal	(2,972)

29.2 The Bundle Transaction

29.2.1 Subsidiaries

(a) Assets of disposal group classified as held-for-sale

	As at 31 December 2018 RMB'000
Property, plant and equipment (Note 14)	518,899
Land lease prepayment (Note 15)	134,776
Intangible assets	3,689
Deferred tax assets	2,963
Goodwill	2,991
Financial asset at FVOCI	31,349
Pledged bank deposits	19,066
Bank balance and cash	25,257
Other current assets	443,368
	1,182,358

29 ASSETS AND LIABILITIES HELD-FOR-SALE AND DISCONTINUED OPERATION *(Continued)*

29.2 The Bundle Transaction *(Continued)*

29.2.1 Subsidiaries *(Continued)*

(b) Liabilities of disposal group classified as held-for-sale

	As at 31 December 2018 RMB'000
Borrowings	181,125
Deferred tax liabilities	24,570
Contract liabilities	108,098
Other current liabilities	188,522
	502,315

29 ASSETS AND LIABILITIES HELD-FOR-SALE AND DISCONTINUED OPERATION *(Continued)*

29.2 The Bundle Transaction *(Continued)*

29.2.1 Subsidiaries *(Continued)*

(c) Financial performance

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Gross profit/(loss)	**28,470**	(137,576)
Selling and distribution expenses	**(17,552)**	(18,365)
Administrative expenses	**(58,030)**	(77,423)
Research and development costs	**(7,465)**	(6,342)
Net impairment reversal/(loss) on financial assets	**6,388**	(60,653)
Other income	**(1,409)**	377
Other gains/(losses) - net	**(7,881)**	(219,780)
Operating loss	**(57,479)**	(519,762)
Finance costs - net	**(19,099)**	(15,265)
Loss before income tax	**(76,578)**	(535,027)
Income tax credit/(expenses)	**486**	(130)
Loss for the year from discontinued operation	**(76,092)**	(535,157)
Other comprehensive income:		
Items that may be reclassified to profit or loss		
Changes in the fair value of available-for-sale financial assets	**—**	(17,094)
Income tax relating to these items	**—**	4,274
Items that will not be reclassified to profit or loss		
Changes in the fair value of equity investments at FVOCI	**(4,455)**	—
Income tax relating to these items	**1,114**	—
Total comprehensive loss for the year from discontinued operation	**(79,433)**	**(547,977)**

29 ASSETS AND LIABILITIES HELD-FOR-SALE AND DISCONTINUED OPERATION *(Continued)*

29.2 The Bundle Transaction *(Continued)*

29.2.1 Subsidiaries *(Continued)*

(d) Cashflow information

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Loss before income tax	(76,578)	(535,027)
Adjustment for:		
– (Reversal of) impairment of trade receivables	(4,368)	60,662
– Impairment of other receivables	2,068	(9)
– Impairment of inventories	12,107	—
– Impairment of prepayments	36	—
– Impairment of intangible assets	—	52,133
– Impairment of property, plants and equipment	—	142,044
– Gain on disposal of property, plants and equipment	—	759
– Release of deferred income	(1,170)	—
– Depreciation of property, plants and equipment	48,159	62,941
– Amortisation of land lease prepayments	2,691	3,252
– Amortisation of intangible assets	1,345	2,691
Operating loss before changes in working capital	(15,710)	(210,554)
Net cash outflow from operating activities	(23,140)	(3,250)
Net cash outflow from investing activities	(10,796)	(44,870)
Net cash inflow from financing activities	23,590	18,256
Net decrease in cash generated by the subsidiaries	(10,346)	(29,864)
Cash and cash equivalents at beginning of year	35,603	65,467
Cash and cash equivalents at the end of the year	25,257	35,603

29 ASSETS AND LIABILITIES HELD-FOR-SALE AND DISCONTINUED OPERATION *(Continued)*

29.2 The Bundle Transaction *(Continued)*

29.2.2 Associates

As at 31 December 2018, the long-term equity investment of RMB60,886 thousands in the four associates of the Group disposed in the Bundle Transaction, was presented as assets classified as held for sale. For the year ended 31 December 2018, the Group's share of loss from the above-mentioned associates of RMB3,100 thousands (2017: RMB4,634 thousands) was presented in loss for the year from discontinued operations.

29.3 The loss from discontinued operation is summarised as below:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit/(loss) from Beijing Shougao	**2,296**	(49,193)
Gain from disposal of Beijing Shougao	**14,366**	—
Loss from subsidiaries of the Bundle Transaction	**(76,092)**	(535,157)
Share of loss from associates of the Bundle Transaction	**(3,100)**	(4,634)
	(62,530)	(588,984)

30 SHARE CAPITAL

	Number of ordinary shares	Equivalent nominal value of ordinary shares
	'000	RMB'000
At 1 January 2017, 31 December 2017 and 31 December 2018	1,635,291	119,218

The holders of ordinary shares are entitled to receive dividends as and when declared by the Company. All ordinary shares carry one vote per share without restriction. The par value of ordinary share is USD0.01 each.

31 RESERVES

	Share premium RMB'000	Deemed capital contribution reserve RMB'000	Statutory surplus reserve RMB'000	Capital reserve RMB'000	Investment revaluation reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2017	4,691,197	77,651	704,256	150,208	505,438	52,335	(1,604)	4,755,174	10,934,655
Profit for the year	—	—	—	—	—	—	—	451,699	451,699
Other comprehensive loss for the year:									
Change in fair value of available-for-sale investments, net of tax	—	—	—	—	(257,794)	—	—	—	(257,794)
Currency translation difference	—	—	—	—	—	—	(3,445)	—	(3,445)
Total comprehensive loss for the year	—	—	—	—	(257,794)	—	(3,445)	451,699	190,460
Final 2016 dividend declared	(332,412)	—	—	—	—	—	—	—	(332,412)
Acquisition of non-controlling interests	—	—	—	(6,959)	—	—	—	—	(6,959)
Appropriation to statutory reserve	—	—	131,308	—	—	—	—	(131,308)	—
Balance at 31 December 2017	4,358,785	77,651	835,564	143,249	247,644	52,335	(5,049)	5,075,565	10,785,744

31 RESERVES *(Continued)*

	Share premium RMB'000	Deemed capital contribution reserve RMB'000	Statutory surplus reserve RMB'000	Capital reserve RMB'000	Investment revaluation reserve RMB'000	FVOCI reserve RMB'000	Other reserve RMB'000	Exchange reserve RMB'000	Retained profits RMB'000	Total RMB'000
Balance at 1 January 2018	4,358,785	77,651	835,564	143,249	247,644	—	52,335	(5,049)	5,075,565	10,785,744
Change in accounting policy	—	—	—	—	(247,644)	208,097	—	—	16,435	(23,112)
Restated total reserves at 1 January 2018	4,358,785	77,651	835,564	143,249	—	208,097	52,335	(5,049)	5,092,000	10,762,632
Profit for the year	—	—	—	—	—		—	—	208,401	208,401
Other comprehensive oss for the year:										
Change in fair value of financial assets at FVOCI, net of tax	—	—	—	—	—	(54,830)	—	—	—	(54,830)
Currency translation difference	—	—	—	—	—	—	—	(4,486)	—	(4,486)
Total comprehensive income for the year	—	—	—	—	—	(54,830)	—	(4,486)	208,401	149,085
Final 2017 dividend declared (Note 13)	(239,103)	—	—	—	—		—	—	—	(239,103)
Appropriation to statutory reserve	—	—	41,856	—	—		—	—	(41,856)	—
Balance at 31 December 2018	4,119,682	77,651	877,420	143,249	—	153,267	52,335	(9,535)	5,258,545	10,672,614

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity on pages 109 to 110 of the financial statements.

31 RESERVES *(Continued)*

(a) Share premium

The share premium represents the excess of the proceeds received upon issuance and allotment of the Company's shares over their nominal values.

(b) Deemed capital contribution reserve

The deemed capital contribution reserve arose from a deemed capital contribution from shareholders in year 2006.

(c) Statutory surplus reserve

In accordance with the PRC Company Law and the PRC subsidiaries' articles of association, a subsidiary registered in the PRC as a domestic company is required to appropriate 10% of its annual statutory net profit as determined in accordance with relevant statutory rules and regulations applicable to enterprises established in the PRC (after offsetting any prior years' losses) to the statutory surplus reserve. When the balance of such reserve fund reaches 50% of the entity's capital, any further appropriation is optional. The statutory surplus reserve can be utilised to offset prior years' losses or to increase capital. However, such balance of the statutory surplus reserve must be maintained at a minimum of 25% of the capital after such usages.

(d) Capital reserve

The capital reserve represents the difference between the consideration given and the decrease in net assets of subsidiaries attributable to non-controlling interests upon acquisition of additional interests in subsidiaries.

31 RESERVES *(Continued)*

(e) FVOCI reserve

The Group has elected to recognise changes in the fair value of certain investments in equity securities in OCI, as explained in Note 2.13. These changes are accumulated within the FVOCI reserve within equity. The Group transfers amounts from this reserve to retained earnings when the relevant equity securities are derecognised.

The Group also has certain debt investments measured at FVOCI, as explained in Note 22. For these investments, changes in fair value are accumulated within the FVOCI reserve within equity. The accumulated changes in fair value are transferred to profit or loss when the investment is derecognised or impaired.

(f) Investment revaluation reserve (applicable for 2017)

Changes in the fair value and exchange differences arising on translation of investments that were classified as available-for-sale financial assets (e.g. equities), were recognised in other comprehensive income and accumulated in a separate reserve within equity. Amounts were reclassified to profit or loss when the associated assets are sold or impaired, see accounting policy Note 2.13 for details.

(g) Foreign currency translation

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in Note 2.7 and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

(h) Other reserve

The other reserve represents the net assets of Nanjing High Accurate, which was contributed to the Group by the founder shareholders of Nanjing High Accurate when the founder shareholders obtained control of Nanjing High Accurate as well as the subsequent acquisition of additional equity interest in Nanjing High Accurate and contributed to the Group by the founder shareholders of Nanjing High Accurate.

32 TRADE AND OTHER PAYABLES

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Trade payables	1,716,846	1,855,137
– Amount due to third parties	1,714,786	1,850,775
– Amount due to associates (Note 43(c))	1,605	4,007
– Amount due to joint ventures (Note 43(c))	455	355
Bills payable	4,526,958	4,781,908
	6,243,804	6,637,045
Accruals	146,632	307,156
Other tax payables	24,978	68,700
Purchase of property, plant and equipment	189,313	122,284
Payroll and welfare payables	135,410	137,743
Other payables	509,788	333,542
– Amount due to third parties	478,707	294,192
– Amount due to associates (Note 43(c))	1,081	1,350
– Amount due to a joint venture (Note 43(c))	30,000	30,000
– Amount due to a fellow subsidiary (Note 43(c))	—	8,000
Financial guarantee liability	15,842	11,108
	1,021,963	980,533
	7,265,767	7,617,578

32 TRADE AND OTHER PAYABLES *(Continued)*

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

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
0 - 30 days	**1,423,121**	1,753,609
31- 60 days	**900,690**	1,889,929
61 - 180 days	**2,811,377**	2,031,427
181 - 365 days	**965,899**	729,339
Over 365 days	**142,717**	232,741
	6,243,804	6,637,045

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

All the amounts due to the Group's fellow subsidiary, joint ventures and associates are unsecured, interest-free and repayable within 180 days.

33 BORROWINGS AND CORPORATE BONDS

	As at 31 December			
	2018		2017	
	Effective interest rate (%)	RMB'000	Effective interest rate (%)	RMB'000
Current				
Bank loans – unsecured	1.05~5.66	3,190,367	1.05~5.80	4,250,763
Bank loans – secured	3.91~5.10	1,270,020	2.80~5.78	279,845
Medium-term Notes - unsecured	8.50	500,000	6.20	500,000
		4,960,387		5,030,608
Non-current				
Bank loans – secured	8.00	1,105	2.94~5.78	344,275
Corporate bonds –unsecured (a)	6.47~7.50	2,411,465	6.47~6.50	1,912,018
Medium-term Notes - unsecured	—	—	8.50	500,000
		2,412,570		2,756,293
		7,372,957		7,786,901

33 BORROWINGS AND CORPORATE BONDS *(Continued)*

(a) In March 2017, Nanjing Drive issued a corporate bond of RMB900,000 thousands which carries an interest rate of 6.47% per annum. In July 2017, Nanjing Drive issued another corporate bond of RMB1,020,000 thousands which carries an interest rate of 6.50% per annum. In January 2018, Nanjing Drive issued another corporate bond of RMB500,000 thousands which carries an interest rate of 7.50% per annum. All corporate bonds have a period of 5 years, attached with the option of adjusting the nominal interest rate for issuer and the option of selling back to investors at the end of the third year.

The maturity of borrowing is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
On demand or within 1 year	**4,460,387**	4,530,608
Between 1 and 2 years	**—**	343,150
Between 2 and 5 years	**1,105**	1,125
	4,461,492	4,874,883
Other borrowings repayable:		
On demand or within 1 year	**500,000**	500,000
Between 1 and 2 years	**1,913,317**	500,000
Between 2 and 5 years	**498,148**	1,912,018
	2,911,465	2,912,018
	7,372,957	7,786,901

33 BORROWINGS AND CORPORATE BONDS *(Continued)*

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates (or reset dates) are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Fixed-rate borrowings:		
Within one year	**3,484,227**	4,190,958
More than one year	**2,412,570**	2,429,583
	5,896,797	6,620,541

In addition, the Group has variable-rate borrowings of RMB1,476,160 thousands (2017: RMB1,166,360 thousands) which carry interest rates based on the rate of People's Bank of China prescribed interest rate or the London Interbank Offered Rate (the "LIBOR").

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	Year ended 31 December	
	2018	2017
Effective interest rates:		
Fixed-rate borrowings	**1.05%~8.50%**	1.05%~8.50%
Variable-rate borrowings	**3.91%~5.22%**	2.94%~5.25%

As at 31 December 2018, the Group's borrowing denominated in currency other than RMB was USD63,009 thousands, which was equivalent to RMB423,443 thousands and EUR34,290 thousands which was equivalent to RMB269,084 thousands (2017: bank borrowing of USD73,750 thousands, which was equivalent to RMB481,897 thousands and bank borrowing of EUR24,390 thousands, which was equivalent to RMB190,298 thousands). All other borrowings are denominated in RMB.

The secured borrowings at the end of the reporting period were secured by pledge of assets, details of which are set out in Note 40.

34 DEFERRED INCOME

	2018 RMB'000	2017 RMB'000
As at 1 January	**91,897**	94,365
Government grants received during the year	—	5,070
Recognised in profit or loss (Note 6)	**(20,418)**	(7,538)
As at 31 December	**71,479**	91,897

As at 31 December 2018 and 31 December 2017, the amount represented the grants received from the PRC government for the Group's acquisition of assets for technology development, and such amount will be released to income over the useful lives of the relevant assets.

35 WARRANTY PROVISION

	2018 RMB'000	2017 RMB'000
As at 1 January	**120,664**	101,248
Additional provision	**150,500**	83,882
Amounts utilised during the year	**(108,263)**	(64,466)
As at 31 December	**162,901**	120,664

At the end of the reporting period, the amount represents the directors' best estimate of the expected cost that will be required under the Group's obligations for warranties under sale of goods. The estimate has been made on the basis of historical warranty trends and may vary as a result of new materials, altered manufacturing processes or other events affecting product quality.

36 DEFERRED INCOME TAX

Deferred income tax assets	Taxable losses carried forward RMB'000	Impairment of receivables RMB'000	Write-down of inventories RMB'000	Deferred income arising from land resumption RMB'000	Provisions RMB'000	Deferred income RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2017	13,353	77,210	46,974	27,109	14,124	23,774	3,018	205,562
Recognised in profit or loss	19,425	8,120	7,321	(27,109)	3,872	(881)	30,534	41,282
Disposal of a subsidiary	—	(7)	—	—	—	(255)	—	(262)
As at 31 December 2017	32,778	85,323	54,295	—	17,996	22,638	33,552	246,582
Change in accounting policy	—	18,695	—	—	—	—	—	18,695
As at 1 January 2018	32,778	104,018	54,295	—	17,996	22,638	33,552	265,277
Recognised in profit or loss	11,450	14,035	(1,854)	—	4,331	(4,768)	(10,252)	12,942
Recognised in other comprehensive income	—	—	—	—	—	—	(3,829)	(3,829)
Transferred to disposal group classified as held-for-sale (Note 29)	—	(850)	(1,278)	—	—	—	(835)	(2,963)
As at 31 December 2018	44,228	117,203	51,163	—	22,327	17,870	18,636	271,427

Deferred income tax liabilities	Change in fair value of identified assets upon acquisition of subsidiaries RMB'000	Development costs RMB'000	Withholding taxes RMB'000	Fair value change on financial assets of FVOCI and FVPL (2017: Available-for-ale investments) RMB'000	Others RMB'000	Total RMB'000
As at 1 January 2017	—	(14,708)	(49,087)	(169,533)	(19,432)	(252,760)
Recognised in profit or loss	—	11,428	(11,582)	—	(6,914)	(7,068)
Recognised in other comprehensive income	—	—	—	85,689	—	85,689
Acquisition of subsidiaries	(13,522)	—	—	—	—	(13,522)
Disposal of a subsidiary	—	3,280	—	—	—	3,280
As at 31 December 2017	(13,522)	—	(60,669)	(83,844)	(26,346)	(184,381)
Change in accounting policy	—	—	—	(18,087)	—	(18,087)
As at 1 January 2018	(13,522)	—	(60,669)	(101,931)	(26,346)	(202,468)
Recognised in profit or loss	823	474	11,582	(14,846)	(1,179)	(3,146)
Recognised in other comprehensive income	—	—	—	18,846	—	18,846
Transferred to disposal group classified as held-for-sale (Note 29)	—	—	—	24,570	—	24,570
As at 31 December 2018	(12,699)	474	(49,087)	(73,361)	(27,525)	(162,198)

36 DEFERRED INCOME TAX *(Continued)*

(i) For presentation purposes, certain deferred tax assets and liabilities have been offset in the consolidated statement of financial position. The analysis of deferred tax assets and deferred tax liabilities is as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Net deferred tax assets presented in the consolidated statement of financial position	**271,427**	241,182
Net deferred tax liabilities presented in the consolidated statement of financial position	**(162,198)**	(178,981)
	109,229	62,201

(ii) Deferred tax assets not recognised

As at 31 December 2018, the Group has unused tax losses of RMB907,030 thousands (2017: RMB1,403,031 thousands) available for offset against future profits. A deferred tax asset has been recognised in respect of RMB176,912 thousands (2017: RMB131,112 thousands) of such loss. No deferred tax asset has been recognised in respect of the remaining RMB730,118 thousands (2017: RMB1,271,919 thousands) due to the unpredictability of future profit streams. The unused tax losses can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits. During the year ended 31 December 2018, the temporary difference not recongnised are RMB41,788 thousands (2017: RMB347,302 thousands).

37 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before income tax to cash generated from operations:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Profit before income tax	**216,781**	526,801
Adjustment for:		
- Impairment of investment in a joint venture	**26,324**	—
- Impairment of inventories	**1,604**	138,054
- Finance costs (Note 10)	**652,315**	525,490
- Share of profits and losses of joint ventures and associates	**(39,108)**	(79,297)
- Interest income (Note 10)	**(143,895)**	(116,835)
- Interest on financial assets at amortised cost (Note 6)	**(36,919)**	(31,650)
- Dividends (Note 6)	**(83,176)**	(7,813)
- Investment income	**—**	(34,841)
- Losses/(gains) on disposal of property, plant and equipment, net	**1,442**	(833)
- Gain on disposal of available-for-sale investments	**—**	(3,666)
- Gain on disposal of subsidiaries, net	**(83,728)**	(129,608)
- Loss on disposal of an associate	**583**	(58)
- Net fair value gains on financial assets at FVPL (Note 7)	**(82,885)**	—
- Depreciation of property, plant and equipment	**490,549**	490,014
- Amortisation on land lease prepayments	**16,492**	16,547
- Amortisation of intangible assets	**17,309**	27,331
- Impairment of property, plant and equipment	**—**	142,045
- (Reversal)/provision of intangible assets impairment loss	**(1,539)**	52,507
- Impairment of trade and bills receivable, net	**34,937**	107,841
- Impairment of other receivables	**17,778**	14,442
- (Reversal)/provision of prepayment impairment loss	**(7,637)**	71,222
- Unrealised exchange gain	**(21,211)**	—
- Deferred income of financial guarantee	**(4,713)**	—
- Gain from land resumption	**—**	(159,163)
- Release of deferred income	**(20,418)**	(7,538)
Operating profit before changes in working capital	950,885	1,540,992

37 CASH GENERATED FROM OPERATIONS *(Continued)*

Reconciliation of profit before income tax to cash generated from operations: *(Continued)*

	Year ended 31 December 2018 RMB'000	Year ended 31 December 2017 RMB'000
Changes in working capital:		
- Increase in inventories	(252,451)	(584,766)
- Increase in trade and bills receivable	(175,304)	(121,894)
- Decrease in other receivables	233,213	1,079,190
- Decrease/(increase) in prepayment	67,116	(81,130)
- (Increase)/decrease in trade and bills payable	(132,575)	361,485
- Decrease in contract liabilities and advance from customers	(135,183)	(239,896)
- Increase in other payables and accruals	140,858	533,632
- Increase in warranty provision	42,237	19,416
Cash generated from operations	**738,796**	2,507,029

(a) Reconciliation of liabilities arising from financing activities

	As at 1 January 2018 RMB'000	Financing cash flows RMB'000	Foreign exchange RMB'000	Transferred to disposal group classified as held-for-sale RMB'000	As at 31 December 2018 RMB'000
Borrowings	7,786,901	(245,632)	12,813	(181,125)	7,372,957

37 CASH GENERATED FROM OPERATIONS *(Continued)*

(b) Net debt reconciliation

	As at 31 December	
	2018 RMB'000	2017 RMB'000
Cash and cash equivalents	**2,062,624**	4,030,409
Borrowings – repayable within one year	**(4,960,387)**	(5,030,608)
Borrowings – repayable after one year	**(2,412,570)**	(2,756,293)
Net debt	**(5,310,333)**	(3,756,492)
Cash and cash equivalents	**2,062,624**	4,030,409
Gross debt – fixed interest rates	**(5,896,797)**	(6,620,541)
Gross debt – variable interest rates	**(1,476,160)**	(1,166,360)
Net debt	**(5,310,333)**	(3,756,492)

	Other assets	Liabilities from financing activities			
	Cash RMB'000	Finance leases due within 1 year RMB'000	Borrowings due within 1 year RMB'000	Borrowings due after 1 year RMB'000	Total RMB'000
As at 1 January 2017	2,745,023	7,007	(5,273,847)	(1,227,966)	(3,749,783)
Cash flows	1,311,612	(7,007)	243,239	(1,528,327)	19,517
Foreign exchange adjustments	(26,226)	—	—	—	(26,226)
As at 31 December 2017	4,030,409	—	(5,030,608)	(2,756,293)	(3,756,492)
Cash flows	(1,963,739)	—	766,584	(520,952)	(1,718,107)
Reclassification	—	—	(843,000)	843,000	—
Transferred to disposal group classified as held-for-sale (Note 29)	(25,257)	—	143,000	38,125	155,868
Foreign exchange adjustments	21,211	—	3,637	(16,450)	8,398
As at 31 December 2018	2,062,624	—	(4,960,387)	(2,412,570)	(5,310,333)

38 CONTINGENT LIABILITIES

At 31 December 2018, the Group provided guarantees to one of the Group's associates and one third party in favour of its bank loans of RMB741,360 thousands (2017: RMB320,000 thousands). This amount represented the balance that the Group could be required to be paid if the guarantees were called upon in its entirety. At the end of the reporting period, an amount of RMB15,842 thousands (2017: RMB11,108 thousands) has been recognised in the consolidated statement of financial position as liabilities.

39 COMMITMENTS

(a) Capital commitments

The Group had the following capital commitments at the end of the reporting period:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Contracted, but not provided for:		
Plant and machinery	**290,208**	238,758
Land and buildings	—	62,400
Capital contributions payable to an associate	—	59,260
Capital contributions payable to available-for-sale investment	—	35,000
	290,208	395,418

(b) Operating lease commitments – the Group as lessee

The Group entered into various non-cancellable operating lease agreements of leasehold land and office equipment. The leases have varying terms, escalation clauses and renewal rights. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
No later than 1 year	**1,914**	1,661
Later than 1 years	**1,296**	1,280
	3,210	2,941

40 ASSETS PLEDGED AS SECURITY

As at 31 December 2018, certain assets of the Group were pledged to secure certain banking facilities granted to the Group as follows:

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Trade receivables	—	19,502
Bills receivable	**905,550**	958,484
Property, plant and equipment	**245,784**	154,999
Land lease payments	**50,205**	45,846
Pledged bank deposits	**2,922,234**	2,892,955
	4,123,773	4,071,786

41 BUSINESS COMBINATION

(i) Summary of acquisition

On 30 November 2018, the Group acquired 100% equity interest in Jiangsu Green Lighting Engineering Co., Ltd. from an independent third party with a total purchase consideration of RMB19,600 thousands.

The assets and liabilities recognised as a result of the acquisition are as follows:

	Fair value RMB'000
Cash and cash equivalents	4,436
Trade receivables	6,863
Other receivables	6,507
Prepayment	1,644
Inventories	12,346
Property, plant and equipment	859
Trade payables	(3,318)
Contract liabilities	(8,021)
Other payables	(1,988)
Net identifiable assets acquired	19,328
Add: goodwill	272
Consideration	19,600

41 BUSINESS COMBINATION *(Continued)*

(ii) Purchase consideration – cash outflow

	Year ended 31 December 2018 RMB'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	(19,600)
Less: Cash	4,436
Net outflow of cash – investing activities	(15,164)

42 DISPOSAL OF A SUBSIDIARY

On 28 September 2017, Nanjing High Accurate entered into an agreement with Nanjing Fullshare Dazu Technology Company Limited ("Fullshare Dazu"), a subsidiary of Fullshare Holdings, and a third party Jiangsu Lipu Health Technology Co., Ltd. ("Jiangsu Lipu") to dispose of its 40% equity interest in Jiangsu An Rhonda Health Industry Development Co., Ltd ("An Rhonda") to Fullshare Dazu and 30% equity interest to Jiangsu Lipu at a total cash consideration of RMB177,506 thousands.

In December 2018, Nanjing High Accurate completed the transferring of land use right and buildings and properties to An Rhonda. The disposal of An Rhonda was completed and An Rhonda became a joint venture of the Group after the transaction.

The aggregated assets and liabilities at the date of disposal and the resulting gain or loss on disposal recognised were as follows:

	An Rhonda RMB'000
Property, plant and equipment	112,096
Land lease prepayments	81,296
Net assets disposed	193,392
Total consideration for the disposal	177,506
Net assets disposed	(193,392)
Interest reclassified as a joint venture	85,248
Gain from disposal of a subsidiary	69,362

42 DISPOSAL OF A SUBSIDIARY *(Continued)*

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

	RMB'000
Total consideration	177,506
Less: cash consideration receivable	(163,506)
Less: deposits received in previous period	(14,000)
Less: cash and cash equivalents in the subsidiary disposed	—
Net cash inflows from the disposal	—

On 26 March 2019, the Group received the cash consideration amounted to RMB70,074 thousands from Jiangsu Lipu.

43 RELATED PARTY TRANSACTIONS

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following significant transactions with related parties during the year:

	Year ended 31 December	
	2018	2017
	RMB'000	RMB'000
Associates:		
Purchases of products (ii)	**28,188**	104,194
Joint ventures:		
Sales of products (i)	**52,585**	10,997
Purchases of products (ii)	—	7,887

43 RELATED PARTY TRANSACTIONS *(Continued)*

(a) In addition to the transactions detailed elsewhere in these financial statements, the Group had the following significant transactions with related parties during the year: *(Continued)*

(i) The sales to the joint ventures were made according to the published prices and conditions offered to the major customers of the Group, except that a longer credit period of up to six months is normally granted.

(ii) The purchases from the associates and joint ventures were made according to the published prices and were agreed by both parties.

(b) Other transactions with related parties:

At 31 December 2018, the Group provided financial guarantees to Nanjing Gaochuan Mechanical and Electrical Automatic Control Equipment Co., Ltd., an associate of the Group, and its subsdiaries ("Nanjing Gaochuan") in favour of Nanjing Gaochuan's bank loans of RMB331,360 thousands (2017: RMB320,000 thousands).

(c) Outstanding balances with related parties:

The Group's trade and other balances with its associates, joint ventures and fellow subsidiary and other related party as at the end of the reporting period are disclosed in Notes 21, 25, 26 and 32 to the consolidated financial statements.

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

Other than the emolument paid to the directors of the Company, who are also considered as the key management of the Group as set out in Note 47, the Group did not have any other significant compensation to key management personnel.

44 OUTSTANDING LITIGATION

Jiangsu Guoyuan Power Equipment Co., Ltd. ("Jiangsu Guoyuan") is the gearing supplier to Nanjing High Speed (the "Borrower"), a subsidiary of the Company. On 15 June 2018, the Borrower obtained a short-term loan with RMB130,000 thousands ("the Loan") from a bank (the "Lender") to settle the procurement payables with Jiangsu Guoyuan. The Loan was in the form of entrusted payment which was released to Jiangsu Guoyuan's designated bank account (mutually controlled by the Borrower and Jiangsu Guoyuan) directly by the Lender on the date of draw-down. However, Jiangsu Guoyuan did not properly use the Loan to settle the payables with the Borrower, but transferred all RMB130,000 thousands out, without notification to or authorization from the Borrower, on the day upon receipt of the Loan.

On 22 June 2018, the Borrower filed a claim against Jiangsu Guoyuan on this embezzlement to Nanjing Intermediate People's Court and RMB130,000 thousands was under frozen as at 31 December 2018. Upon the date of the approval of these financial statements, this case was awaiting trial and based on the opinion of the external legal counsel of the Borrower, it is highly probable that the Borrower to win this lawsuit with RMB130,000 thousands to be fully recovered. In such, the directors of the Group believe that there is no loss allowance to be provided nor significant implication on the consolidated financial statements of the Group.

45 SUBSEQUENT EVENTS

On 22 January 2019, Nanjing Drive entered into an agreement with a third party to dispose of its 50% equity interest in associate Shandong Energy Machinery Group Zhong-Chuan Heavy Duty Mine Equipment Manufacturing Co., Ltd. at a total cash consideration of RMB10,800 thousands. Impairment provision of RMB26,324 thousands was recognised against the book value of long-term equity investment of RMB37,124 thousands (before impaired).

46 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2018	2017
	RMB'000	RMB'000
Assets		
Non-current assets		
Property, plant and equipment	3	3
Interests in subsidiaries	4,409,547	4,484,944
Financial assets at FVOCI	12,298	—
Available-for-sale investments	—	22,111
	4,421,848	4,507,058
Current assets		
Other receivables	263	60,436
Cash and cash equivalents	31,632	18,832
	31,895	79,268
Total assets	4,453,743	4,586,326
Liabilities		
Current liabilities		
Amounts due to subsidiaries	5,989	7,842
Other payables	306	292
	6,295	8,134
Non-current liabilities	—	—
Total liabilities	6,295	8,134
Equity attributable to owners of the Company		
Share capital	119,218	119,218
Reserves (Note (a))	4,328,230	4,458,974
Total equity	4,447,448	4,578,192
Total equity and liabilities	4,453,743	4,586,326

46 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY *(Continued)*

(a) Reserve movement of the Company

	Share Premium RMB'000	Deemed capital contribution reserve RMB'000	FVOCI reserve (2017: Investment revaluation reserve) RMB'000	Retained profit RMB'000	Total RMB'000
As at 1 January 2017	4,691,197	77,651	—	217,614	4,986,462
Loss for the year	—	—	—	(192,990)	(192,990)
Other comprehensive expense for the year:					
Change in fair value of available-for-sale investments – net of tax	—	—	(2,086)	—	(2,086)
Final 2016 dividend declared	(332,412)	—	—	—	(332,412)
As at 31 December 2017	4,358,785	77,651	(2,086)	24,624	4,458,974
Profit for the year	—	—	—	118,172	118,172
Other comprehensive expense for the year:					
Change in fair value of financial assets at FVOCI – net of tax	—	—	(9,813)	—	(9,813)
Final 2017 dividend declared	(239,103)	—	—	—	(239,103)
As at 31 December 2018	4,119,682	77,651	(11,899)	142,796	4,328,230

47 BENEFITS AND INTERESTS OF DIRECTORS

(i) Directors' and chief executive's emoluments:

The remuneration of every director and chief executive is set out below:

	Year ended 31 December 2018			
	Fee RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
Executive Directors				
Mr. Chen Yongdao	—	3,097	53	3,150
Mr. Wang Zhengbing	—	2,697	53	2,750
Mr. Zhou Zhijin	—	2,697	53	2,750
Mr. Hu Jichun	—	2,397	53	2,450
Ms. Zheng Qing	203	—	—	203
Non-executive directors				
Mr. Hu Yueming	—	947	53	1,000
Mr. Yuen Chi Ping	203	—	—	203
Independent non-executive directors				
Mr. Jiang Xihe	203	—	—	203
Ms. Jiang Jianhua	203	—	—	203
Mr. Nathan Yu Li	203	—	—	203
Dr. Chan Yau Ching	203	—	—	203
	1,218	11,835	265	13,318

47 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(i) Directors' and chief executive's emoluments *(Continued)*:

The remuneration of every director and chief executive is set out below *(Continued):*

	Year ended 31 December 2017			
	Fee	Salaries and other benefits	Pension scheme contributions	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Executive Directors				
Mr. Chen Yongdao	—	3,097	53	3,150
Mr. Gou Jianhui (a)	—	2,962	53	3,015
Mr. Wang Zhengbing	—	2,697	53	2,750
Mr. Zhou Zhijin	—	2,697	53	2,750
Mr. Hu Jichun	—	2,397	53	2,450
Ms. Zheng Qing	—	208	—	208
Non-executive directors				
Mr. Hu Yueming	—	3,397	53	3,450
Mr. Yuen Chi Ping	—	208	—	208
Independent non-executive directors				
Mr. Jiang Xihe	208	—	—	208
Ms. Jiang Jianhua	208	—	—	208
Mr. Nathan Yu Li	208	—	—	208
Dr. Chan Yau Ching	208	—	—	208
	832	17,663	318	18,813

(a) Resigned on 16 January 2018.

(ii) Directors' retirement benefits

No specific retirement benefits were paid to directors in respect of services in connection with the management of the affairs of the company or its subsidiary undertaking (2017: Nil).

(iii) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.