



中國高速傳動設備集團有限公司*

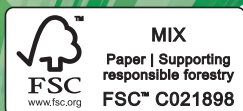
China High Speed Transmission Equipment Group Co., Ltd.

(incorporated in the Cayman Islands with limited liability)

(Stock Code: 658)

ANNUAL REPORT

2022



For identification purpose only

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Hu Jichun (*Chairman and Chief Executive Officer*)

Mr. Hu Yueming

Mr. Chen Yongdao

Mr. Wang Zhengbing

Mr. Zhou Zhijin

Ms. Zheng Qing

Mr. Gu Xiaobin

Mr. Fang Jian

Independent Non-executive Directors

Mr. Jiang Xihe

Ms. Jiang Jianhua

Dr. Chan Yau Ching, Bob

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 Jichun (*Chairman*)

Mr. Jiang Xihe

Mr. Nathan Yu Li

REGISTERED OFFICE

VISTRA (CAYMAN) LIMITED

P.O. Box 31119

Grand Pavilion, Hibiscus Way

802 West Bay Road

Grand Cayman KY1 – 1205

Cayman Islands

AUDITOR

Baker Tilly Hong Kong Limited

LEGAL ADVISER

DeHeng Law Offices (Hong Kong) LLP

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

Walkers Corporate Limited

190 Elgin Avenue, George Town

Grand Cayman KY1-9008

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

Bank of Communications
ICBC
Export-import Bank of China
Bank of Jiangsu
China Construction Bank
Bank of Beijing
SPD Bank
Everbright Bank
Huaxia Bank
Bank of Ningbo
China Minsheng Bank
China Merchants 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 2022 RMB'000	Year ended 31 December 2021 RMB'000	Change
Revenue from contracts with customers	21,079,654	20,210,526	4.3%
Gross profit	3,263,232	3,188,310	2.3%
Profit for the year attributable to owners of the Company	101,599	1,315,245	-92.3%
Basic and diluted earnings per share (<i>RMB</i>)	0.062	0.804	-92.3%
	As at 31 December 2022 RMB'000	As at 31 December 2021 RMB'000	Change
Total assets	41,634,453	29,640,474	40.5%
Total liabilities	28,039,883	15,872,439	76.7%
Net assets	13,594,570	13,768,035	-1.3%
Net assets per share (<i>RMB</i>)	8.3	8.4	-1.2%
Gearing ratio* (%)	67.3	53.5	13.8 percentage points


* Gearing ratio = total liabilities/total asset

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, is set out below.

	Year ended 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
RESULTS					
Revenue from contracts with customers	21,079,654	20,210,526	15,368,511	9,722,896	8,203,500
Profit for the year	644,211	1,396,860	851,056	417,611	206,472
Profit for the year attributable to owners of the Company	101,599	1,315,245	840,906	438,188	208,401

	As at 31 December				
	2022 RMB'000	2021 RMB'000	2020 RMB'000	2019 RMB'000	2018 RMB'000
ASSETS AND LIABILITIES					
Total assets	41,634,453	29,640,474	25,851,099	24,858,848	26,748,539
Total liabilities	(28,039,883)	(15,872,439)	(13,227,891)	(13,529,450)	(15,883,275)
	13,594,570	13,768,035	12,623,208	11,329,398	10,865,264
Attributable to:					
Owners of the Company	10,475,951	13,399,195	12,215,334	11,207,043	10,791,832
Non-controlling interests	3,118,619	368,840	407,874	122,355	73,432
	13,594,570	13,768,035	12,623,208	11,329,398	10,865,264



CHAIRMAN'S STATEMENT

I am pleased to present the 2022 annual report of China High Speed Transmission Equipment Group Co., Ltd. (the “Company” or “China High Speed Transmission”). For the year ended 31 December 2022 (the “Year”), the Company and its subsidiaries (collectively referred to as the “Group”) recorded sales revenue of approximately RMB21,079,654,000, representing an increase of approximately 4.3% from 2021. Profit attributable to owners of the Company was approximately RMB101,599,000, representing a decrease of approximately 92.3% as compared with 2021. China High Speed Transmission continued to lead high-end equipment industry in China with its strong research, design and development capabilities, which provide firm support for the adjustment of China’s energy structure, the promotion of sustainable economic and social development, and the achievement of “dual carbon” goals.

Since 2022, “triple pressure” has continued to affect China and the impact of unexpected factors has increased, making the domestic and external environment increasingly complicated and challenging for the economic development of China. Against this backdrop, China’s annual GDP was approximately RMB121,020.7 billion, increasing by approximately 3.0% year-on-year at constant prices, according to statistics released by the National Bureau of Statistics of China based on preliminary calculations. Specifically, China’s GDP has reached a new height in 2022 after surpassing RMB100 trillion in 2020 and RMB110 trillion in 2021, and maintaining a higher growth rate as compared with that in major economies across the globe. Given the strong resilience, huge potential and great vitality of China’s economy and through significant efforts, the effectiveness of various policies have gradually emerged, resulting in the stability and an overall rebound of the economy and social situation.


In the wind milling industry, the development of China’s wind milling industry development started late, but after more than a decade of development, China has become one of the leaders in the wind milling industry across the globe. Meanwhile, China as a participant, contributor and leader in global climate and environmental governance has been promoting the structural transformation of China’s energy structure. In particular, renewable energy is crucial for the implementation of the structural transformation of China’s energy structure. In achieving the goals of “carbon peaking and carbon neutrality”, wind power will take a major account in the increased source of energy in the future, and its growth prospects cannot be underestimated. According to the latest data released by the National Energy Administration, in 2022, the new grid-connected installed wind power capacity nationwide was 37.63 million kilowatts. Of which, installed capacity of offshore grid-connected wind power has been increasing and is expected to reach 32.50 million kilowatts at the end of 2022, continue to maintain its leading position in terms of installed capacity of offshore grid-connected wind power in the world.

CHAIRMAN'S STATEMENT

The Group is a leading supplier of wind gear transmission equipment. Leveraging on its strong research, design and development capabilities, the Group has a range of products including wind power gear transmission equipment at various megawatt scales for onshore and offshore wind power assembly, among which, the 2MW-8MW wind power gear transmission equipment products have been provided to domestic and overseas customers in bulk. The product technology has reached an internationally advanced technical level. Relying on the StanGear™ and WinGear™ product platform and core technology platform, we continue to optimize product design and calculation analysis technology, process manufacturing technology, heat treatment control technology and precision tooth profile processing technology to reserve a solid technical foundation for the manufacture of large megawatt and super large megawatt models. In line with market development trends, the Company actively develops large megawatt gear boxes, introduces condition monitoring, big data analysis and mobile terminal technology, and strives to create an integrated product and service system for intelligent gear boxes.

During the reporting period, the Group continued to maintain a strong customer portfolio. Customers of its wind power business include the major wind turbine manufacturers in the PRC, as well as the renowned international wind turbine manufacturers such as GE Renewable Energy, Siemens Gamesa Renewable Energy, Suzlon and Doosan. With the Group's 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 subsidiaries in the United States, Germany, Singapore, Canada and India to support the sustainable development strategy of the Group and to have closer communication and discussion with potential customers and to grasp opportunities in emerging markets to enhance production capacity and to provide further diversified services for global customers.

In recent years, the Group's industrial gear transmission equipment business has continued its green development strategy. By adhering to the concept of energy conservation, environmental protection and low carbon, the Group consolidated its industrial heavy equipment market advantages, while actively developed and expanded the application of industrial gear transmission equipment such as standard gear boxes and industrial planetary gear boxes in new markets and new industries. Through strengthened R&D and innovation and on the basis of standardized, modularized and serialized products with international competitiveness, the Group has also been actively building an integrated, intelligent and digital product system, and giving products greater added value and longer life cycles. Furthermore, 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 to enhance their current production efficiency and reduce energy consumption without increasing capital expenditure, and satisfying their diversified and differentiated needs, thereby maintaining the Group's position as a major supplier in the industrial gear transmission equipment product market.



CHAIRMAN'S STATEMENT

The Group's rail transportation transmission equipment is widely used in the rail transportation fields such as gearbox for urban light rails, high-speed rails, urban train and tram and tractive gear. Our equipment also includes gear transmission products for rail motor cars such as gears for rail motor cars and simulation test bench for gears used by urban rails. All products provided by the Group for urban rails, high-speed rails, urban train and tram and motor cars are developed in the process of our proprietary R&D and design, and the Group has obtained ISO/TS22163:2017 certificate (a standard for international railway industry) and CRCC Certification for Railway Products. More than 50,000 rail transportation gear transmission equipment have been stably applied to various types of vehicles in several regions such as China, Southeast Asia, North and South America, Europe, Australia and Africa. During the reporting period, the rail transportation gear transmission equipment business of the Group has been receiving favorable reception. The Company successfully obtained an order for gears box from MRT Wanda-Zhonghe-Shulin Line of Taipei, with first batch of gear boxes passed the examination by the customer and has been successfully delivered. The Group has also obtained the order of 160 PSM380 gear boxes, a single stage gear drive, for the Inter-city rail of 160km/h operated in Tanzania, Africa. In addition, we expect to deliver the first batch of gear boxes for the MRT Green Line at Taoyuan City, another project in Taiwan, in 2024. The Group has been comprehensively implementing IRIS Quality Management System for its rail transportation gear transmission equipment business, and the product development process is carried out in strict accordance with the related requirements, so as to ensure that our products meet the high quality standards during their entire life cycle, and create higher added value for our users. The Group has been awarded IRIS "Silver" Certification, which will greatly enhance our influence in the rail transportation industry, thereby facilitating the sustainable development of our rail transportation gear transmission equipment business.

In recent years, as a major force of green energy development, the renewable energy industry has been developing swiftly and steadily with supporting policies, and is entering into a true "booming era". The Several Policies to Promote the Steady Growth of the Industrial Economy 《關於促進工業經濟平穩增長的若干政策》 jointly issued by 12 departments including the National Development and Reform Commission and the Ministry of Industry and Information Technology in 2022 has played an important role in maintaining the healthy and stable development of the industries; the "14th Five-Year" Development Plan for Renewable Energy 《“十四五”可再生能源發展規劃》, which had been jointly issued for the first time by nine departments including the National Development and Reform Commission and the National Energy Administration, clearly stated that by 2025, the share of using renewables in primary energy consumption shall be further increased, the annual generation capacity for wind and solar power will be doubled, renewable electricity consumption share and non-hydro renewable electricity consumption share in China shall be account for 33% and 18%, respectively, the rate of renewable energy use shall be maintained at a reasonable level. The local governments of the region where the principal activities of the Group operate had also issued the Several Measures of Promoting Stable Growth of the Industrial Economy of Nanjing City 《南京市促進工業經濟平穩增長若干政策措施》, with a focus on the four areas including promoting investments in industries, promoting circulation in supply chains, increasing efforts to ensure the supply of production factors and improving the business environment, so as to resolve difficulties encountered by industries and enterprises. Driven by multiple policies, it is not difficult to see that the renewable energy industry is likely to enter into a period of stable growth and will further propel the robust development of the high-end equipment manufacturing business and equipment business of the Group.

CHAIRMAN'S STATEMENT

Although the journey ahead may be long and arduous, with sustained actions, we will eventually reach our destination. In the future, the Group will seize the development opportunities in the industry. In adherence to the vision of promoting the revitalization in the national equipment manufacturing industry, the Group will accelerate our pace of going abroad. We will actively join international cooperation and competition, while achieving faster pace of development over the market average by adhering to the four core competitive strengths of “innovative thinking, zero defects, professional services, and customer orientation”, thereby becoming a healthy transmission equipment supplier for sustainable development and create higher value for our shareholders and investors. Furthermore, under the “big era” of achieving dual carbon, goals, transformation of energy structure is the only road leading to the goal. As a world-renowned enterprise in respect of clean energy, energy conservation and environmental protection, in order to pursue the goal of carbon neutral, the Group will continue to drive the green development of its business and industry chain through innovation and standing on the principle of energy conservation and emission reduction, so as to support the “30•60” dual carbon goals in an efficient manner. The Group will also continue to integrate all possible paths of planning for carbon neutral and give full play to the advantages of clean energy potential, so as to accelerate the green electricity consumption and persist in building a zero-carbon energy system in the future.

Finally, on behalf of the board (the “**Board**”) of directors (the “**Director(s)**”) of the Company, I would like to express our sincere appreciation to all shareholders for their support, and all employees for their dedication and hard work in the past year.

Hu Jichun

Chairman

31 March 2023



MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is principally engaged in the research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in wind power and a wide range of industrial applications and trade of goods. During the year, the Group recorded sales revenue of approximately RMB21,079,654,000 (2021: RMB20,210,526,000), representing an increase of 4.3% as compared with 2021, and the gross profit margin was approximately 15.5% (2021: 15.8%). Profit attributable to owners of the Company was approximately RMB101,599,000 (2021: RMB1,315,245,000), representing a decrease of 92.3% as compared with 2021. Basic earnings per share was RMB0.062 (2021: RMB0.804), representing a decrease of 92.3% as compared with 2021, such a decrease is mainly attributable to (i) the Company's equity interest held in Nanjing High Speed Gear Manufacturing Co., Ltd. ("**Nanjing High Speed**") decreased from approximately 93.02% to approximately 50.02% arising from the completion of the disposal of 43% equity interest in Nanjing High Speed (the "**Disposal**") for the year; (ii) the income tax expenses of approximately RMB315,140,000 incurred arising from the Disposal; and (iii) the accrued interest of approximately RMB214,175,000 incurred arising from the put option liability in connection with the Disposal.

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 China, by leveraging on its strong research, design and development capabilities, our technology have reached an internationally advanced technical level. The wind gear transmission equipment products of the Group are widely applied in onshore and offshore wind power. The 2MW-8MW wind gear transmission equipment products have been provided to domestic and overseas customers in bulk. During the year, the Group maintains a strong customer portfolio. Customers of our wind gear transmission equipment products include the major wind turbine manufacturers in the PRC, as well as the renowned international wind turbine manufacturers such as GE Renewable Energy, Siemens Gamesa Renewable Energy, Suzlon and Doosan.

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 10.3% to approximately RMB13,274,367,000 as compared with last year (2021: RMB12,039,140,000).

MANAGEMENT DISCUSSION AND ANALYSIS

2. Industrial gear transmission equipment

Enhanced market competitiveness through changes in production modes and sales strategies

The Group's industrial gear transmission equipment products are widely applied to customers in industries such as metallurgy, construction materials, rubber and plastic, petrochemical, aerospace, mining, ports and engineering machinery.

In recent years, the Group has always adhered to the strategy for green development of the industrial gear transmission equipment. With a focus on energy conservation, environmental protection and low carbon, as well as in-depth exploration in the transmission technology and extended driving technology, the Group has, under the iteration and upgrading of product technology in the field of heavy-duty transmission, developed standardized, modular and intelligent products which are internationally competitive and a electromechanical control integrated driving system with high efficiency, high reliability and low energy consumption. With "complete range, clear layers and precise subdivision" as our product positioning and market positioning, the Group was able to facilitate changes in sales strategies and production models, improve comprehensive competitiveness and further consolidate market advantages. At the same time, the Group vigorously developed new markets and expanded to new industries, particularly research and development and market expansion for products such as standard gear box and planetary gear box were driven forward comprehensively. Meanwhile, the Group also strengthened its efforts to provide and sell the parts and components of relevant products as well as comprehensive system solutions to its customers, helping customers to enhance their current production efficiency and reduce energy consumption without increasing capital expenditure and satisfying the diverse and differentiated needs of customers, thereby maintaining the Group's position as a major supplier in the market of industrial gear transmission equipment products.

During the year, the industrial gear transmission equipment business generated sales revenue of approximately RMB2,046,483,000 (2021: RMB1,943,871,000) for the Group, representing an increase of 5.3% as compared with last year.



MANAGEMENT DISCUSSION AND ANALYSIS

3. Rail transportation gear transmission equipment

Featured by environmental-friendly nature through design technology, sealing technology and effective control

The Group's rail transportation gear transmission equipment products are widely used in the rail transportation fields such as high-speed rails, metro lines, urban trains and trams. The Company has established long-term cooperative relationships with many well-known domestic and foreign companies in the industry. The Group has obtained ISO/TS22163 Certificate for the Quality Management System of International Railway Industry and CRCC Certification for Railway Products for its rail transportation gear transmission equipment products, which has laid a solid foundation for further expansion in the international rail transportation market. Currently the products have been successfully applied to rail transportation transmission equipment in many Chinese cities, such as Beijing, Shanghai, Shenzhen, Nanjing, Hong Kong and Taipei, and have also been successfully applied to rail transportation transmission equipment in various countries and regions such as Singapore, Brazil, Netherlands, India, Mexico, Tunisia, Australia, Canada, France, Spain, Romania and Tanzania. With optimized gearbox design technology, excellent sealing technology and effective control of the production process, the Company's rail transportation gear transmission equipment products are more environmental-friendly, and the products are well received by users.

During the year, the rail transportation gear transmission equipment business generated sales revenue of approximately RMB378,880,000 (2021: RMB370,420,000) for the Group, representing an increase of 2.3% as compared with last year.

4. Trading business

Explore and expand trading business through resource integration

The trading business of the Group mainly comprises trading business of bulk commodities and trading business in steel industrial chain. The bulk commodity trading business mainly involves the procurement and wholesale of refined oil and electrolytic copper. The trading business in steel industrial chain mainly involves, among others, the procurement and wholesale of raw coal and coke, being upstream raw materials of steel, and the procurement and wholesale of steel. The Group's trading business in steel industrial chain make use of the core resources in the trade system of steel industrial chain as a cut-in point to develop the trading business system of the steel industrial chain. At present, the Group has completed the initial integration of resources of the steel industrial from upstream raw materials to special steel, which promotes the development of the trading business.

During the year, the trading business generated sales revenue of approximately RMB5,346,027,000 (2021: RMB5,763,631,000) for the Group, representing a decrease of 7.2% as compared with last year.

MANAGEMENT DISCUSSION AND ANALYSIS

LOCAL AND EXPORT SALES

During the year, the Group maintained its position as the leading supplier of the mechanical transmission equipment in the PRC. During the year, the overseas sales amounted to approximately RMB1,790,199,000 (2021: RMB2,861,360,000), representing a decrease of 37.4% as compared with last year. Overseas sales accounted for approximately 8.5% (2021: 14.2%) of the total sales, representing a decrease of 5.7 percentage points as compared with last year. At present, the overseas customers of the Group are mainly based in U.S. and other countries and regions such as Europe, India and Brazil.

PATENTED AND CERTIFIED PROJECTS

The mechanical transmission equipment 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 products have made their debuts in the domestic market under the Group's on-going innovation of products and technology. Leveraging on its innovative technology and premium quality, the Group has obtained major technical and quality awards, certificates and honorary titles at national, provincial and municipal level for over 100 times, such as national, provincial and municipal technology advancement awards, outstanding new products awards, Jiangsu Governor Quality Award, Nanjing Mayor Quality Award, certification for new products, certification for high and new tech products and certification of high and new tech enterprise, Jiangsu Quality and Credit Graded AAA enterprise as well as the honorary title of "Jiangsu Boutique". As of 31 December 2022, a total of 762 patents were granted by the State and 436 patent applications have been submitted and pending for approval. The Group was the first producer to adopt ISO1328 and ISO06336 international standards in the PRC. The Group was also 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. The Group has obtained ISO9001:2015 quality management system certificate, ISO14001:2015 environmental management system certificate, ISO45001:2018 occupational health and safety management system certificate, ISO10012:2003 measurement management system certificate, ISO50001:2018 energy management system certificate and "Jiangsu Boutique" certificate. The Group has also obtained the GB/T23001-2017 national integration of informationization and industrialization management system certificate. Its testing laboratory has obtained the ISO/IEC17025 national laboratory certificate. Several special processes of heat treatment have obtained the TPG special process certificate. Nanjing High Speed, a subsidiary of the Group, has also become a APQP4Wind Company Member. Wind gear transmission equipment products of the Group have obtained certifications from China Classification Society (CCS), China General Certification Center (CGC), China Quality Certification Centre (CQC), Technische ÜberwachungsVerein (TÜV), DNV GL, UL, European Union's CE and ETL; industrial gear transmission equipment products have been certified with the European Union's CE certificate, Mining Products Safety Approval and Certification Center (MA), ATEX, CUTR, GOST and API Q1 Quality Management System of American Petroleum Institute; and rail transportation gear transmission equipment products have obtained ISO/TS22163 Certificate for the Quality Management System of International Railway Industry and CRCC Certification for Railway Products.



MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

In 2022, the national economy has continued to develop even under pressure. High-quality development has achieved new results, and the overall economic and social situation has remained stable. According to statistics, the gross domestic product (GDP) of China for 2022 was RMB121,020.7 billion, increasing by 3.0% year-on-year at a constant rate. Among them, the value of the primary sector was RMB8,834.5 billion, increasing by 4.1% year-on-year; the value of the secondary sector was RMB48,316.4 billion, increasing by 3.8%; and the value of the tertiary sector was RMB63,869.8 billion, increasing by 2.3%. China's economy has shown a stable and positive growth throughout the year, with strong economic resilience and potential.

As a leading supplier of wind power transmission equipment, the Group makes continuous efforts in expanding into the diversified and vast overseas market. Leveraging on its strong research, design and development capabilities, the Group currently offers products covering different megawatt-class wind power gear transmission equipment for onshore wind power and offshore wind power assemblies, of which the 2MW-8MW wind power gear transmission equipment products have been supplied to domestic and overseas customers in bulk. The Group's product has received recognition at the international level. The Group continues to be recognized and trusted by its domestic and overseas customers for its quality products and good services. During the year, the Group continued to maintain a strong customer portfolio, with wind power customers including major domestic wind turbine package manufacturers in China and internationally renowned wind turbine package manufacturers such as GE Renewable Energy, Siemens Gamesa Renewable Energy, Suzlon and Doosan.

As the government's policies in recent years have vigorously promoted wind power across the country, some wind turbine manufacturers have substantially reduced their selling price of wind turbines in order to capture share of the wind power market with vast potential, resulting in fierce price war and a substantial decrease in the price of wind turbines. Against this backdrop, as wind gear transmission equipment is one of the essential components of wind turbines, the downward price trend has inevitably lowered the prices of the wind gear transmission equipment of the Group, which in turn has led to a decrease in gross profit margin in the Group's wind gear transmission equipment business. According to the website of China Energy News Network* (中國能源新聞網), the price of onshore wind turbine (excluding tower drum) decreased from RMB1,408/kW in the first quarter of 2022 to RMB1,200/kW in October 2022 and offshore wind turbine (including tower drum) reached a record low, which is RMB3,282/kW, in 2022. The continuous price competition in the wind turbine manufacturing industry has posed challenges to the development of the wind gear transmission equipment of the Group.

The Group continues to adhere to its green development strategy in terms of its business in industrial gear transmission equipment segment. By adhering to the concept of energy conservation, environmental protection and low carbon, the Group has continued to promote and improve the "standardized, modularized and serialized" product system, explore in-depth research on new transmission technology, and lead the development direction of industrial gear transmission to "four highs and three lows" (i.e., high power, high speed, high load and high precision; low power consumption, low vibration and low noise). Besides, the Group has also been actively developing driving technology and has developed an "integrated, intelligent and digital" driving product system. With the help of the Jiangsu Industrial Gear Engineering Research Center and Jiangsu Industrial High-speed Precision

MANAGEMENT DISCUSSION AND ANALYSIS

Gear Transmission Engineering Research Center, the Group has been provided with continuous support to enhance its technological innovation capability and market competitiveness. Customers of the industrial gear business of the Group include internationally renowned companies such as Heidelberg Cement (a company listed on the Frankfurt Stock Exchange (stock code: HEI) and the 678th largest listed company in the world in the Forbes Global 2000 in 2020) and Primetals Technologies (a joint venture of Mitsubishi Heavy Industries and its partners).

With the rapid development of the machinery industry, the gear industry has become the largest industry in China's mechanical basic sector, in line with the development trend of the national economy. At present, China's gear industry is shifting from a stage of high-speed growth to a stage of high-quality development, prompting the gear industry to change its economic development mode, optimize its industrial structure, and transform its growth momentum. According to the data compiled by the China Machinery General Parts Industry Association, the production value of gear industry in China increased from RMB220.5 billion in 2016 to RMB314.3 billion in 2021, representing a CAGR of 6.9%. In addition, according to the forecast of Askci Corporation(中商產業研究院), in 2022, the production value of China's gear industry reached RMB326.9 billion.

At the same time, China has issued a number of policies in recent years to encourage industry development and innovation, such as the "Pre-2030 Carbon Peaking Action Plan", which promotes energy saving and low-carbon strategies in key areas such as metallurgy, building materials, petrochemicals and chemicals; the "14th Five-Year Plan" for the development of intelligent manufacturing, which calls for the completion of more than 500 demonstration factories for intelligent manufacturing, the plan also aims to facilitate the research and development of the major technologies equipment of (a) construction machinery, (b) nuclear power plants, (c) large petroleum, petrochemical and coal chemical equipment and (d) key components of large-scale metallurgical, mining equipment and port machinery, enhancing the core competitiveness of the manufacturing industry. A number of policies introduced have brought clear market prospects for the development of related industries, and created a good production and operation environment for the Group. In view of the huge market potential and due to the established market reputation of the Group in the industrial gear industry in the PRC, leveraging on the Group's core competitiveness, including its operational excellence and proven track record in manufacturing industrial gears, the Group will continue to provide high-quality products and efficient drive systems to its customers. Moving forward, the Group has identified strategic initiatives to leverage its strengths for organic expansion in China and overseas, including attracting new customers and enhancing customer loyalty, as well as pursuing new business opportunities by venturing into new product categories and new market avenues. Meanwhile, the Group has strengthened its efforts to provide and sell parts and components of relevant products as well as system solutions to its customers, helping them to enhance their current production efficiency and reduce energy consumption without increasing capital expenditure, and satisfying their diversified and differentiated needs, thereby maintaining the Group's position as a major supplier in the industrial gear transmission equipment product market.



MANAGEMENT DISCUSSION AND ANALYSIS

The Group's rail transportation gear transmission equipment is widely used in the rail transportation fields such as high-speed rails, metro lines, urban train and tram. The Company has established long-term cooperative relationships with many well-known domestic and foreign companies in the industry. The Group has obtained ISO/TS22163 Certificate for the Quality Management System of International Railway Industry and CRCC Certification for Railway Products for its rail transportation gear box products, which has laid a solid foundation for further expansion in the international rail transportation market. Currently, the products have been successfully applied to rail transportation transmission equipment in Beijing, Shanghai, Shenzhen, Nanjing, Hong Kong, Taipei and other cities in the PRC and have also been successfully applied to rail transportation transmission equipment in multiple countries and regions such as Singapore, Brazil, Netherlands, India, Mexico, Tunisia, Australia, Canada, France, Spain, Romania and Tanzania. At the same time, the Group's rail transportation gear transmission equipment business has launched the IRIS system "Silver Medal" upgrade project in 2021 and officially obtained the IRIS "Silver Medal" certificate during the reporting period, which will greatly enhance the Group's influence in the rail transportation industry and ensure sustainable development of the Group.

The Group has been engaged in the commodity trading business and steel industry chain trading business since 2012. The commodity trading business mainly involves the procurement and sale of bulk refined oil products and copper cathode. The steel industry chain business mainly involves the procurement and sale of raw coal, upstream raw materials for steel, coke and bulk steel. From January to December 2022, China's total import and export volume of commodities increased by 4.4% year-on-year, total export volume increased by 7% year-on-year, and total import volume increased by 1.1% year-on-year. To capture the huge market potential of the commodity trading industry in China and to broaden its income sources, the Group will continue to develop its trading business.

In 2023, the Group will adhere to the four core competitive strengths of "innovative thinking, zero defects, professional services, and customer orientation", continue to develop its gear transmission equipment business and to provide customers with better product and more comprehensive services. Meanwhile, the Group will continue to keep abreast of product market trends, improve product quality and economies of scale while expanding market share on all fronts, thereby enabling the Group to reach new record highs in profitability and create more value for shareholders and investors. With the introduction of the carbon peaking and carbon neutral targets, "green" has become the "new coordinate" for the quality development of Chinese enterprises. Against this backdrop, the Group, as a leading supplier in the transmission equipment sector, will continue to drive green development of its business and industry chain through innovation, leading the technological development trend of the industry and building a new "green" engine to help the country achieve the "dual carbon" targets.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL PERFORMANCE

REVENUE

During the year, sales revenue of the Group increased by 4.3% from approximately RMB20,210,526,000 in 2021 to approximately RMB21,079,654,000, this was mainly due to the increase in deliveries of wind gear transmission equipment.

	Revenue		
	Year ended 31 December		
	2022	2021	Change
	RMB'000	RMB'000	
Wind gear transmission equipment	13,274,367	12,039,140	10.3%
Industrial gear transmission equipment	2,046,483	1,943,871	5.3%
Rail transportation gear transmission equipment	378,880	370,420	2.3%
Trading business	5,346,027	5,763,631	-7.2%
Other products	33,897	93,464	-63.7%
Total	21,079,654	20,210,526	4.3%

During the year, sales revenue from wind gear transmission equipment was approximately RMB13,274,367,000 (2021: RMB12,039,140,000), representing an increase of 10.3% as compared with last year; sales revenue from industrial gear transmission equipment was approximately RMB2,046,483,000 (2021: RMB1,943,871,000), representing an increase of 5.3% as compared with last year; sales revenue from rail transportation gear transmission equipment was approximately RMB378,880,000 (2021: RMB370,420,000), representing an increase of 2.3% as compared with last year; and sales revenue from trading business was approximately RMB5,346,027,000 (2021: RMB5,763,631,000), representing a decrease of 7.2% as compared with last year.

GROSS PROFIT MARGIN AND GROSS PROFIT

During the year, the Group's consolidated gross profit margin was approximately 15.5% (2021: 15.8%), representing a decrease of 0.3 percentage point as compared with last year. Consolidated gross profit for the year was approximately RMB3,263,232,000 (2021: RMB3,188,310,000), representing an increase of 2.3% as compared with last year. During the year, the increase in consolidated gross profit was mainly due to the increase in sales revenue, the decrease in gross profit margin was mainly due to the decreased sales price and the increased costs of wind and industrial gear transmission equipment.

OTHER INCOME

During the year, the Group's other income was approximately RMB210,242,000 (2021: RMB306,450,000), representing a decrease of 31.4% as compared with last year. Other income mainly comprised of interest income from other financial assets at amortised cost, interest income from deferred payment of consideration for the Disposal, government grants and income from sales of scraps and materials.



MANAGEMENT DISCUSSION AND ANALYSIS

OTHER GAINS/(LOSSES) – NET

During the year, the Group's other net gains were approximately RMB120,851,000 (2021: net losses: RMB132,832,000), which mainly included foreign exchange gains and gains on fair value of financial assets at fair value through profit or loss.

SELLING AND DISTRIBUTION EXPENSES

During the year, the Group's selling and distribution expenses were approximately RMB479,184,000 (2021: RMB430,244,000), representing an increase of 11.4 % as compared with last year. Selling and distribution expenses mainly comprised of product packaging expenses, transportation expenses, staff costs and business expenses. During the year, selling and distribution expenses represented 2.3 % of sales revenue (2021: 2.1%), representing an increase of 0.2 percentage point as compared with last year.

ADMINISTRATIVE EXPENSES

During the year, the Group's administrative expenses were approximately RMB557,794,000 (2021: RMB480,059,000), representing an increase of 16.2% as compared with last year. The increase in the administrative expenses was mainly due to the increase in staff costs. During the year, administrative expenses represented 2.6% of sales revenue (2021: 2.4%), representing an increase of 0.2 percentage point as compared with last year.

RESEARCH AND DEVELOPMENT COSTS

During the year, the Group's research and development costs were approximately RMB744,816,000 (2021: RMB667,782,000), representing an increase of 11.5% as compared with last year. During the year, research and development costs represented 3.5% of sales revenue (2021: 3.3%), representing an increase of 0.2 percentage point as compared with last year.

NET IMPAIRMENT LOSSES RECOGNISED ON FINANCIAL ASSETS

During the year, the net impairment losses recognised on financial assets of the Group were approximately RMB212,812,000 (2021: impairment losses reversed on financial assets were RMB42,823,000) which included impairment losses on trade receivables amounting to RMB119,450,000 and impairment losses on other receivables amounting to RMB93,362,000, representing an increase of approximately RMB255,635,000 as compared with last year. The increase in impairment losses were mainly due to individual provision for bad debts of specific customers and debtors based on evaluation of credit risk.

FINANCE COSTS

During the year, the Group's finance costs were approximately RMB588,814,000 (2021: RMB233,498,000), representing an increase of 152.2% as compared with last year, which was mainly due to an increase in bank borrowings in an amount of RMB3,844,485,000 and the interest accrued from put option liabilities related to the Disposal in an amount of RMB214,175,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2022, the equity attributable to owners of the Company amounted to approximately RMB10,475,951,000 (31 December 2021: RMB13,399,195,000), representing a decrease of 21.8% as compared with the beginning of the year. The Group had total assets of approximately RMB41,634,453,000 (31 December 2021: RMB29,640,474,000), representing an increase of 40.5% as compared with the beginning of the year. Total current assets were approximately RMB30,852,241,000 (31 December 2021: RMB20,822,795,000), representing an increase of 48.2% as compared with the beginning of the year. Total non-current assets were approximately RMB10,782,212,000 (31 December 2021: RMB8,817,679,000), representing an increase of 22.3% as compared with the beginning of the year.

As at 31 December 2022, total liabilities of the Group were approximately RMB28,039,883,000 (31 December 2021: RMB15,872,439,000), representing an increase of approximately RMB12,167,444,000 or 76.7%, as compared with the beginning of the year. Total current liabilities were approximately RMB23,321,323,000 (31 December 2021: RMB14,721,603,000), representing an increase of 58.4% as compared with the beginning of the year, mainly due to the increase in put option liabilities related to the Disposal and trade and bills payables. Total non-current liabilities were approximately RMB4,718,560,000 (31 December 2021: RMB1,150,836,000), representing an increase of 310.0% as compared with the beginning of the year, mainly due to an increase in bank borrowings.

As at 31 December 2022, the net current assets of the Group were approximately RMB7,530,918,000 (31 December 2021: RMB6,101,192,000), representing an increase of approximately RMB1,429,726,000 or 23.4%, as compared with the beginning of the year.

As at 31 December 2022, total cash and bank balances of the Group were approximately RMB9,332,115,000 (31 December 2021: RMB5,407,454,000), representing an increase of approximately RMB3,924,661,000 or 72.6%, as compared with the beginning of the year. Total cash and bank balances included pledged bank deposits of RMB4,897,224,000 (31 December 2021: RMB1,897,477,000) and the structured bank deposits included in the financial assets at fair value through profit or loss amounting to RMB51,374,000 (31 December 2021: RMB225,811,000).

As at 31 December 2022, the Group had total borrowings of approximately RMB7,842,584,000 (31 December 2021: RMB3,998,099,000), representing an increase of RMB3,844,485,000 or 96.2%, of which, borrowings with 1-year term amounted to RMB4,657,412,000 (31 December 2021: RMB3,998,099,000), accounting for approximately 59.4% of the total borrowings (31 December 2021: 100%). The interest rates of the Group's borrowings during the year ranged from 3.10% to 7.61% per annum.

Taking into account the capital generated internally within the Group, the banking credit available to the Group, and the net current assets of approximately RMB7,530,918,000 as at 31 December 2022, the Directors believe that the Group will have sufficient capital to meet its working capital requirements and foreseeable capital expenditure.



MANAGEMENT DISCUSSION AND ANALYSIS

GEARING RATIO

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) increased from 53.5% as at 31 December 2021 to 67.3% as at 31 December 2022.

CAPITAL STRUCTURE

The Group's operations were financed mainly by shareholders' equity, banking and other credits 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 cash and cash equivalents were mainly denominated in Renminbi and U.S. dollars. The Group's bank borrowings denominated in U.S. dollars as at 31 December 2022 amounted to approximately US\$2,500,000.

As at 31 December 2022, the Group's borrowings with fixed interest rate accounted for 60.7% of total borrowings.

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 2022.

CONTINGENT LIABILITIES

Save as disclosed in note 38 to the consolidated financial statements, as at 31 December 2022, the Directors were not aware of any other material contingent liabilities.

CAPITAL COMMITMENTS

As at 31 December 2022, the Group had capital commitments contracted for but not provided in the consolidated financial statements in respect of the acquisition of property, plant and equipment of approximately RMB3,117,804,000 (31 December 2021: RMB1,573,737,000). Details of which are set out in note 39 to the consolidated financial statements. Such an increase in capital commitments was mainly due to the increased investment in wind gear transmission equipment by the Group in Huai'an, Jiangsu Province since 2021 and the increase in purchases of property, plant and equipment.

FOREIGN EXCHANGE RISK

The Group's operations are mainly conducted in the PRC. With the exception of export sales and imported equipment which are mainly denominated in U.S. dollars and Euro, the Group's domestic revenue and expenses are denominated in Renminbi. Therefore, the Board is of the view that the Group's operating cash flow and liquidity during the year were likely to face certain exchange rate risks. The Group does not use any foreign currency derivatives to hedge against the exposure in foreign exchange.

MANAGEMENT DISCUSSION AND ANALYSIS

During the year, the net gains of foreign exchange (included in “other net gains”) recorded by the Group was approximately RMB112,656,000 (2021: net losses of RMB67,907,000), which was mainly due to the gains from export business denominated in U.S. dollars as a result of fluctuations in the exchange rate of Renminbi against U.S. dollars during the year.

The Group have formulated foreign exchange risk management measures and strategies and will actively manage the net amount of foreign currency assets and liabilities to reduce its exposures to exchange rate risks.

INTEREST RATE RISK

During the Year, the loans of the Group were mainly bank loans. Therefore, the benchmark lending rate announced by the People’s Bank of China would have a direct impact on the Group’s cost of debt, and future changes in interest rates would also have certain impact on the Group’s cost of debt. The Group will strive to reduce the finance costs by actively monitoring the changes in credit policies, taking pre-emptive actions, strengthening capital management and widening financing channels.

SIGNIFICANT ACQUISITION AND DISPOSAL DURING THE YEAR

During the year, the Group did not conduct significant acquisition or disposal of any subsidiaries and associates.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

During the Year, save as disclosed in the paragraph headed “Capital Commitments” under “Management Discussion and Analysis” and that the Group intended to expand its existing business through purchase of property, plant and equipment, the Group did not enter into any agreement in respect of any proposed acquisitions and did not have any other future plans relating to material investment or capital asset.

EVENT AFTER THE REPORTING PERIOD

There are no important events occurred subsequent to 31 December 2022.



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Details of the biographies of Directors and senior management as of 31 December 2022 are listed as follows:

EXECUTIVE DIRECTORS

Mr. Hu Jichun, aged 43, is the Chairman of the Board, an executive Director, the Chief Executive Officer and the chairman of the Nomination Committee 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 served as the vice general manager of Nanjing E-crystal Energy Co., Ltd. from January 2012 to November 2018 and has been serving as an executive Director of the Company since June 2015. Also, Mr. Hu served as a director of Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. ("**Nanjing Drive**") from November 2016 to September 2020 and the chairman and the general manager of Nanjing Drive from December 2016 to May 2019. He served as the president of Nanjing Drive from January 2017 to September 2020. Mr. Hu has been a director and the chairman of Nanjing High Speed since August 2017. Mr. Hu also serves as a director of certain subsidiaries of the Group, including major subsidiaries such as, Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("**Nanjing High Accurate**"), NGC Transmission Equipment (America), Inc., China Transmission Holdings Limited and High Speed Holdings Limited. Mr. Hu is 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 and Electric Drive Association (齒輪與電驅動分會) of China General Machine Components Industry Association (中國機械通用零部件工業協會) and executive member of the national council of New Sushang 《新蘇商》. Mr. Hu was also recognized as the "2020 Outstanding Entrepreneur of Nanjing New Industrial Industry" (二零二零年度南京新型工業行業協會優秀企業家) and the "2021 Outstanding Entrepreneur of Nanjing New Industrial Industry" (二零二一年度南京新型工業行業協會優秀企業家) and was awarded the "2021 Award for Outstanding Contributions of Sushang Industrial Powers" (二零二一年度蘇商實業強國突出貢獻獎) and the "Anti-Epidemic Excellence of Sushang" (戰“疫”最美蘇商), etc. Mr. Hu is the son of Mr. Hu Yueming, an executive Director and an authorised representative of the Company under Rule 3.05 of the Listing Rules (the "**Authorised Representative**").

Mr. Hu Yueming, aged 73, is an executive Director of the Company and an Authorised Representative. Mr. Hu is a university graduate and graduated from Fudan University majoring in laser technology in 1977. Mr. Hu is a professor engineer. He has more than 40 years of experience in the management of machinery and industrial enterprises and 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 (南京高速齒輪箱廠). He served as a director of Nanjing Drive from March 2007 to September 2020. From March 2007 to December 2016 and from May 2019 to September 2020, he served as the chairman and the general manager of Nanjing Drive. Mr. Hu is also a director 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), and the chairman of Nanjing Renewable Energy Association (南京可再生能源協會). He also has been awarded the "National May 1 Labour Medal" (全國五一勞動獎章) and the title of "The 4th Outstanding Entrepreneur of the Machinery Industry" (第四屆全國機械工業明星企業家), "National Labor Model" (全國勞動模範) and "the Leader of China's Gear Industry" (中國齒輪行業產業領軍人物), etc. Mr. Hu Yueming is the father of Mr. Hu Jichun, the Chairman of the Board, an executive Director, the Chief Executive Officer and the chairman of the Nomination Committee of the Company.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Chen Yongdao, aged 60, 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 professor engineer. Mr. Chen successively 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 (南京高速齒輪箱廠). He has become a director and the deputy general manager of Nanjing Drive since March 2007. He has served as the vice president of Nanjing Drive since January 2017. Mr. Chen is also a director in certain subsidiaries of the Group. 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 almost 40 years. He has received a number of awards for the achievement of his research on mechanical transmission equipment production techniques.

Mr. Wang Zhengbing, aged 51, 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 Metal Material & Heat Treatment in 1993 and a master's degree in Engineering in Nanjing University of Science and Technology in 2011. He is a senior engineer. Mr. Wang has joined Nanjing High Speed Gear Factory (南京高速齒輪箱廠) since August 1993 and held various positions, including the deputy director and director of the workshop since January 1999. He has served as the vice general manager of 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 Nanjing Drive from November 2016 to September 2020 and from January 2017 to September 2020, respectively. Mr. Wang has served as a director of Nanjing High Speed since August 2017. He has been the general manager of Industrial Division since January 2017 and of Nanjing High Accurate since September 2017. Mr. Wang is also a director in certain subsidiaries of the Group.

Mr. Zhou Zhijin, aged 50, is an executive Director of the Company. He graduated from Nanjing Industrial School in 1991. He joined Nanjing High Speed Gear Factory (南京高速齒輪箱廠) in August 1991 and was appointed as the vice director of personnel department in January 1999. He has served as the deputy director of human resource department of Nanjing High Accurate since September 2001 and the assistant to general manager and the office head of Nanjing High Speed since July 2003. He has served as the vice general manager of Nanjing High Speed since July 2006 and an executive Director of the Company since June 2015. Mr. Zhou served as a director of Nanjing Drive from November 2016 to September 2020 and the vice president of Nanjing Drive from January 2017 to September 2020. Mr. Zhou has served as a director of Nanjing High Speed since August 2017. Mr. Zhou is also a director in certain subsidiaries of the Group.



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Zheng Qing, aged 55, is an executive Director of the Company. She is a fellow member of the Association of Chartered Certified Accountants. She joined the Company as an executive Director on 1 December 2016. 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's 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 the 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 21 January 2020, Ms. Zheng has been an independent non-executive director of GHW International (stock code: 9933).

Since June 2015, Ms. Zheng has been the financial controller of Fullshare Holdings Limited (“Fullshare Holdings”, stock code: 607).

Mr. Gu Xiaobin, aged 54, is an executive Director of the Company. He is a holder of university degree. He 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 a director and the chief operating officer of Nanjing Drive from then to September 2020. Mr. Gu has served as the general manager of Nanjing High Speed since October 2017, and a director of Nanjing High Speed since March 2021. Mr. Gu served as the general manager of wind power business department and overseas business department since October 2017. Mr. Gu has been an executive Director of the Company since May 2019. Mr. Gu is also a director in certain subsidiaries of the Group. Mr. Gu served as the vice chairman of Jiangsu Province Renewable Energy Industry Association, the vice chairman of Nanjing New Industrial Industry Association and the vice chairman of Nanjing Association for The Promotion of Intelligent Manufacturing Equipment Industry, and was accredited as “the 9th Outstanding Entrepreneur in China Machinery Industry” (第九屆中國機械工業優秀企業家), “2021 Economic Figures of Huai'an” (二零二一淮安年度經濟人物), “2022 Economic Figures of Huai'an” (二零二二淮安年度經濟人物), etc.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Fang Jian, aged 56, is an executive Director of the Company. He graduated from Jinling Institute of Technology (金陵科技學院) in July 1987 where he obtained the professional diploma in road and bridges. Mr. Fang has almost 20 years of management experience in the green building and energy-saving building industry in the People's Republic of China. Mr. Fang served as a vice president in Nanjing Jiangong Industry Group Co., Ltd.* (南京建工產業集團有限公司) (“**Nanjing Jiangong**”) from July 2006 to December 2009 and was appointed as a director of Nanjing Jiangong from 2011 to December 2014. He was appointed as the chairman, a director and the legal representative of Jiangsu Province Green Building Technology Research Centre Co., Ltd.* (江蘇省綠色建築工程技術研究中心有限公司) from September 2008 to May 2017 and has been appointed as a director since May 2017. He was also appointed as the chairman, a director, the legal representative and the general manager of Jiangsu Jinhe Construction Group Co., Ltd.* (江蘇錦禾建設集團有限公司) from December 2014 to July 2018. He was appointed as the chairman, a director and the legal representative of Jiangsu Ansen Kangju Enterprise Management Co., Ltd.* (江蘇安森康居企業管理有限公司) from June 2015 to October 2018. He has also been appointed as the chairman, a director and the legal representative of Nanjing Fasike Energy Technology Development Co., Ltd.* (南京法斯克能源科技發展有限公司) from June 2015 to January 2021. Mr. Fang was an executive director of Fullshare Holdings from December 2014 to June 2016. Mr. Fang has joined the Group since April 2020 and has been appointed as the chairman, a director and the legal representative of Nanjing Handa Import & Export Trade Co., Ltd.* (南京翰達進出口貿易有限公司) and a director and the legal representative of Nanjing Shengzhuang Supply Chain Co., Ltd.* (南京市盛裝供應鏈有限公司), both being wholly-owned subsidiaries of the Company. Mr. Fang has served as an executive Director of the Company since August 2020. He is a director and the chairman of Nanjing Drive since September 2020 and the general manager of Nanjing Drive since October 2020. Mr. Fang is also a director of certain subsidiaries of the Group.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Jiang Xihe, aged 64, 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 the 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 the head of Accounting and Financial Development Research Centre of Nanjing Normal University (南京師範大學).

Mr. Jiang was appointed as an independent director of Hongbaoli Group Co., Ltd. (stock code: 002165, a company listed on the Shenzhen Stock Exchange) from November 2015 to August 2022. From September 2019 to June 2021, he was appointed as an independent director of Jiangsu Lanfeng Bio-Chemical Co., Ltd. (stock code: 002513, a company listed on the Shenzhen Stock Exchange).



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Currently, Mr. Jiang is also an independent director of Hongda Xingye Co.,Ltd. (stock code: 002002, 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 Third Board of the Shenzhen Stock Exchange).

Ms. Jiang Jianhua, aged 57, is an independent non-executive Director of the Company and she joined the Company as an independent non-executive Director on 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's 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's degree of management. She studied and obtained a doctorate 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 of 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.

Ms. Jiang was appointed as an independent director of Jiangsu Holly Corporation (stock code: 600128, a company listed on the Shanghai Stock Exchange) from February 2016 to October 2021. From May 2016 to May 2022, she was appointed as an independent director of Jiangsu Guoxin Corp. Ltd. (stock code: 002608, a company listed on the Shenzhen Stock Exchange).

Currently, Ms. Jiang serves as an independent director of Nanjing Baose Co., Ltd. (stock code: 300402, a company listed on the Shenzhen Stock Exchange) and Changzhou New District Jinkang Precision Mechanism Co., Ltd. (stock code: 831978, a company listed on New Third Board of the Shenzhen Stock Exchange).

Dr. Chan Yau Ching, Bob, aged 60, 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's degree in Business Administration from the University of Wisconsin-Madison, the U.S. in 1986, and a doctorate degree in Finance from Purdue University, the 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 licensed representative/responsible officer engaging in type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

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 is principally engaged in the research and development, manufacturing and distribution of biopharmaceutical drugs in China.

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

From December 2018 to November 2020, 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 is, as at the date of this annual report, a licensed corporation carrying out type 4 (advising on securities) and type 9 (asset management) regulated activities under the SFO.



BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Nathan Yu Li, aged 51, is an independent non-executive Director, 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's degree in Science and a master's 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's degree in Science from Boston University in May 1995, and further obtained a master's 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 Dazhu 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, the 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 the formulation of corporate development strategy and budget planning.

SENIOR MANAGEMENT

Mr. Lui Wing Hong, Edward, aged 60, is the chief financial officer and the company secretary of the Company and an Authorised Representative. 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, an associate member of the Australian Society of Certified Practising Accountants and a fellow member of the 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 certain subsidiaries of the Group.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Zhou Jingjia, aged 59, is the financial controller of the Company. 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 Nanjing Atlas Copco Construction Machinery Ltd. as the finance department manager. In January 2006, Ms. Zhou was transferred from Nanjing Atlas Copco Construction Machinery Ltd. to Atlas 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 a director of Nanjing Drive from March 2007 to September 2020. Ms. Zhou served as the vice president of Nanjing Drive from January 2017 to September 2020. Ms. Zhou has served as a director of Nanjing High Speed since December 2007. Ms. Zhou is also a director of certain subsidiaries of the Group.



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 2022.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Group is principally engaged in the research, design, development, production and sale of gear transmission equipment products. Details of the principal activities of the major subsidiaries, joint ventures and associates of the Company are set out in notes 17 and 18 to the consolidated financial statements respectively. Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (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 10 to 21 of this annual report. These discussions form a part of this Directors' Report.

ENVIRONMENTAL POLICY AND PERFORMANCE

The Group has complied with relevant PRC laws and regulations relating to environmental protection, and has operated and implemented the relevant requirements of ISO14001 environment management system and ISO50001 energy management system. The Company has strictly followed the laws and regulations requirements, such as Environmental Protection Law of the PRC and the Clean Production Promotion Law of the PRC, and has established environmental protection systems to ensure the implementation of various laws and regulations and legal treatment and disposal of various types of emissions, and regularly submits environmental protection statistics and makes tax payment for environmental protection in a timely manner to relevant environmental protection authority. The Group conducts construction of new, reconstruction and expansion projects according to the latest national standards on environmental protection, engages design institute with Grade A qualification, experts in the industry, professors in universities, professional third-party service organizations, etc. 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, without procrastination, repetition, waste, and reduce the unnecessary carbon emissions. In respect of previous 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 Group met the requirements of relevant environmental protection authority. The Group always pays close attention to the development trend of environmental protection equipment at home and abroad, seeks for environmental protection equipment and facilities suitable for its own development, and continues to reduce the impact on the atmosphere, water and land.

DIRECTORS' REPORT

Nanjing High Speed has obtained the ISO14001 environment management system certification every year since 2008, passed the Environmental- Friendly Enterprise Assessment organized by Nanjing Environmental Protection Agency at the end of 2012 and passed the Clean Production Enterprise Assessment at the end of 2013. The project of “level – specific control over land risks on key enterprises” was initiated in 2020 to ensure the control over land risks. The Group established the duties of environmental protection for staff at all levels, and established Emergency Plan for Sudden Environmental Incidents and regularly conducts drills. Through the regular inspection of each unit in charge of the production process and the irregular spot check in cooperation with the regulatory authorities, the Group is able to ensure the implementation of various environmental protection systems. At the same time, we will collect significant environmental incidents at home and aboard and organize all employees to learn and publicize to avoid the occurrence of the same incidents and to truly embed environmental protection into the Company’s production, operation and management. While our business grows, we will enhance the Company’s contribution to environmental protection.

The 2022 Environmental, Social and Governance Report (the “**ESG Report**”) of the Company has been uploaded to the website of the Company (www.chste.com) and the website of the Hong Kong Stock Exchange (www.hkexnews.hk) together with this annual report. The ESG Report has been prepared in accordance with the Environmental, Social and Governance Reporting Guide under Appendix 27 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “**Listing Rules**”) to enable stakeholders to understand the Group’s sustainable development philosophy as well as its strategies and performance in the environmental and social sectors.

KEY RELATIONSHIP WITH STAKEHOLDERS

The Company is committed to operating on a going concern basis while balancing the interests of various stakeholders, including employees, customers and suppliers of the Group.

We understand that employees are our important assets, we formulate and implement human resources policies that are conducive to the sustainable development of the Group, and strive to attract and retain different types of talents and reduce employee turnover, so as to achieve the sustainable development of the Company. The Group has always maintained a low employee turnover rate as compared to the other companies in the manufacturing industry, which indirectly reflects the high sense of belonging of employees to the Group. We provide employees with fair, reasonable and competitive remuneration, determine the standards for their remuneration reasonably with reference to the local labor market and remuneration rates in the industry, formulate remuneration grade based on positions, set the specific amount of remuneration based on personal capacity, qualification and performance, and determine performance bonuses and year-end bonuses following the results of performance evaluation. Besides, we attach great importance to the development of employees, and establish a clear position system which provides different directions for vocational development. We have professional training and development courses for each career development direction, and provide them to outstanding employees. Meanwhile, the employees at senior level are responsible for supporting the career development of their junior, conducting career development interviews and performance evaluations with their junior at least once a year, guiding the direction and making suggestions, giving them corresponding development opportunities, and cultivating and reserving the reserve forces of the department.



DIRECTORS' REPORT

We focus on sustainable development and are always committed to technological innovation and technological progress. We are a supplier with stable growth, reliable quality and perfect service in the global gear transmission equipment industry. We strive to improve product quality and service quality, improve customer satisfaction, and establish and maintain long-term and stable partnerships with customers. We have conducted annual customer satisfaction surveys for more than ten consecutive years, and invited customers to evaluate us in a comprehensive manner to promote our continuous improvement. The customer satisfaction of our gear transmission equipment business surpassed our annual target. We are committed to providing customers with high-quality products and professional services, and accelerating the strategic layout of global business operations. While focusing on the PRC market, we also establish a global after-sales service system. With the operation and maintenance centers and service agencies established in China, the United States, Germany, Singapore and India and other countries, we endeavor to provide global partners with a complete set of solutions and efficient support services to help customers to achieve high reliability and low operating costs of the transmission system, and follow up the diversified needs of customers, further enhance the brand influence and global service quality, and achieve the sustainable development of the Company in the globe. We also hold customer day activities and participate in international and domestic exhibitions to promote the publicity and promotion of new products, strengthen technical communication and business exchanges with customers, and are committed to producing better products and providing more professional services for customers, and develop long-term, stable, extensive and close customer relationships.

We firmly believe that a good supply chain is very important for the sustainable development of the corporate ecosystem. We conduct supplier classification management according to our supplier's business importance, years of supply and performance evaluation. Supplier performance is comprehensively assessed on a monthly and annual basis with reference to factors such as quality, cost, logistics and service to determine the level of qualified suppliers. We strive to maintain close communication with suppliers. Through mutual visits with suppliers, holding supplier conferences, participating in large-scale exhibitions and exchange meetings, we are able to explore future cooperation opportunities with representatives of suppliers from different countries or regions, and be informed of the latest news of the industry.

During the year, we maintained good relationships with various key stakeholders, including employees, customers, suppliers, shareholders, government and regulatory agencies, the public and nearby communities. The Group will continue to ensure effective communication and good relationship with all key stakeholders. A description of key relationships with employees, customers and suppliers will be set out in the 2022 ESG Report of the Company which is published on the websites of the Hong Kong Stock Exchange and the Company respectively in accordance with the Listing Rules.

DIRECTORS' REPORT

COMPLIANCE WITH LAWS AND REGULATIONS

At the company level, the Company has complied with the requirements of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), the Listing Rules and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”), including those related to information disclosures and corporate governance. The Company has also adopted the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 to the Listing Rules (the “Model Code”).

In addition, the Group is principally engaged in the research, design, development, manufacture and distribution of a broad range of mechanical transmission equipment that are used in wind power and a wide range of industrial applications, and our operations are mainly conducted in the PRC. We noticed that the Group was not involved in any major violation of laws and regulations regarding the environmental protection, work safety, labour, child and forced labour, occupational health and safety, product liability, product labeling, advertising and prevention of bribery, such as the Company Law of the PRC, the Environmental Protection Law of the PRC, the Work Safety Law of the PRC, the Labour Law of the PRC, the Provisions on the Prohibition of Using Child Labour, the Code of Occupational Disease Prevention of the PRC, the Product Quality Law of the PRC, the Advertisement Law of the PRC, the Anti-Unfair Competition Law of the PRC and the Interim Provisions on Prohibition of Commercial Bribery.

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 20 to 21 of this annual report, set out below are the key risks and uncertainties facing the Group. It is a non-exhaustive description herein and there may be other risks and uncertainties beyond the scopes outlined below. Besides, this 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 with their own investment advisors before making any investment in the securities of the Company.

The sale of wind gear transmission equipment to our customers who are wind turbine manufacturers is one of the main business of the Group. These customers provide wind power machines to wind energy generation companies which rely on local grid companies to offer connection, transmission and distribution 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 about adverse impact on our business.



DIRECTORS' REPORT

OPERATING RESULTS

The operating results of the Group for the year ended 31 December 2022 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 62 to 63 of this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2022 (2021: nil).

DIVIDEND POLICY

The Company has formulated 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 over 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 factor 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 as at 31 December 2022 was approximately RMB3,823,774,000 (2021: RMB3,652,145,000).

FIVE-YEAR FINANCIAL SUMMARY

The summary of business results and assets and liabilities of the Group for the latest five financial years is set out on page 5 of this 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 34 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

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

BORROWINGS

Details of the borrowings of the during the Year Group are set out in note 29 to the consolidated financial statements.

TAXATION

Details of the taxation of the Group during the Year are set out in note 11 to the consolidated financial statements.

DIRECTORS' REPORT

DONATION EXPENDITURE

During the Year, the donation expenditure of the Group was approximately RMB10,164,000 (2021: RMB80,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

SHARE SCHEME

During the Year, the Group did not have any share 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 35.9% and 14.2% 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 45.0% and 12.9% 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 knowledge of the Directors, none of Directors and any shareholders holding over 5% of the Company's shares and their close associates (within the meaning 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 agreements or letters of appointment 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 articles of association of the Company, 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 B.2.3 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 agreement or letter of appointment with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.



DIRECTORS' REPORT

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. Hu Jichun (<i>Chairman and Chief Executive Officer</i>)	Three years from the date of his re-election on 25 June 2021.
Mr. Hu Yueming	Three years from the date of his re-election on 16 May 2022.
Mr. Chen Yongdao	Three years from the date of his re-election on 16 May 2022.
Mr. Wang Zhengbing	Three years from the date of his re-election on 16 May 2022.
Mr. Zhou Zhijin	Three years from the date of his re-election on 25 June 2021.
Ms. Zheng Qing	Three years from the date of her re-election on 16 May 2022.
Mr. Gu Xiaobin	Three years from the date of his re-election on 22 May 2020.
Mr. Fang Jian	Three years from the date of his re-election on 25 June 2021.

Independent Non-executive Directors:

Mr. Jiang Xihe	Three years from the date of his re-election on 25 June 2021.
Ms. Jiang Jianhua	Three years from the date of her re-election on 22 May 2020.
Dr. Chan Yau Ching, Bob	Three years from the date of his re-election on 22 May 2020.
Mr. Nathan Yu Li	Three years from the date of his re-election on 25 June 2021.

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 2022 are set out in the "Biographies of Directors and Senior Management" section on pages 22 to 29 of this annual report.

DETAILS OF THE EMOLUMENTS

Details of the emoluments of the Directors and the five highest paid employees of the Group are set out in notes 9 and 45 to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2022, the Group employed approximately 7,580 employees (31 December 2021: 6,163). During the Year, labor cost of the Group approximated to RMB1,722,118,000 (2021: RMB1,516,828,000). 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.

DIRECTORS' REPORT

The Company'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 corporate management.

PENSION SCHEMES

The PRC employees of the Group are covered by certain defined-contribution pension plans. Contributions under 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 Group also operates a Mandatory Provident Fund Scheme for all employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. Except for the U.S. employees, the non-PRC employees are covered by other defined-contribution pension plans sponsored by the government of their respective country of residence. The U.S. employees are covered by the defined-contribution pension plans under the laws of the countries where they live.

During the Year, except for the U.S. employees, there were no forfeited contributions (for employees' departure) being used to offset the contributions made for the Year, and as at 31 December 2022, there were no forfeited contributions available to reduce future contributions payable. During the Year, the amount of forfeited contributions for U.S. employees' departure being used to offset the contributions made for the Year was not significant, and as at 31 December 2022, there were no forfeited contributions available to reduce future contributions payable.

HUMAN RESOURCES POLICY

The Group has established and implemented a human resources policy that is beneficial to our sustainable development. We consider the code of ethics and professional abilities as 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.



DIRECTORS' REPORT

We view the continuous training of professional manager team with high level of professionalism, enthusiasm and responsibility as an important mission of our development so as to promote the Group sustained development.

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

Save as the Directors' service agreements and letters of appointment 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 as of 31 December 2022 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 or has any interest that competes or may compete with the business of the Group or may 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

During the Year, save as disclosed below, 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 any of 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 Model Code.

DIRECTORS' REPORT

ASSOCIATED CORPORATIONS

Name of Director	Name of associated corporation	Nature of interest	Approximate amount of registered capital in the associated corporation	Approximate percentage of shareholding in the associated corporation
Mr. Hu Yueming	Nanjing High Speed	Interest in controlled corporation (Notes 1, 2)	RMB150,000,000	6.98%
Mr. Wang Zhengbing	Nanjing High Speed	Other (Notes 1, 3)	RMB7,400,000	0.344%
Mr. Zhou Zhijin	Nanjing High Speed	Interest in controlled corporation (Notes 1, 4)	RMB7,400,000	0.344%
Mr. Gu Xiaobin	Nanjing High Speed	Other (Notes 1, 5)	RMB7,400,000	0.344%

Notes:

- (1) Nanjing High Speed is owned as to approximately 6.98% by Jinhu Shifu Enterprise Management LLP* (金湖驪福企業管理合夥企業(有限合夥)) ("Employee Partnership Enterprise", formerly known as "Shanghai Shifu Enterprise Management LLP* (上海驪福企業管理合夥企業(有限合夥))").
- (2) The Employee Partnership Enterprise is a limited liability partnership controlled by Shanghai Shiji Enterprise Management Consultancy Co., Ltd.* (上海驪吉企業管理諮詢有限公司) ("Shanghai Shiji"), the sole general partner of the Employee Partnership Enterprise. Mr. Hu Yueming is the sole director and sole shareholder of Shanghai Shiji. Hence, Mr. Hu Yueming is deemed to have the sole discretion to exercise 100% of the voting rights of the Employee Partnership Enterprise.
- (3) The Employee Partnership Enterprise is owned as to approximately 15.84% by Jinhu Dingneng Information Consultancy Services LLP* (金湖鼎能信息諮詢服務合夥企業(有限合夥)) ("Jinhu Dingneng", formerly known as "Shouguang Dingneng Information Consultancy Services LLP* (壽光鼎能信息諮詢服務合夥企業(有限合夥))"), as one of the limited partners of the Employee Partnership Enterprise. Mr. Wang Zhengbing is one of the limited partners of Jinhu Dingneng and holds approximately 31.15% interest in Jinhu Dingneng.
- (4) The Employee Partnership Enterprise is owned as to approximately 10.56% by Jinhu Jiding Information Consultancy Services LLP* (金湖吉鼎信息諮詢服務合夥企業(有限合夥)) ("Jinhu Jiding", formerly known as "Shouguang Jiding Information Consultancy Services LLP* (壽光吉鼎信息諮詢服務合夥企業(有限合夥))"), as one of the limited partners of the Employee Partnership Enterprise. Mr. Zhou Zhijin is one of the limited partners of Jinhu Jiding and holds approximately 46.70% interest in Jinhu Jiding.
- (5) The Employee Partnership Enterprise is owned as to approximately 23.58% by Jinhu Dingchuang Information Consultancy Services LLP* (金湖鼎創信息諮詢服務合夥企業(有限合夥)) ("Jinhu Dingchuang", formerly known as "Shouguang Dingchuang Information Consultancy Services LLP* (壽光鼎創信息諮詢服務合夥企業(有限合夥))"), as one of the limited partners of the Employee Partnership Enterprise. Mr. Gu Xiaobin is one of the limited partners of Jinhu Dingchuang and holds approximately 20.92% interest in Jinhu Dingchuang.



DIRECTORS' REPORT

Save as disclosed above, none of the Directors or chief executives of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be entered in the register to be kept under section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code. 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.

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

As at 31 December 2022, 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	1,191,943,693 (Long Position)	72.89 (Long Position)
Fullshare Holdings	Interest in controlled corporation	1,191,943,693 (Long Position)	72.89 (Long Position)

Note 1: Five Seasons, a company incorporated in the British Virgin Islands, is wholly owned by Fullshare Holdings (stock code: 607). Accordingly, Fullshare Holdings is considered to have interests in 1,191,943,693 shares of the Company, representing approximately 72.89% of the issued shares of the Company.

Save as disclosed above and so far as the Directors are aware, as at 31 December 2022, 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

No contracts of significance had been entered into by the Company or its subsidiaries with the controlling shareholders of the Company or their subsidiaries at any time during the Year.

DIRECTORS' REPORT

RELATED PARTY TRANSACTIONS

The related party transactions set out in note 42 to the consolidated financial statements were not disclosable connected transactions under Chapter 14A of the Listing Rules.

The Directors (including our independent non-executive Directors) believe that the related party transactions set out in note 42 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, PricewaterhouseCoopers (“PricewaterhouseCoopers”) resigned as the auditor of the Group with effect from 11 December 2019. The Board appointed Baker Tilly Hong Kong Limited (“Baker Tilly”) as the new auditor of the Group on 14 January 2020 to fill the vacancy following the resignation of PricewaterhouseCoopers and to hold office until the conclusion of the annual general meeting of the Company held on 22 May 2020. The Company has proposed a resolution at the annual general meeting held on 22 May 2020 to reappoint Baker Tilly as the Company’s auditor for the next year.

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 2022 have been audited by Baker Tilly.

MATERIAL LITIGATIONS AND ARBITRATIONS

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 at 31 December 2022, the Company did not enter into or had 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.



DIRECTORS' REPORT

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 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 at the date of the Directors' Report.

By order of the Board

Hu Jichun

Chairman

Hong Kong

31 March 2023

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 interests 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 applications as well as deviation (if any) of the Corporate Governance Code.

During the Year, the Company has complied with the code provisions set out in the Corporate Governance Code, except for the deviation from code provision C.2.1 which states that the roles of chairman and chief executive officer should be separated and should not be performed by the same individual.

Mr. Hu Jichun is the Chairman of the Board and the Chief Executive Officer of the Company. The Board considers that vesting the roles of both Chairman of the Board and Chief Executive Officer in Mr. Hu Jichun is beneficial to the business development and management of the Group, enabling the Company to formulate and implement decisions promptly and efficiently while the balance of functions and power will not be impaired. The Board will continue to review and consider splitting the roles of the Chairman of the Board and the Chief Executive Officer of the Company from time to time in light of the prevailing circumstances of the Company.

CORPORATE CULTURE

As an expert of gearbox and transmission technology solution in the world, the Group has always adhered to the corporate spirit of “Climb up the summit step by step, Strive for perfection bit by bit (步步攀高孜孜求精)”, kept in mind the corporate mission of “Geared for a Better Future (為人類文明傳遞進步動力)”, and embraced the corporate vision and corporate belief of building a “leader in the global transmission equipment industry (全球傳動領域的領導者)” and creating a “first-class manufacturing brand in the world (世界製造一流品牌)”, inherited the concept of ingenuity, consolidated the management concept of “zero defects (零缺陷)” and promoted the concept of green development. Under the framework of the globalization strategy of deepening transmission technology, China High Speed Transmission has focused on the four core competitive strengths of “innovative thinking, zero defects, professional services, and customer orientation (創新思維、零缺陷品質、專業服務、貼近客戶)”, and joined hands with all stakeholders to jointly write a new chapter for the Group’s green future and sustainable development.



CORPORATE GOVERNANCE REPORT

After several years of reform and development, the Group's corporate culture which was firmly established in production, operation and management has been further inherited and developed. The Board and the management lead and shape the corporate culture of the Group, which is underpinned by the core values of acting lawfully, ethically and responsibly across all levels of the Group. The Board leads the management in defining the corporate spirit, corporate mission, corporate vision, corporate values, corporate operating strategic direction of the Group and in fostering a culture that is building a long-term sustainable business where every customer, supplier, partner, investor and employee can benefit in our shared values. The desired corporate culture of the Group is developed and reflected consistently in its production and manufacturing, operations and management workplaces, corporate policies and regulations as well as relations with shareholders and other stakeholders. The Board and the management implement high standards of corporate governance and establish sound and well-established corporate governance practices to ensure that the Company's vision, values and operating strategies are in line with its corporate culture.

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 enhance product quality, increase products of different models and strengthen the research and development of new products 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, to coordinate with the Company's subsidiaries in various regions across the world, we will identify the needs of customers and speed up and enhance our communication and contact with customers from all over the world so as to improve our services for them and resolve problems from customers as soon as possible, thus increasing customers' trust and satisfaction to the Group's products and services. We will continue to strengthen our overall corporate competitiveness in view of the Group's strategy of sustainable development.

CORPORATE GOVERNANCE REPORT

COMPOSITION, PRACTICES AND INDEPENDENCE OF THE BOARD

The Board collectively takes responsibility to all the shareholders of the Company in respect of managing and supervising the business of the Group so as to achieve the target of enhancing value for the shareholders of the Company.

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 submitting interim report, 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 control and risk management procedures, as well as the compliance of relevant laws and regulatory requirements, rules and regulations.

The Board comprises twelve Directors, including eight executive Directors and four independent non-executive Directors. The Board held a total of four 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	2021 Annual General Meeting
No. of meetings held	4	2	1	1	1
Executive Directors					
Mr. Hu Jichun (<i>Chairman and Chief Executive Officer</i>)	4/4			1/1	1/1
Mr. Hu Yueming	4/4				1/1
Mr. Chen Yongdao	4/4		1/1		1/1
Mr. Wang Zhengbing	4/4				1/1
Mr. Zhou Zhijin	4/4				1/1
Ms. Zheng Qing	4/4				1/1
Mr. Gu Xiaobin	4/4				1/1
Mr. Fang Jian	4/4				1/1
Independent Non-Executive Directors					
Mr. Jiang Xihe	4/4	2/2	1/1	1/1	1/1
Ms. Jiang Jianhua	4/4				1/1
Dr. Chan Yau Ching, Bob	4/4	2/2	1/1		1/1
Mr. Nathan Yu Li	4/4	2/2		1/1	1/1

The biographies of each of Directors are set out in the “Biographies of Directors and Senior Management” section on pages 22 to 29 in this annual report.



CORPORATE GOVERNANCE REPORT

Each of the executive Directors has entered into a service agreement with the Company, and each of the 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 and subject to re-election. In any event, such service term can be early terminated subject to the articles of association of the Company and/or applicable laws or regulations.

Save as disclosed in this annual report, there is no financial, business, family or other major/related relationship among the members of the Board.

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

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

The Company understands that the independence of the Board is the key to a sound corporate governance. To ensure that independent views and opinions are available to the Board, the majority of members from all Board committees are independent non-executive directors. In assessing the suitability of a candidate, the Nomination Committee will review the candidate's biographies (including his/her qualifications and available time) and take into account the composition of the Board, the professional experience and skills of the directors, the Company's nomination policy and board diversity policy. The nomination committee of the Company examines annually whether each independent non-executive directors meet the guidelines for the assessment of independence set out in Rule 3.13 of the Listing Rules, has not been involved in the daily management of the Company or has any financial or other interest or relationship in the Company's business or any circumstance that could materially interfere with the exercise of his/her independent judgment, and ensures receipt of an annual confirmation of independence letter from each independent non-executive directors. To assist directors in properly performing their duties, all directors may seek advice from the company secretary or the internal legal team of the Company or from independent professional advisers at the Company's expense. Independent non-executive directors receive only fixed fee. The Board will review the governance framework and mechanism on a regular basis to ensure their effectiveness.

The service terms of the current independent non-executive Directors are set out in the section entitled "Directors and Their Terms" on page 36 of this annual report.

CORPORATE GOVERNANCE REPORT

EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

The five highest paid individuals of the Group during the Year are all Directors, and details of their emoluments are set out in note 45 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 on pages 22 to 29 of this annual report were within the following band:

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

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. Mr. Jiang Xihe is the chairman of the audit committee, and other members are Dr. Chan Yau Ching, Bob and Mr. Nathan Yu Li.

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, risk management and internal control systems of the Company as well as nominating and supervising the external auditor and offering advice and recommendations to the Board of the Company.

During the Year, the audit committee (i) reviewed the annual report for the year ended 31 December 2021 and the interim report for the six months ended 30 June 2022 of the Company and reported the review conclusions to the Board; (ii) reviewed the independence of external auditors; (iii) considered and approved the external auditor’s remuneration and letter of engagement for the year ended 31 December 2021; and (iv) reviewed the internal control review reports, reviewed the appropriateness and effectiveness of the risk management and internal control systems of the Group and made recommendations to the Board on the improvement of internal control, credit control and risk management of the Group.

The number of the meetings held by the audit committee during the Year and the attendance record of each member of the committee are set out in the section entitled “Composition, Practices and Independence of the Board” on page 45 of this annual report.

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

REMUNERATION COMMITTEE

The Company established the remuneration committee as approved by the Board on 8 June 2007 (updated on 29 December 2022). 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.

The remuneration committee has adopted the model that it will review the proposals made by the management on the remuneration of individual Directors and senior management, and make recommendations to the Board. The Board will have final authority to approve the recommendations made by the remuneration committee.

The major work performed by the remuneration committee in 2022 included (among others) reviewing the remuneration package and structure for the Directors and senior management for the year ended 31 December 2022, the remuneration policy for 2022, and the terms of service agreements for the Directors.

The number of the meetings held by the remuneration committee during the Year and the attendance record of each member of the committee are set out in the section entitled "Composition, Practices and Independence of the Board" on page 45 of this annual report.

NOMINATION COMMITTEE

The Company has established the nomination committee with effect from 1 April 2012. The nomination committee comprises Mr. Hu Jichun, who is the Chairman and Chief Executive Officer and an executive Director of the Company, and Mr. Jiang Xihe and Mr. Nathan Yu Li, who are independent non-executive Directors. Mr. Hu Jichun 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, the selection criteria and procedure of the members of the Board 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.

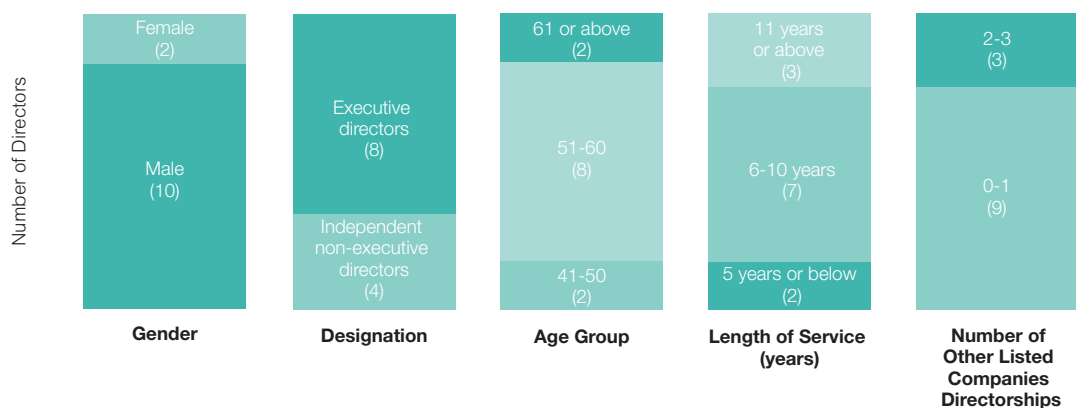
During the Year, the nomination committee reviewed the structure, number, composition and policy for diversity of the Board in respect of the Company's corporate strategy, to ensure that the composition of the Board complies with the Listing Rules and that the Board has skills, experience and diversified background in relation to the strategy, governance and business of the Company.

CORPORATE GOVERNANCE REPORT



The Company adopted the board diversity policy on 1 September 2013 and strived to select the most appropriate candidates to be appointed as a member of the Board. The selection of suitable candidates for directorship will be based on a range of diversity areas including education background, professional experience, skills, knowledge, and time commitments. Neither the Board nor the nomination committee has set any measurable objective implementing the diversity policy, and the nomination committee considered an appropriate balance of diversity perspectives of the Board is maintained. The Board reviewed the implementation and effectiveness of the Company's board diversity policy and considered the Company's board diversity policy as effective.

The following table shows the diversity of the Board as at 31 December 2022:



The Company advocates gender equality and has been committed to providing female employees with equal employment opportunities, training resources, salary and benefits and career growth with male employees. The Company did not set any plans or measurable targets for the gender ratio of all employees, including senior management. For the gender ratio of the Company's employee during the Year, please refer to the Company's 2022 ESG Report.

Appointment of new Directors is first considered by the nomination committee of the Company. In considering the appointment of a Director, the nomination committee applies criteria such as relevant experience, educational and professional background, reputation for integrity and independence as well as the diversity of the Board as mentioned in the board diversity policy of the Company, including but not limited to gender, age, cultural background, educational background, professional experience, skills, knowledge and length of service. For the retiring Directors to be re-elected at annual general meetings, other than considering the selection criteria and diversity of the Board as mentioned above, the nomination committee will evaluate their overall contribution and service to the Company. The recommendations of the nomination committee are then put to the Board for consideration and approval. Thereafter, any Director appointed by the Board is subject to re-election at the general meeting after their appointment.

The number of the meetings held by the nomination committee during the Year and the attendance record of each member of the committee are set out in the section entitled "Composition, Practices and Independence of the Board" on page 45 of this annual report.



CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTION

The Board is responsible for the 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 to all employees and Directors of the Group; 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 standards set out in the Model Code during the Year.

COMPANY SECRETARY

Mr. Lui Wing Hong, Edward, the 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 of the Company. The biography of the company secretary is included in the "Biographies of Directors and Senior Management" section on pages 22 to 29 in this annual report. During the Year, Mr. Lui received in aggregate of more than 15 hours of professional trainings to update his skills and knowledge in accordance with Rule 3.29 of the Listing Rules.

ONGOING PROFESSIONAL DEVELOPMENT

The Company arranges induction trainings for all new Directors based on their 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 the Companies Ordinance, etc. In addition, the Company also encourages all Directors to actively attend relevant training programs at the Company's expenses.

CORPORATE GOVERNANCE REPORT

During the Year, the Directors received the updated information and profile 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 included introduction of directors' responsibilities under the Listing Rules, the introduction to the Corporate Governance Code and the study of the business practices and ethics of the Company. With effect from April 2012, all Directors shall provide their training records to the Company annually.

The individual training record of each Director during the Year 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. Hu Jichun (<i>Chairman and Chief Executive Officer</i>)	✓	✓
Mr. Hu Yueming	✓	✓
Mr. Chen Yongdao	✓	✓
Mr. Wang Zhengbing	✓	✓
Mr. Zhou Zhijin	✓	✓
Ms. Zheng Qing	✓	✓
Mr. Gu Xiaobin	✓	✓
Mr. Fang Jian	✓	✓
Independent Non-Executive Directors		
Mr. Jiang Xihe	✓	✓
Ms. Jiang Jianhua	✓	✓
Dr. Chan Yau Ching, Bob	✓	✓
Mr. Nathan Yu Li	✓	✓



CORPORATE GOVERNANCE REPORT

REMUNERATION OF AUDITOR

The audit fee and non-audit service fee for the year ended 31 December 2022 payable to Baker Tilly, the current external auditor of the Group, amounted to RMB3,902,000 and RMB2,887,000, respectively. The breakdown of the non-audit service fee is as follows:

	RMB'000
Review of interim results	1,400
Others	1,487
	2,887

DIRECTORS' AND AUDITOR'S RESPONSIBILITY FOR THE FINANCIAL REPORT

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

Reporting responsibility statement with respect to the financial report of the Group made by the auditor of the Company is set out in the Independent Auditor's Report on pages 60 to 61 in this 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 (including risks relating to environment, society and governance) 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 which shall be borne by the Group for achieving its strategic objective, and the senior management is responsible for the design, implementation and monitoring 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 consideration of the adequacy of resources, qualifications and experience of staff, and the adequacy of training courses and relevant budgets for the accounting, internal audit and financial reporting functions as well as the issuer's environmental, social and governance performance and reporting.

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 (including risks relating to environment, society and governance) across business operations.

CORPORATE GOVERNANCE REPORT

The Group has formulated and adopted a risk management policy in providing directions in identifying, evaluating and managing significant risks (including risks relating to environment, society and governance). 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 (including risks relating to environment, society and governance) according to a set of standard criteria. Risk mitigation plans and risk owners are then established for those risks considered to be significant.

The Company has established the internal audit function, and 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, to identify deficiencies in the design and implementation of internal controls and to propose recommendations 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 an 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 effective and adequate 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 disclosure 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' COMMUNICATION POLICY

The Company's shareholder communication policy is primarily to facilitate communication between companies and shareholders (both individuals and institutions) and to ensure that shareholders have access to clear, transparent, accurate and timely information to make their investment decisions. The policy sets out different communication channels (including the Company's website, market briefings and shareholders' meetings). The Board reviewed the Company's shareholder communication policy to ensure the best practices for communication with shareholders and reviewed the shareholder and investor engagement and communication activities conducted in 2022, and was satisfied with the implementation and effectiveness of the shareholders' communication policy.

SHAREHOLDERS' RIGHTS

General meetings shall be convened on the written requisition of any two or more shareholders of the Company 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 requisitionist(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 over 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 provisions 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 by shareholders of the Company 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 website 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

INDEPENDENT AUDITOR'S REPORT

Independent auditor's report to the shareholders of
China High Speed Transmission Equipment Group Co., Ltd.
(Incorporated in the Cayman Islands with limited liability)

OPINION

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 62 to 178, which comprise the consolidated statement of financial position as at 31 December 2022, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 2022 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") 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 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



INDEPENDENT AUDITOR'S REPORT *(continued)*

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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 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 4(a) (Critical accounting estimates and judgements – Estimation of fair value of certain financial assets), Note 20 (Financial assets at fair value through other comprehensive income) and Note 21 (Financial assets at fair value through profit or loss) to the consolidated financial statements.	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, capabilities and objectivity of the Group's external valuers;

As at 31 December 2022, the balances 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 RMB5,650 million.

These unlisted financial instruments were valued with inputs not based on active market prices nor observable market data and were categorised as level 3 in the fair value hierarchy.

INDEPENDENT AUDITOR'S REPORT *(continued)*



KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Fair value measurement of financial instruments with significant inputs not based on observable market data (level 3) <i>(Continued)</i></p> <p>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 but not limited to revenue growth rate, operating margin, discount rate, liquidity discounts, earnings multiples and recent transaction prices. We have therefore focused on this area.</p>	<p>We evaluate the valuation models and key inputs adopted by the Group including:</p> <ul style="list-style-type: none">• 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 weighted average 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. <p>Based on the procedures above, we consider the judgements and estimates made by management in measuring the fair values of level 3 financial instruments with significant unobservable inputs were supported by available evidences.</p>



INDEPENDENT AUDITOR'S REPORT *(continued)*

KEY AUDIT MATTERS *(Continued)*

Key Audit Matter	How our audit addressed the Key Audit Matter
<p>Recoverability of trade receivables at amortised cost</p> <p>Refer to Note 3.1(b) (Financial risk management – Credit risk), Note 4(b) (Critical accounting estimates and judgements – expected credit loss for receivables) and Note 25 (Trade and other receivables) to the consolidated financial statements.</p>	<p>We understood and tested key controls on a sample basis over management's policies, processes and controls over assessment on recoverability of trade receivables balances and determination of loss allowances;</p>
<p>As at 31 December 2022, the Group had approximately RMB7,761 million trade receivables and loss allowances of approximately RMB670 million has been provided.</p>	<p>We assessed the appropriateness of the credit loss provisioning methodology used by the Group;</p>
<p>Management applied significant judgement in assessing the expected credit losses on trade receivables. Trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for loss allowances. 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 12 to 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.</p>	<p>For trade receivables assessed individually, we obtained management's assessment on 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;</p>
	<p>We challenged the management's 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 both internal and external data source; and</p>
<p>We focused on this area because significant management judgements and estimates are applied in determining the provision for impairment of such balances.</p>	<p>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.</p>
	<p>Based upon the above, we consider that the judgements and estimates made by management in respect of the loss allowances of trade receivables were supportable by available evidences.</p>

INDEPENDENT AUDITOR'S REPORT *(continued)*

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all 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 issued by the IASB 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.



INDEPENDENT AUDITOR'S REPORT *(continued)*

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. This report is made 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 HKSA's 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.

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism 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.

INDEPENDENT AUDITOR'S REPORT *(continued)*

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

(Continued)

- 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.

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 them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, actions taken to eliminate threats or safeguards applied.

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 Mr. Chan Sai Ho.

Baker Tilly Hong Kong Limited

Certified Public Accountants

Hong Kong, 31 March 2023

Chan Sai Ho

Practising certificate number P07705

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2022

	Note	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
Revenue from contracts with customers	5	21,079,654	20,210,526
Cost of sales		(17,816,422)	(17,022,216)
Gross profit		3,263,232	3,188,310
Selling and distribution expenses		(479,184)	(430,244)
Administrative expenses		(557,794)	(480,059)
Research and development costs		(744,816)	(667,782)
Net impairment losses (recognised)/reversed			
on financial assets	3.1(b)	(212,812)	42,823
Other income	6	210,242	306,450
Other gains/(losses) – net	7	120,851	(132,832)
Operating profit		1,599,719	1,826,666
Finance income	10	116,534	68,959
Finance costs	10	(588,814)	(233,498)
Finance costs – net		(472,280)	(164,539)
Share of results of associates and a joint venture			
accounted for using the equity method	18	(83,849)	(30,453)
Profit before income tax		1,043,590	1,631,674
Income tax expenses	11	(399,379)	(234,814)
Profit for the year		644,211	1,396,860
Profit attributable to:			
– Owners of the Company		101,599	1,315,245
– Non-controlling interests		542,612	81,615
		644,211	1,396,860
Earnings per share for profit attributable to owners of the Company (expressed in RMB)			
Basic and diluted earnings per share	12	0.062	0.804

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2022

	Note	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
Profit for the year		644,211	1,396,860
Other comprehensive (loss)/income for the year:			
<i>Items that may be reclassified to profit or loss</i>			
– Changes in the fair value of debt investments at fair value through other comprehensive income		10,810	(6,552)
– Exchange differences on translation of foreign operations		(18,380)	(6,892)
– Income tax relating to these items		(779)	933
		(8,349)	(12,511)
<i>Items that will not be reclassified to profit or loss</i>			
– Changes in the fair value of equity investments at fair value through other comprehensive income		(387,597)	(163,317)
– Income tax relating to these items		101,934	43,795
		(285,663)	(119,522)
Other comprehensive loss for the year, net of tax		(294,012)	(132,033)
Total comprehensive income for the year		350,199	1,264,827
Total comprehensive (loss)/income for the year attributable to:			
– Owners of the Company		(194,234)	1,183,861
– Non-controlling interests		544,433	80,966
		350,199	1,264,827

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2022

		As at 31 December	
		2022	2021
		RMB'000	RMB'000
	Note		
Non-current assets			
Property, plant and equipment	14	7,124,012	4,520,281
Right-of-use assets	15	676,284	672,705
Goodwill	16	26,414	26,414
Investments accounted for using the equity method	18	220,023	223,783
Financial assets at fair value through other comprehensive income	20	1,613,095	2,016,947
Financial assets at fair value through profit or loss	21	387,600	363,800
Other financial assets at amortised cost	22	–	608,921
Deposits for land leases	23	5,890	5,890
Deferred tax assets	33	728,894	378,938
		10,782,212	8,817,679
Current assets			
Inventories	24	6,928,601	5,206,919
Trade receivables	25	7,090,581	4,433,827
Other receivables	25	1,313,896	993,556
Prepayments	26	1,855,636	1,327,042
Financial assets at fair value through other comprehensive income	20	3,531,659	3,262,355
Financial assets at fair value through profit or loss	21	182,035	411,578
Other financial assets at amortised cost	22	641,421	–
Income tax prepaid		27,671	5,875
Pledged bank deposits	27	4,897,224	1,897,477
Cash and cash equivalents	27	4,383,517	3,284,166
		30,852,241	20,822,795
Current liabilities			
Trade payables	28	4,148,629	2,764,313
Bills payable	28	5,916,252	3,833,491
Other payables	28	1,309,726	2,189,571
Contract liabilities	30	1,508,801	824,532
Borrowings	29	4,657,412	3,998,099
Deferred income	31	18,495	12,484
Income tax payable		259,438	235,863
Warranty provision	32	988,395	863,250
Written put option liability	43(b)	4,514,175	–
		23,321,323	14,721,603

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(continued)*

As at 31 December 2022

	Note	As at 31 December	
		2022 RMB'000	2021 RMB'000
Net current assets		7,530,918	6,101,192
Total assets less current liabilities		18,313,130	14,918,871
Non-current liabilities			
Borrowings	29	3,185,172	–
Deferred income	31	303,077	200,477
Warranty provision	32	1,114,729	848,784
Deferred tax liabilities	33	115,582	101,575
		4,718,560	1,150,836
Net assets		13,594,570	13,768,035
Capital and reserves			
Share capital	34	119,218	119,218
Reserves	35	10,356,733	13,279,977
Equity attributable to owners of the Company		10,475,951	13,399,195
Non-controlling interests		3,118,619	368,840
Total equity		13,594,570	13,768,035

Approved and authorised for issue by the Board of Directors on 31 March 2023.

Hu Jichun
Director

Chen Yongdao
Director

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2022

	Attributable to owners of the Company						
	Note	Share	Other	Retained	Total	Non-	Total
		capital	reserves	earnings		controlling	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
At 1 January 2021		119,218	5,232,500	6,863,616	12,215,334	407,874	12,623,208
Profit for the year		-	-	1,315,245	1,315,245	81,615	1,396,860
Other comprehensive loss for the year		-	(131,384)	-	(131,384)	(649)	(132,033)
Total comprehensive (loss)/income for the year		-	(131,384)	1,315,245	1,183,861	80,966	1,264,827
Dividends declared to non-controlling interests		-	-	-	-	(89,302)	(89,302)
Disposal of financial assets at FVOCI		-	(58,675)	58,675	-	-	-
Disposal of subsidiaries		-	-	-	-	(30,698)	(30,698)
Appropriation to statutory reserve		-	103,740	(103,740)	-	-	-
At 31 December 2021		119,218	5,146,181	8,133,796	13,399,195	368,840	13,768,035
At 1 January 2022		119,218	5,146,181	8,133,796	13,399,195	368,840	13,768,035
Profit for the year		-	-	101,599	101,599	542,612	644,211
Other comprehensive loss for the year		-	(295,833)	-	(295,833)	1,821	(294,012)
Total comprehensive (loss)/income for the year		-	(295,833)	101,599	(194,234)	544,433	350,199
Transfer of fair value reserve upon settlement of equity investment at FVOCI	20(ii)(a)	-	41,147	(41,147)	-	-	-
Partial disposal of interest in a subsidiary without loss of control	43	-	(2,729,010)	-	(2,729,010)	2,205,346	(523,664)
Appropriation to statutory reserve		-	414,597	(414,597)	-	-	-
At 31 December 2022		119,218	2,577,082	7,779,651	10,475,951	3,118,619	13,594,570

The accompanying notes are an integral part of the consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2022

	Note	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
Cash flows from operating activities			
Cash generated from/(used in) operations	37	1,225,599	(1,138,586)
Income tax paid		(318,986)	(343,788)
Net cash generated from/(used in) operating activities		906,613	(1,482,374)
Cash flows from investing activities			
Placements of pledged bank deposits		(10,045,880)	(6,568,614)
Withdrawal of pledged bank deposits		7,046,133	6,324,361
Investment in structured bank deposits		(60,000)	(360,000)
Redemption of structured bank deposits		237,013	460,960
Purchase of financial assets at fair value through other comprehensive income		(30,000)	–
Proceeds from sale/settlement of financial assets at fair value through other comprehensive income		46,256	300,314
Dividends received from financial assets at fair value through other comprehensive income	6	3,005	25,207
Receipt of consideration receivables		–	149,000
Purchases of property, plant and equipment		(2,606,520)	(1,134,188)
Purchases of right-of-use assets		(20,806)	(41,951)
Proceeds from disposal of property, plant and equipment		18,785	26,242
Acquisition of investment in an associate		–	(15,000)
Net cash outflow acquisition of a subsidiary	41	(6,840)	–
Proceeds from disposal of a joint venture		–	40,000
Dividend received from a joint venture		–	50,000
Net cash inflow on disposal of subsidiaries		–	11,413
Interests received		103,175	70,842
Interest income received from deferred payment of consideration for partial disposal of a subsidiary		115,491	–
Receipt of government grants	31	125,829	35,690
Loans to third parties		(430,000)	(220,000)
Repayments from third parties and former subsidiaries		45,000	820,354
Net cash used in investing activities		(5,459,359)	(25,370)

CONSOLIDATED STATEMENT OF CASH FLOWS (continued)

For the year ended 31 December 2022

	Note	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
Cash flows from financing activities			
Proceeds from bank borrowings		8,162,574	4,708,129
Repayment of bank borrowings		(4,318,089)	(3,089,000)
Interest paid		(392,135)	(229,534)
Dividends paid to non-controlling interests		(89,002)	–
Loans from third parties		120,000	250,000
Repayment of loans from third parties		(370,000)	–
Consideration received for partial disposal of a subsidiary without loss of control	43	3,300,000	1,000,000
Income tax paid on partial disposal of a subsidiary without loss of control	43	(838,804)	–
Net cash generated from financing activities		5,574,544	2,639,595
Net increase in cash and cash equivalents			
Cash and cash equivalents at beginning of year		3,284,166	2,184,334
Exchange gains/(losses) on cash and cash equivalents		77,553	(32,019)
Cash and cash equivalents at end of year	27	4,383,517	3,284,166

The accompanying notes are an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 P.O. Box 31119, Grand Pavilion, Hibiscus Way, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands with effect from 26 April 2022. 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 liability company incorporated in the British Virgin Islands (“BVI”), the intermediate holding company is Fullshare Holdings Limited, an exempted company with limited liability incorporated in the Cayman Islands and its shares are listed on the Hong Kong Stock Exchange, and the ultimate holding company of the Company is Magnolia Wealth International Limited, a limited liability company incorporated in the BVI.

As at 31 December 2022, total shares of the Company were 1,635,291 thousands (2021: 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 and trading of goods.

These financial statements were approved for issue by the Board of Directors on 31 March 2023.

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 International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (“Listing Rules”) and the disclosure requirements of Hong Kong Companies Ordinance. The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of certain financial assets and financial liabilities which are carried at fair value.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

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

(a) New and amended standards adopted by the Group

In the current year, the Group has applied the following amendments to IFRSs (the "Amendments") issued by the IASB for the first time, which are mandatorily effective for the annual period beginning on 1 January 2022 for the preparation of the Group's consolidated financial statements:

Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IFRS 16	Covid-19-Related Rent Concessions beyond 30 June 2021
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to IFRSs 2018-2020	Amendments to IFRS 1, IFRS 9, Illustrative Examples accompanying IFRS 16, and IAS 41

The application of the Amendments has had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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 listed below have been published that are not mandatory to be adopted for 31 December 2022 reporting periods and have not been early adopted by the Group. These standards and amendments are either currently not relevant to the Group or had no material impact on the Group's consolidated financial statements.

- Amendments to IAS 1, 'Classification of liabilities as current or non-current', effective for the accounting period beginning on 1 January 2024
- Amendments to IAS 1, 'Non-current liabilities with covenants', effective for the accounting period beginning on 1 January 2024
- Amendments to IAS 1 and IFRS Practice Statement 2, 'Disclosure of accounting policies', effective for the accounting period beginning on 1 January 2023
- IFRS 17 (including the October 2020 and February 2022 Amendments to IFRS 17), 'Insurance contracts', effective for the accounting period beginning on 1 January 2023
- Amendments to IFRS 17, 'Initial Application of IFRS 17 and IFRS 9 -Comparative Information', effective for the accounting period beginning on 1 January 2023
- Amendments to IAS 8, 'Definition of accounting estimates', effective for the accounting period beginning on 1 January 2023
- Amendments to IAS 12, 'Deferred tax related to assets and liabilities arising from a single transaction', effective for the accounting period beginning on 1 January 2023
- Amendments to IFRS 10 and IAS 28, 'Sale or contribution of assets between an Investor and its Associate or Joint Venture', the effective date is to be determined
- Amendments to IFRS 16, 'Lease liability in a sale and leaseback', effective for the accounting period beginning on 1 January 2024



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries

2.2.1 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. Generally, there is a presumption that a majority of voting rights results in control. When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- (a) the contractual arrangement with the other vote holders of the investee;
- (b) rights arising from other contractual arrangements; and
- (c) the Group's voting rights and potential voting rights.

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 comprises 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(a) Business combinations (Continued)

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.

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 net identifiable 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 net identifiable assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in profit or loss.

Intra-group transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(b) Changes in ownership interests in subsidiaries without loss 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 arrangement 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.

2.2.2 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associates

An associate is an entity over which the Group has significant influence but not control, which is generally accompanying a shareholding 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. Dividends received or receivable from associates are recognised as a reduction in the carrying amount of the investment. 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.

The Group's share of post-acquisition profit or loss is recognised in profit or loss, 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 accounted for using the equity method in profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognised in the Group's consolidated financial statements only to the extent of unrelated investor's interests in the associates. Unrealised 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 profit or loss.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 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. Dividends received or receivable from joint ventures are recognised as a reduction in the carrying amount of the investment. 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 venture, 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 venture.

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

Unrealised gains or losses on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealised 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 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.

2.6 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 Renminbi ("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 profit or loss.

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

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currency translation *(Continued)*

(c) Group companies

The results and financial position of all of the Group's 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 item presented are translated at the closing rate at that statement of financial position date;
- Income and expenses for each income statement item 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 items 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. Exchange differences are recognised in other comprehensive income.

(d) Disposal of foreign operation and partial disposal

On 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 differences are reclassified to profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Property, plant and equipment

Property, plant and equipment, other than construction in progress, 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 lands	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	5-10 years

Freehold lands are stated at cost less any impairment losses and are not depreciated.

Construction in progress represents buildings, various machinery and equipment under construction and pending installation, and is stated at cost less impairment losses and is not depreciated. Cost includes the costs of construction and acquisition and capitalised borrowing costs. When the assets concerned are ready 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 2.9).

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



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 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. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

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.

2.9 Impairment of non-financial assets

Goodwill and freehold lands that have an indefinite useful life are not subject to amortisation or depreciation, and are tested annually for impairment. Other non-financial assets that are subject to amortisation or depreciation 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 value-in-use and fair value less costs of disposal. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Investments and other financial assets

2.10.1 Classification

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. 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 fair value through other comprehensive income ("FVOCI").

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

2.10.2 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.

2.10.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("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)*

2.10 Investments and other financial assets *(Continued)*

2.10.3 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/(losses) – 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 other comprehensive income, except for the recognition of impairment 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 other comprehensive income is reclassified from equity to profit or loss. 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/(losses) – net", and impairment losses 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 instrument that is subsequently measured at FVPL is recognised in profit or loss and presented net within "Other gains/(losses) – net" in the period in which it arises.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Investments and other financial assets *(Continued)*

2.10.3 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 other comprehensive income, 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/(losses) – 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.

2.10.4 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Investments and other financial assets *(Continued)*

2.10.4 Derecognition of financial assets *(Continued)*

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.

2.10.5 Impairment

The Group assesses on a forward-looking basis the expected credit losses (“ECL”) 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.

Other financial assets measured at fair value, including equity and debt securities measured at FVPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to ECL assessment.

For financial instruments that have low risk of default at the end of the reporting period, 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 ECL. 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 ECL. 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 ECL.

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

2.11 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount is 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 realise 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 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.

2.13 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 and other 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 2.10 for further information about the Group's accounting for receivables and for a description of the Group's impairment policies.

2.14 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash on hand, deposits held at call with banks, and other short-term and highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.15 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 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.

2.17 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.

2.18 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 profit or loss 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 prepayment 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 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 expensed 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.

2.20 Current and deferred income tax

The income tax expense for the period comprises current and deferred tax. Current and deferred income tax is recognised in the consolidated income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the current and deferred income 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 end of the reporting period in the countries where the Company and its 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Current and deferred income tax *(Continued)*

(b) Deferred income tax

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, or 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 end of the reporting period and are expected to apply at the time when the related deferred income tax asset is realised 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.

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint ventures, 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 or joint ventures. 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, would the deferred tax liability in relation to taxable temporary differences arising from the associate or the joint venture's undistributed profits is recognised.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries, associates and joint ventures 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.21 Employee benefits

(a) Short-term obligations

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave that are expected to be settled wholly within 12 months after the end of the period in which the employees render the related service are recognised in respect of employees' services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liabilities are presented as current employee benefit obligations in the consolidated statement of financial position.

(b) Pension obligations

The People's Republic of China (the "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.

(c) 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)*

2.22 Provisions and contingent liabilities

Provisions

Provisions 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.

Contingent liabilities

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligations is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Written put option liability

The Group has a written put option over the equity of a subsidiary which permit the holder to put their shares in the subsidiary back to the Group at an agreed price on specified dates over a three year period. The amount that may become payable under the option on exercise is initially recognised at the present value of the redemption amount within 'written put option liability' with a corresponding charge directly to equity within 'other reserves'.

The liability is subsequently accreted through finance charges up to the redemption amount that is payable at the date at which the option becomes exercisable. In the event that the option expires unexercised, the liability is derecognised with a corresponding adjustment to equity.

2.24 Revenue recognition

(i) Sales of mechanical transmission equipment and goods

The Group manufactures and sells a broad range of mechanical transmission equipment and goods. 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 the Group 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. See Note 2.28 for further details.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Interest income

Interest income from financial assets at FVPL is included in “Other gains/(losses) – net”, see Note 7 below.

Interest income on financial assets at amortised cost and financial assets at FVOCI 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 are 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 allowances).

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

2.26 Dividend income

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

2.27 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 profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants that become receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised as income of the period in which they become receivable.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.28 Leases

A lease is recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Group is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of a purchase option if the Group is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.28 Leases *(Continued)*

To determine the incremental borrowing rate, the Group:

- Where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- Uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing; and
- Makes adjustments specific to the lease, e.g., term, country, currency and security.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs, and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the Group is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset's useful life.

Payments associated with short-term leases of equipment and vehicles and all leases of low-value assets are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.28 Leases *(Continued)*

Lease income from operating leases where the Group is a lessor is recognised in profit or loss on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as expense over the lease term on the same basis as lease income. The respective leased assets are included in the consolidated statement of financial position based on their nature.

2.29 Research and development costs

All research costs are charged to consolidated income statement as incurred.

Expenditure incurred on projects to develop new products is capitalised and deferred only when the Group can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete the project and the ability to measure reliably the expenditure during the development. Product development expenditure which does not meet these criteria is expensed when incurred.

2.30 Financial guarantee contracts

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument. Financial guarantee contract liabilities are measured initially at their fair values. It is subsequently measured at the higher of:

- the amount of the loss allowance determined in accordance with IFRS 9; and
- the amount initially recognised less, where appropriate, cumulative amortisation recognised over the guarantee period.

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

2.31 Contract liabilities

A contract liability is recognised when a non-refundable payment is received or due (whichever is earlier) from a customer before the Group transfers the related goods. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., transfers control of the related goods to the customer).



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.32 Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) 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).
 - (ii) 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).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
 - (vi) The entity is controlled or jointly controlled by a person identified in (a).
 - (vii) A person identified in (a)(i) 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).
 - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 Dollars ("USD"), Euros ("EUR"), and Hong Kong dollars ("HKD"). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities and net investments in foreign operations. Approximately 5% (2021: 9%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 1% (2021: 1%) of costs were not denominated in the functional currency. The Group currently does not enter into any hedge under the Group's foreign currency risk strategy, however, the Group monitors foreign exchange exposure and will consider hedging significant exposure should the need arises.

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

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Assets		
USD	822,695	936,238
EUR	291,612	210,535
HKD	73,405	55,251
Liabilities		
USD	69,556	56,839
EUR	15,320	2,848
HKD	300	275

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

3.1 Financial risk factors (Continued)

(a) Market risk (Continued)

(i) Foreign exchange risk (Continued)

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 income tax (due to changes in the fair value of monetary assets and liabilities). Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded from the analysis. The analysis is performed at the same basis as 2021.

	Increase/ (decrease) in RMB rate %	(Decrease)/ increase in profit after income tax RMB'000	(Decrease)/ increase in equity* RMB'000
For the year ended 31 December 2022			
If the USD weakens against the RMB	5%	(33,915)	–
If the USD strengthens against the RMB	(5%)	33,915	–
If the EUR weakens against the RMB	5%	(12,555)	–
If the EUR strengthens against the RMB	(5%)	12,555	–
If the HKD weakens against the RMB	5%	(2,765)	(890)
If the HKD strengthens against the RMB	(5%)	2,765	890
For the year ended 31 December 2021			
If the USD weakens against the RMB	5%	(39,161)	–
If the USD strengthens against the RMB	(5%)	39,161	–
If the EUR weakens against the RMB	5%	(8,847)	–
If the EUR strengthens against the RMB	(5%)	8,847	–
If the HKD weakens against the RMB	5%	(775)	(1,972)
If the HKD strengthens against the RMB	(5%)	775	1,972

* Excluding retained earnings

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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 is exposed to fair value interest rate risk in relation to fixed-rate borrowings. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances and borrowings. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances and borrowings. The Group manages its interest rate exposures by assessing the potential impact arising from any interest movements based on interest rate level and outlook. The Group will review the relative proportions of its fixed rate and floating rate contracts and ensure they are within reasonable range.

As at 31 December 2022, the Group's short-term and long-term interest bearing borrowings denominated with floating rates amounted to RMB3,080,172 thousands (31 December 2021: Nil). If the interest rates had been 50 basis points higher and all other variables were held constant, the Group's profit after income tax for the year ended 31 December 2022 would have increased by approximately RMB13,091 thousands (2021: Nil).

(iii) Equity price risk

The Group is 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 the Hong Kong Stock Exchange. The Group closely monitors the price risk and will consider hedging the risk exposure should the need arise.

All of the Group's unquoted investments are held for long term strategic purposes. Their performance is assessed at least bi-annually against performance of similar listed entities, based on the limited information available to the Group, together with an assessment of their relevance to the Group's long term strategic plans.

The sensitivity analysis 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% (2021: 10%) higher/lower, the total comprehensive income for the year ended 31 December 2022 would have increased/decreased by approximately RMB6,406 thousands excluding any tax effect as above (2021: RMB6,689 thousands excluding any tax effect as above), as a result of the changes in fair value of the listed equity instruments.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(a) Market risk *(Continued)*

(iii) Equity price risk (Continued)

If the fair value of the respective unlisted equity instruments had been 10% (2021: 10%) higher/lower, the total comprehensive income for the year ended 31 December 2022 would have increased/decreased by approximately RMB194,599 thousands excluding any tax effect as above (2021: RMB232,322 thousands excluding any tax effect as above), as a result of the changes in fair value of the unlisted equity instruments.

(b) Credit risk

(i) Risk management

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

The Group has policies to limit the credit risk exposure on these aforesaid financial assets. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial positions, the availability of guarantees from third parties, their credit histories 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 their credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent. The Group does not obtain collateral from customers or counterparties in respect of trade receivables.

The Group has concentration of credit risk in respect of bank balances and pledged bank deposits. As at 31 December 2022, approximately 83% (2021: 82%) of the total bank balances and pledged bank deposits were deposited at 7 (2021: 5) banks, with deposits at each bank with a balance exceeding 9% (2021: 9%) of total bank balances and pledged bank deposits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(i) Risk management *(Continued)*

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 2022, trade receivables from top five customers accounted for approximately 24% (2021: 32%) of the Group's trade receivables. 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 above, there is no other concentration of credit risk on the Group's trade and bills receivables.

For other receivables, other financial assets at amortised cost and financial guarantee contracts, management makes periodic and 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, past experience, and also quantitative and qualitative forward-looking information that is reasonable and supportive.

(ii) Impairment of financial assets under ECL model

The Group has five types of financial assets that are subject to the ECL model:

- Bank balances and pledged bank deposits,
- Trade receivables for sales of goods,
- Other receivables and other financial assets carried at amortised cost,
- Bills receivables carried at FVOCI, and
- Financial guarantee contracts



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) *Impairment of financial assets under ECL model (Continued)*

Bank balances and pledged bank deposits

The credit risks on liquid funds is limited because the majority of counterparties are banks with high credit ratings assigned by international credit-rating agencies or stated-owned banks with good reputation.

Trade receivables

The Group applies the simplified approach under IFRS 9 to measuring ECL which uses a lifetime expected loss allowance for all trade receivables.

Trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for ECL.

For the remaining trade receivables, the Group uses provision matrix to measure the ECL. Trade receivables have been grouped based on shared credit risk characteristics and the days past due. The ECL rates are determined based on historical credit losses experienced from the past 12 to 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. The Group has identified the Gross Domestic Product (“GDP”), Producer Price Index (“PPI”) and Industry Value-added (“IVA”) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets under ECL model (Continued)

Trade receivables (Continued)

On that basis, the loss allowance as at 31 December 2022 and 2021 was determined as follows for trade receivables:

	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
As at 31 December 2022						
ECL rate	1%	33%	47%	78%	100%	6%
Gross carrying amount						
– Trade receivables assessed under provision matrix	6,830,625	398,383	159,199	32,219	158,993	7,579,419
Loss allowance under provision matrix	96,814	133,269	74,587	25,175	158,993	488,838
100% specifically provided	–	–	–	11,085	170,537	181,622
Loss allowance	96,814	133,269	74,587	36,260	329,530	670,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets under ECL model *(Continued)*

Trade receivables (Continued)

	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
As at 31 December 2021						
ECL rate	2%	31%	47%	89%	100%	8%
Gross carrying amount						
– Trade receivables assessed under provision matrix	4,325,320	210,807	61,628	36,287	177,925	4,811,967
Loss allowance under provision matrix	74,167	64,625	29,144	32,279	177,925	378,140
100% specifically provided	–	–	11,429	49,968	123,060	184,457
Loss allowance	74,167	64,625	40,573	82,247	300,985	562,597

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets under ECL model *(Continued)*

Trade receivables (Continued)

The following table shows the movement in lifetime ECL that has been recognised for trade receivables under the simplified approach:

	Lifetime ECL (not credit- impaired) RMB'000	Lifetime ECL (credit- impaired) RMB'000	Total RMB'000
As at 1 January 2021	390,858	187,512	578,370
Impairment losses recognised/(reversed)	5,416	(1,200)	4,216
Amount written off as uncollectible	(12,701)	(1,855)	(14,556)
Disposal of a subsidiary	(5,433)	–	(5,433)
As at 31 December 2021	378,140	184,457	562,597
Impairment losses recognised/(reversed)	122,285	(2,835)	119,450
Amount written off as uncollectible	(11,587)	–	(11,587)
As at 31 December 2022	488,838	181,622	670,460

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) *Impairment of financial assets under ECL model (Continued)*

Other receivables and other financial assets at amortised cost

The Group uses three-stage model for other receivables and other financial assets at amortised cost which reflect their credit risk and how the ECL provision is determined for each of those categories. The Group accounts for its credit risk by providing for 12 month and lifetime ECL on a timely basis. In calculating the ECL rates, the Group considers both historical loss rates and forward-looking macroeconomic data. A summary of the assumptions underpinning the Group's ECL model is as follow:

Category	Group definition of category	Basis for recognition of ECL provision	ECL rate
Stage one	Debtors have a low risk of default and a strong capacity to meet contractual cash flows, or debtors frequently repay after due dates but usually settle in full	12-month ECL	0% – 20%
Stage two	There have been significant increases in credit risk since initial recognition through information developed internally or external sources, and when contractual payments are more than 30 days past due	Lifetime ECL	5% – 50%
Stage three	There is evidence indicating the receivable is credit impaired, when contractual payments are 90 days past due	Lifetime ECL	50% – 100%

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets under ECL model *(Continued)*

Other receivables and other financial assets at amortised cost (Continued)

The following table shows reconciliation of loss allowances that has been recognised for other receivables:

	12-month ECL RMB'000	Lifetime ECL (not credit- impaired) RMB'000	Lifetime ECL (credit- impaired) RMB'000	Total RMB'000
As at 1 January 2021	15,229	79,148	326,793	421,170
Impairment losses (reversed)/ recognised	(12,944)	2,325	(36,420)	(47,039)
As at 31 December 2021	2,285	81,473	290,373	374,131
Impairment losses recognised	4,900	12,491	75,971	93,362
Amount written off as uncollectible	–	–	(116)	(116)
As at 31 December 2022	7,185	93,964	366,228	467,377

Other financial assets at amortised cost are considered to be low credit risk where they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations, therefore no loss allowance is recognised in profit or loss during the year.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets under ECL model (Continued)

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 credit risk of financial guarantee contracts that 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 month ECL. For the year ended 31 December 2022, no provision for loss allowance were recognised in profit or loss in relation to the financial guarantee contracts.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(ii) Impairment of financial assets under ECL model (Continued)

Net impairment losses on financial assets recognised in profit or loss

For the year ended 31 December 2022 and 2021, the summary of the net impairment losses recognised/(reversed) in profit or loss is as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Impairment losses for trade receivables	119,450	4,216
Impairment losses/(reversal of impairment losses) for other receivables	93,362	(47,039)
	212,812	(42,823)

(iii) Financial assets at FVPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVOCI or designated as FVOCI are measured at FVPL.

As at 31 December 2022, the Group is also exposed to credit risk in relation to debt investments that are measured at FVPL. The debt investments which are unrated or credit rating below the pre-set levels have to be approved by the investment committee. The management regularly reviews and monitors the portfolio of debt securities.

The maximum exposure at the end of the reporting period is the carrying amount of these investments, which is RMB172,678 thousands (2021: RMB402,218 thousands).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk

Cash flow forecast is performed by the operating entities of the Group and aggregated by the Group's finance team. The Group's finance team 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 institutions 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 inflows 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 obligations when they become due.

As at 31 December 2022, the Group held cash and cash equivalents of RMB4,383,517 thousands (2021: RMB3,284,166 thousands) (Note 27) and trade receivables of RMB7,090,581 thousands (2021: RMB4,433,827 thousands) (Note 25) that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the date of the 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	Less than	Between	Between	Over	Total
	1 year or on demand RMB'000	1 and 2 years RMB'000	2 and 5 years RMB'000	5 years RMB'000	
At 31 December 2022					
Non-derivatives					
Borrowings	4,912,587	1,012,996	1,479,821	1,124,363	8,529,767
Trade payables	4,148,629	–	–	–	4,148,629
Bills payable	5,916,252	–	–	–	5,916,252
Other payables	896,585	–	–	–	896,585
Financial guarantee contracts	2,549	2,549	41,228	–	46,326
Written put option liability	4,514,175	–	–	–	4,514,175
	20,390,777	1,015,545	1,521,049	1,124,363	24,051,734

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

	Less than 1 year or on demand RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Contractual maturities of financial liabilities					
At 31 December 2021					
Non-derivatives					
Borrowings	4,005,695	–	–	–	4,005,695
Trade payables	2,764,313	–	–	–	2,764,313
Bills payable	3,833,491	–	–	–	3,833,491
Other payables	1,838,242	–	–	–	1,838,242
Financial guarantee contracts	197,756	18,545	26,066	–	242,367
	12,639,497	18,545	26,066	–	12,684,108

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 amount of RMB3,417 thousands (2021: RMB6,359 thousands) 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.

The amount included above for written put option liability is the maximum amounts the Group could be required to settle under the Equity Transfer Agreement as detailed in Note 43.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

3 FINANCIAL RISK MANAGEMENT (Continued)

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.

The gearing ratio as at 31 December 2022 and 2021 are as follows:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Total assets	41,634,453	29,640,474
Total liabilities	28,039,883	15,872,439
Gearing ratio	67.3%	53.5%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2022 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 equity 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

- 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.

The following tables set out the Group's financial assets that were measured at fair value as at 31 December 2022 and 2021:

Recurring fair value measurements	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2022				
Financial assets				
Financial assets at FVPL	–	–	569,635	569,635
Financial assets at FVOCI	64,062	–	5,080,692	5,144,754
	64,062	–	5,650,327	5,714,389
At 31 December 2021				
Financial assets				
Financial assets at FVPL	–	–	775,378	775,378
Financial assets at FVOCI	66,886	–	5,212,416	5,279,302
	66,886	–	5,987,794	6,054,680

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, net asset value 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, etc.

There were no transfers among levels during the years ended 31 December 2022 and 2021.

The carrying amounts of the Group's financial instruments carried at cost or amortised cost were not materially different from their fair values as at 31 December 2022 and 31 December 2021.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 2022 and 31 December 2021:

	Financial assets at FVPL			Financial assets at FVOCI		Financial assets
	Unlisted equity investments	Trade receivables	Structured bank deposits	Unlisted equity investments	Bills receivable	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Note 21)	(Note 21)	(Note 21)	(Note 20)	(Note 20)	
Opening balance						
1 January 2021	349,812	185,269	320,045	2,258,468	3,422,363	6,535,957
Acquisitions	-	1,332,822	360,000	-	9,610,817	11,303,639
Disposals	-	(1,340,294)	(460,960)	(130,270)	(9,764,273)	(11,695,797)
Gains/(losses) recognised in profit or loss	23,348	(1,390)	6,726	-	-	28,684
Losses recognised in other comprehensive income	-	-	-	(178,137)	(6,552)	(184,689)
Closing balance						
31 December 2021	373,160	176,407	225,811	1,950,061	3,262,355	5,987,794
Opening balance						
1 January 2022	373,160	176,407	225,811	1,950,061	3,262,355	5,987,794
Acquisitions	-	320,031	60,000	-	14,468,141	14,848,172
Disposals	-	(374,164)	(237,013)	-	(14,209,647)	(14,820,824)
Gains/(losses) recognised in profit or loss	23,797	(970)	2,576	-	-	25,403
Losses/(gains) recognised in other comprehensive income	-	-	-	(401,028)	10,810	(390,218)
Closing balance						
31 December 2022	396,957	121,304	51,374	1,549,033	3,531,659	5,650,327

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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 significant unobservable inputs to fair value
Financial assets at FVPL – Unlisted equity investments – 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 flows; expected recovery date; discount rates that correspond to the expected risk level	The higher the future cash flows, 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, and vice versa
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 flows; expected recovery date; discount rates that correspond to the expected risk level	The higher the future cash flows, 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, and vice versa
		Net asset value approach	N/A	N/A

(iii) Sensitivity analysis

The sensitivity analysis 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 each of the reporting periods. 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 2022 would have increased/decreased by approximately RMB37,528 thousands (2021: increased/decreased by approximately RMB10,285 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 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 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 of the reporting period. For details of the key assumptions and inputs used, see Note 2.10 and Note 3.1(b)(ii). Changes in these assumptions and estimates could materially affect the result of the assessment and may be necessary to make additional credit loss to the consolidated income statement.

(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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

(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 60-66 months warranties for its mechanical transmission equipment. 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 2022, this particular provision had a carrying amount of RMB2,103,124 thousands (2021: RMB1,712,034 thousands).

(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 2022, the carrying value of deferred tax liabilities relating to withholding tax was approximately RMB49,087 thousands (2021: RMB49,087 thousands).

5 REVENUE AND OPERATING SEGMENT INFORMATION

The Group's operating and reporting segments have been identified on the basis of internal management reports that are regularly reviewed by the Company's Board of Directors, being the chief operating decision maker ("CODM") of the Group, in order to allocate resources to segments and to assess their performances.

For management purposes, the Group is organised into business units based on the type of products and services and has four reportable operating segments as follows:

- (a) wind and industrial gear transmission equipment segment: design, develop, manufacture and distribution of a broad range of mechanical transmission equipment that are used in wind power and a wide range of industrial applications;
- (b) rail transportation gear transmission equipment segment: manufacture and distribution of gear transmission equipment used in rail transportation fields;
- (c) trading business segment: focuses on bulk commodity and steel industry chain;
- (d) the "others" segment comprises principally services on lighting project, municipal landscape projects and engineering procurement construction projects.

Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax from operations. The adjusted profit/loss before tax from operations is measured consistently with the Group's profit/loss before tax except that interest income, finance costs, dividend income, fair value gains/losses from the Group's financial instruments, gains/losses on disposal of subsidiaries, foreign exchange gains/losses, share of results of associates and joint ventures as well as head office and corporate expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, tax recoverable, structured bank deposits, pledged deposits, cash and cash equivalents, investments accounted for using the equity method, equity investments at fair value through profit or loss/other comprehensive income, other financial assets at amortised cost, certain other receivables and unallocated head office and corporate assets as these assets are managed on a group basis.

Segment liabilities exclude interest-bearing bank and other borrowings, written put option liability, dividend payable to non-controlling interests, consideration received for partial disposal of a subsidiary, tax payable, deferred tax liabilities, financial guarantee liability and unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5 REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

(a) Segment information

	Wind and industrial gear transmission equipment RMB'000	Rail transportation gear transmission equipment RMB'000	Trading business RMB'000	Others RMB'000	Total RMB'000
For the year ended 31 December 2022					
Segment revenue					
Total segment revenue	15,320,850	378,880	5,346,027	33,897	21,079,654
Inter-segment revenue	-	-	-	-	-
Revenue from external customers	15,320,850	378,880	5,346,027	33,897	21,079,654
Timing of revenue recognition					
At a point in time	15,320,850	378,880	5,346,027	33,897	21,079,654
Segment results	1,411,301	49,770	101,175	(28,476)	1,533,770
<i>Reconciliation:</i>					
Finance costs – net					(472,280)
Dividend income					3,005
Interest income from other financial assets at amortised cost					32,500
Interest income from deferred payment of consideration for partial disposal of a subsidiary					21,373
Foreign exchange gains, net					112,656
Fair value gains on financial assets at FVPL					25,403
Share of results of associates					(83,849)
Corporate and other unallocated expenses					(128,988)
Profit before income tax					1,043,590

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5 REVENUE AND OPERATING SEGMENT INFORMATION *(Continued)*

(a) Segment information *(Continued)*

	Wind and industrial gear transmission equipment RMB'000	Rail transportation gear transmission equipment RMB'000	Trading business RMB'000	Others RMB'000	Total RMB'000
Other segment information					
Write-down/(reversal of write-down) of inventories	217,789	(157)	-	-	217,632
Net impairment losses recognised on financial assets	99,711	8,790	2,244	16,166	126,911
Impairment losses on property, plant and equipment	18,331	-	-	-	18,331
Impairment losses on prepayments	237	-	-	-	237
Depreciation of property, plant and equipment and right-of-use assets	418,929	4,699	45	351	424,024
Capital expenditure	2,994,855	21,657	38	1	3,016,551
As at 31 December 2022					
Segment assets	21,938,046	480,179	3,470,051	1,264,434	27,152,710
Corporate and other unallocated assets					14,481,743
Total assets					41,634,453
Segment liabilities	14,477,988	163,057	290,962	281,503	15,213,510
Corporate and other unallocated liabilities					12,826,373
Total liabilities					28,039,883

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5 REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

(a) Segment information (Continued)

	Wind and industrial gear transmission equipment RMB'000	Rail transportation gear transmission equipment RMB'000	Trading business RMB'000	Others RMB'000	Total RMB'000
For the year ended 31 December 2021					
Segment revenue					
Total segment revenue	13,991,299	370,938	5,763,631	93,464	20,219,332
Inter-segment revenue	(8,288)	(518)	–	–	(8,806)
Revenue from external customers	13,983,011	370,420	5,763,631	93,464	20,210,526
Timing of revenue recognition					
At a point in time	13,983,011	370,420	5,763,631	93,464	20,210,526
Segment results	1,548,922	102,690	82,330	3,228	1,737,170
<i>Reconciliation:</i>					
Finance costs – net					(164,539)
Dividend income					25,207
Interest income from other financial assets at amortised cost					32,500
Interest income from deferred payment of consideration for partial disposal of a subsidiary					94,118
Losses on disposal of a joint venture					(16,984)
Gains on disposal of subsidiaries					411
Foreign exchange losses, net					(67,907)
Fair value gains on financial assets at FVPL					28,684
Share of results of associates and a joint venture					(30,453)
Corporate and other unallocated expenses					(6,533)
Profit before income tax					1,631,674

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5 REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

(a) Segment information (Continued)

	Wind and industrial gear transmission equipment RMB'000	Rail transportation gear transmission equipment RMB'000	Trading business RMB'000	Others RMB'000	Total RMB'000
Other segment information					
Write-down of inventories	157,483	6,714	-	-	164,197
Net impairment losses (reversed)/ recognised on financial assets	(3,368)	3,711	3,112	(4,156)	(701)
Impairment losses on property, plant and equipment	80,762	1,470	-	-	82,232
Impairment losses on prepayments	7,711	-	-	-	7,711
Depreciation of property, plant and equipment and right-of-use assets	422,056	3,814	40	501	426,411
Capital expenditure	1,225,688	19,972	74	22	1,245,756
As at 31 December 2021					
Segment assets	15,425,872	464,886	2,732,756	820,817	19,444,331
Corporate and other unallocated assets					10,196,143
Total assets					29,640,474
Segment liabilities	9,935,849	188,499	56,786	171,484	10,352,618
Corporate and other unallocated liabilities					5,519,821
Total liabilities					15,872,439

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

5 REVENUE AND OPERATING SEGMENT INFORMATION *(Continued)*

(b) Geographical information

(i) Revenue from external customers

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
PRC	19,289,455	17,349,166
USA	1,158,478	1,722,418
Europe	112,253	120,176
Other countries	519,468	1,018,766
	21,079,654	20,210,526

(ii) Non-current assets

Non-current assets by the locations of the assets and excludes financial assets at FVOCI, financial assets at FVPL, other financial assets at amortised cost and deferred tax assets are detailed below:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
PRC	7,742,775	5,183,167
USA	158,367	131,446
Europe	7,948	8,735
Other countries	143,533	125,725
	8,052,623	5,449,073

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

5 REVENUE AND OPERATING SEGMENT INFORMATION (Continued)

(c) Information about major customers

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

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Customer A (Note)	2,598,435	2,739,526
Customer B (Note)	N/A	2,207,333

Note: Revenue from sale of wind and industrial gear transmission equipment.

6 OTHER INCOME

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Dividend income from financial assets at FVOCI (Note 20)	3,005	25,207
Interest income from other financial assets at amortised cost	32,500	32,500
Interest income from deferred payment of consideration for partial disposal of a subsidiary (Note)	21,373	94,118
Government grants		
– Deferred income recognised (Note 31)	17,218	19,934
– Other government subsidies	49,406	50,058
Sale of scraps and materials	63,713	63,302
Gross fixed rental income	4,663	7,676
Others	18,364	13,655
	210,242	306,450

Note:

The amount represented extension interest received from deferred payment of consideration for the Group's disposal of 43% equity interest in Nanjing High Speed Gear Manufacturing Co., Ltd. (南京高速齒輪製造有限公司) ("Nanjing High Speed") during the year. Details of which are set out in Note 43.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

7 OTHER GAINS/(LOSSES) – NET

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Gains on disposal of property, plant and equipment, net	1,123	5,196
Losses on disposal of a joint venture (Note 18(b))	–	(16,984)
Gains on disposal of subsidiaries	–	411
Foreign exchange gains/(losses), net	112,656	(67,907)
Net fair value gains on financial assets at FVPL (Note 21(ii))	25,403	28,684
Impairment losses on property, plant and equipment (Note 14)	(18,331)	(82,232)
	120,851	(132,832)

8 EXPENSES BY NATURE

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Cost of inventories sold	16,217,534	15,499,143
Employee benefit expenses (Note 9)	1,722,118	1,516,828
Depreciation of property, plant and equipment	400,490	410,776
Depreciation of right-of-use assets (Note 15)	17,232	15,649
Auditors' remuneration		
– Audit services	3,902	3,883
– Non-audit services	2,887	3,389
Write-down of inventories (Note 24)	217,632	164,197
Other expenses	1,016,421	986,436
Total cost of sales, selling and distribution expenses, research and development costs and administrative expenses	19,598,216	18,600,301

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Wages and salaries	1,254,070	1,088,250
Pension scheme contributions	122,812	111,434
Other benefits	345,236	317,144
Total employee benefit expenses	1,722,118	1,516,828

(a) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2021: five) directors whose emoluments are reflected in the analysis shown in Note 45.

10 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2022	2021
	RMB'000	RMB'000
Finance income		
– Interest income from bank deposits	85,031	45,387
– Interest income from loans to third parties	31,503	23,572
	116,534	68,959
Finance costs		
– Interest expenses on bank and other borrowings	(390,527)	(233,498)
– Less: Interest capitalised	15,888	–
– Written put option liability: unwinding of discount (Note 43(b))	(214,175)	–
	(588,814)	(233,498)
Finance costs – net	(472,280)	(164,539)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

11 INCOME TAX EXPENSES

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Current income tax – charge for the year		
– PRC	643,257	328,088
– Hong Kong	–	16,609
– Others	36	1,077
Current income tax – over-provision in respect of prior years	(7,387)	(18,656)
	635,906	327,118
Deferred tax	(236,527)	(92,304)
Income tax expenses	399,379	234,814

A reconciliation between income tax expense and accounting profit at applicable tax rates is as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Profit before income tax	1,043,590	1,631,674
Tax calculated at statutory tax rate of 25%	260,897	407,918
Tax effect of:		
– Lower tax rate enacted by local authority or different tax rates of subsidiaries in other jurisdictions	(107,138)	(112,117)
– Share of results of associates and joint ventures	20,415	7,613
– Non-taxable income	(15,452)	(2,251)
– Non-deductible expenses	8,330	5,257
– Utilisation of previously unrecognised tax losses	(72,188)	(74,521)
– Tax losses for which no deferred tax assets was recognised	53,208	26,477
– Temporary differences for which no deferred income tax assets was recognised	4,952	53,021
– Additional deductions on research and development expenses	(55,027)	(68,150)
– Post acquisition profit of a partially disposed subsidiary	315,140	–
– Over-provision in respect of prior years	(7,387)	(18,656)
– Others	(6,371)	10,223
	399,379	234,814

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

11 INCOME TAX EXPENSES *(Continued)*

(a) PRC corporate income tax

PRC corporate income tax has been provided at the rate of 25% (2021: 25%) on the taxable profits of the Group's PRC subsidiaries for the year ended 31 December 2022. The increase in PRC corporate income tax is attributable to an one-off tax of RMB315,140,000 (2021: Nil) arising from the partial disposal of a subsidiary during the year. Refer to Note 43 for details.

The following subsidiaries are approved as high technology development enterprises and thus entitled 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 ending during which approval will expire
Nanjing High Speed	31 December 2020	31 December 2022
Nanjing High Speed & Accurate Gear (Group) Co., Ltd. ("Nanjing High Accurate")	31 December 2020	31 December 2022
Nanjing High Accurate Rail Transportation Equipment Co., Ltd. ("Rail Transportation")	31 December 2020	31 December 2022
NGC (Baotou) Transmission Equipment Co., Ltd. ("NGC Baotou")	31 December 2021	31 December 2023
Jiangsu Green Lighting Engineering Co., Ltd. ("Green Lighting")	31 December 2021	31 December 2023

(b) Hong Kong Profits Tax

No provision for taxation in Hong Kong has been made as the Group's income neither arises in, nor is derived from Hong Kong for the year ended 31 December 2022. Hong Kong Profits Tax for the year ended 31 December 2021 has been provided under the two-tiered profits tax rates regime, the first HK\$2 million of the estimated assessable profits is calculated at 8.25% and the estimated assessable profits above HK\$2 million is calculated at 16.5%.

(c) Other corporate income tax

Other corporate income tax has been provided at the applicable rate of 8.5% to 21% (2021: 8.5% to 18.5%) on the estimated assessable profits arising from the jurisdictions at which the entities are operated.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

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	
	2022 RMB'000	2021 RMB'000
Net profit attributable to owners of the Company	101,599	1,315,245
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	1,635,291	1,635,291
Basic earnings per share (RMB)	0.062	0.804

No adjustment is made to the diluted earnings per share for the year ended 31 December 2022 and 2021 as there were no potential dilutive shares in issue.

13 DIVIDENDS

The directors did not recommend to declare any final dividend in respect of the year ended 31 December 2022 (2021: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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	Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2021							
Cost	1,827,594	34,045	5,244,701	226,163	316,604	548,324	8,197,431
Accumulated depreciation	(442,343)	(21,237)	(3,445,796)	(161,314)	(209,172)	-	(4,279,862)
Impairment losses	-	-	(8,603)	(312)	-	(76,336)	(85,251)
Net book amount	1,385,251	12,808	1,790,302	64,537	107,432	471,988	3,832,318
For the year ended 31 December 2021							
Opening net book amount	1,385,251	12,808	1,790,302	64,537	107,432	471,988	3,832,318
Transferred from construction in progress	14,059	6,264	471,927	17,694	19,710	(529,654)	-
Other additions	234	-	91,165	3,465	8,752	1,100,205	1,203,821
Depreciation	(59,063)	(4,384)	(301,403)	(18,338)	(27,588)	-	(410,776)
Disposal of subsidiaries	-	-	(19)	(27)	(46)	(379)	(471)
Disposals	-	-	(19,399)	(970)	(677)	-	(21,046)
Impairment losses provided during the year (Note 7)	-	-	(74,008)	(44)	-	(8,180)	(82,232)
Exchange differences	(2,206)	-	(853)	1,495	231	-	(1,333)
Closing net book amount	1,338,275	14,688	1,957,712	67,812	107,814	1,033,980	4,520,281
At 31 December 2021							
Cost	1,839,681	40,309	5,684,887	236,290	339,093	1,118,496	9,258,756
Accumulated depreciation	(501,406)	(25,621)	(3,644,809)	(168,122)	(231,279)	-	(4,571,237)
Impairment losses	-	-	(82,366)	(356)	-	(84,516)	(167,238)
Net book amount	1,338,275	14,688	1,957,712	67,812	107,814	1,033,980	4,520,281

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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	Transportation equipment RMB'000	Construction in progress RMB'000	Total RMB'000
At 1 January 2022							
Cost	1,839,681	40,309	5,684,887	236,290	339,093	1,118,496	9,258,756
Accumulated depreciation	(501,406)	(25,621)	(3,644,809)	(168,122)	(231,279)	-	(4,571,237)
Impairment losses	-	-	(82,366)	(356)	-	(84,516)	(167,238)
Net book amount	1,338,275	14,688	1,957,712	67,812	107,814	1,033,980	4,520,281
For the year ended 31 December 2022							
Opening net book amount	1,338,275	14,688	1,957,712	67,812	107,814	1,033,980	4,520,281
Transferred from construction in progress	917,341	-	605,599	24,116	124,492	(1,671,548)	-
Other additions	-	290	25,660	25,865	1,384	2,942,546	2,995,745
Acquisition of a subsidiary (Note 41)	39,611	-	-	-	-	-	39,611
Depreciation	(65,141)	(4,291)	(284,990)	(20,816)	(32,213)	-	(407,451)
Disposals	-	-	(2,461)	(3,886)	(9,325)	(1,992)	(17,664)
Impairment losses provided during the year (Note 7)	-	-	(27,044)	-	-	8,713	(18,331)
Exchange differences	8,178	-	5,699	(2,038)	(18)	-	11,821
Closing net book amount	2,238,264	10,687	2,280,175	91,053	192,134	2,311,699	7,124,012
At 31 December 2022							
Cost	2,796,308	40,599	6,266,859	270,507	450,218	2,387,492	12,211,983
Accumulated depreciation	(558,044)	(29,912)	(3,878,757)	(179,098)	(258,084)	-	(4,903,895)
Impairment losses	-	-	(107,927)	(356)	-	(75,793)	(184,076)
Net book amount	2,238,264	10,687	2,280,175	91,053	192,134	2,311,699	7,124,012

The Group is in the process of obtaining property certificates for the buildings above with a carrying amount of RMB499,517 thousands (2021: RMB519,841 thousands) at the end of the reporting period.

The freehold land is located in the USA.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

During the year ended 31 December 2022, the Group conducted impairment assessment on recoverable amounts of certain property, plant and equipment for which the technical and economic performance were lower than expected. The recoverable amounts are estimated individually based on replacement cost basis. Based on the result of the assessment, the recoverable amounts were lower than the carrying amounts, impairment losses of RMB18,331 thousands (2021: RMB82,232 thousands) were recognised in “Other gains/ (losses) – net”.

15 RIGHT-OF-USE ASSETS

	Land use rights RMB'000
Carrying amount as at 1 January 2021	646,930
Additions	41,951
Depreciation charge for the year	(15,649)
Exchange differences	(527)
Carrying amount as at 31 December 2021	672,705
Additions	20,806
Depreciation charge for the year	(17,232)
Exchange differences	5
Carrying amount as at 31 December 2022	676,284

The land use rights are located in the PRC and Germany. At 31 December 2022, the Group is in the process of obtaining certain land use rights certificates with a carrying amount of RMB134,798 thousands (2021: RMB138,079 thousands).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*



16 GOODWILL

	RMB'000
At 1 January 2021, 31 December 2021 and 31 December 2022	
Cost	26,414
Accumulated impairment	–
Net carrying amount	26,414

Impairment testing of goodwill

Goodwill acquired through business combinations is allocated to the CGUs as below for impairment testing.

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Lighting Engineering CGU (Note (a))	272	272
Wind Gear Transmission Equipment CGU (Note (b))	26,142	26,142
	26,414	26,414

16 GOODWILL *(Continued)*

(a) Lighting Engineering CGU

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 10% (2021: 13%) and cash flows beyond the five-year period were extrapolated using a growth rate of 5% (2021: 5%), which was the same as the long term average growth rate of the infrastructure industry.

(b) Wind Gear Transmission Equipment CGU

The recoverable amount of the wind gear transmission equipment 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 12% (2021: 12%) and cash flows beyond the five-year period were extrapolated using a growth rate of 2% (2021: 2%), which was the same as the long term average growth rate of the gear products industry.

Assumptions were used in the value-in-use calculation of the light engineering and wind gear transmission equipment CGU as at 31 December 2022 and 2021. 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 pre-tax and reflects specific risks relating to the unit.

Based on the assessments, no goodwill as at 31 December 2022 and 2021 was impaired and there was sufficient headroom available as at 31 December 2022 and 2021. A reasonably possible change in key assumptions would not cause the recoverable amount to fall below the carrying amount of the respective CGU.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

17 SUBSIDIARIES

Particulars of major subsidiaries of the Group are as follows:

Name of company	Place and date of incorporation and operation	Registered capital	Percentage of equity held by the Group		Principal activities
			2022	2021	
Nanjing High Accurate [®]	PRC 16 August 2001	RMB693,800,000	50.02	93.02	Manufacture and sale of gear, gear box and fittings
Nanjing High Speed [®]	PRC 8 July 2003	RMB2,150,000,000	50.02	93.02	Manufacture and sale of gear, gear box and fittings
Nanjing High Accurate Drive Equipment Manufacturing Group Co., Ltd. (“Nanjing Drive”)*	PRC 27 March 2007	USD215,168,000	100	100	Investment holding, sale of gear box and fittings and trading business
China Transmission Holdings Limited	Hong Kong 7 November 2007	HKD100	100	100	Investment holding and sale of gear box and fittings
Nanjing Handa Import and Export Trading Co., Ltd. [®]	PRC 25 April 2012	RMB2,100,000,000	100	100	Trading business
Nanjing Gaote Gearbox Manufacturing Co., Ltd. [®]	PRC 26 November 2003	USD42,393,264	50.02	93.02	Manufacture and sale of gear, gear box and fittings
Rail Transportation [®]	PRC 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 27 July 2011	RMB250,000,000	50.02	93.02	Manufacture and sale of gear, gear box and fittings
NGC Baotou [®]	PRC 7 January 2009	RMB260,000,000	50.02	93.02	Manufacture and sale of gear, gear box and fittings
Nanjing Lianyu Supply Chain Co., Ltd. [®]	PRC 10 June 2021	RMB1,000,000,000	50.02	93.02	Trading business
Nanjing Shengzhuang Supply Chain Co., Ltd. [®]	PRC 8 November 2019	RMB1,000,000,000	100	100	Trading business

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

17 SUBSIDIARIES *(Continued)*

Particulars of major subsidiaries of the Group are as follows: *(Continued)*

Name of company	Place and date of incorporation and operation	Registered capital	Percentage of equity held by the Group		Principal activities
			2022	2021	
High Speed Holdings Limited	Hong Kong 21 April 2021	USD100	50.02	93.02	Investment holding and sale of gear box and fittings
Nanjing Gear*	PRC 10 September 2021	USD285,475,000	100	100	Investment holding
NGC (Huai'an) High Speed Gear Manufacturing Co., Ltd. [®]	PRC 25 May 2022	RMB1,000,000,000	50.02	93.02	Manufacture and sale of gear, gear box and fittings

* Registered as wholly foreign owned enterprises under PRC law

[®] Registered as domestic enterprises under PRC law

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Associates		
– Share of net assets	209,152	212,912
– Goodwill on acquisition	6,710	6,710
– Financial guarantee granted to an associate	36,271	36,271
– Impairment	(32,110)	(32,110)
	220,023	223,783

The amounts recognised in the share of results of investments accounted for using the equity method in the consolidated income statement are as follows:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Associates	(83,849)	(8,209)
A joint venture	–	(22,244)
	(83,849)	(30,453)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(a) Investments in associates

	2022	2021
	RMB'000	RMB'000
As at 1 January	223,783	216,992
Addition (Note)	80,089	15,000
Share of results for the year	(83,849)	(8,209)
As at 31 December	220,023	223,783

Note:

During the year ended 31 December 2022, the Group acquired 33.69% equity interest in Hainan Kaibang Real Estate Development Co., Ltd. ("Hainan Kaibang") for a consideration of RMB80,089 thousands.

Principal activities of material associates as at 31 December 2022 and 2021 are as follows:

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest		Principal activity	Measurement method
		2022	2021		
Zhongbang Finance Leasing (Jiangsu) Co., Ltd. ("Zhongbang Finance Leasing")	PRC	37.21	37.21	Finance leasing	Equity method
Tianjin Finance Leasing	PRC	46.96	46.96	Finance leasing	Equity method
Hainan Kaibang	PRC	33.69	–	Property management	Equity method

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(a) Investments in associates *(Continued)*

Summarised financial information for material associates

Zhongbang Finance Leasing

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Current assets	10,416	14,007
Non-current assets	279,112	276,796
Current liabilities	(15,165)	(14,004)
Net assets	274,363	276,799
Percentage of ownership interest	37.21%	37.21%
Carrying value of the investment	102,090	102,997

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Revenue	–	566
Loss for the year	(2,436)	(17,501)
Total comprehensive loss for the year	(2,436)	(17,501)
Dividends declared by the associate	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(a) Investments in associates *(Continued)*

Summarised financial information for material associates *(Continued)*

Tianjin Finance Leasing

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Current assets	7	166,671
Current liabilities	(1,438)	(1,438)
Net (liabilities)/assets	(1,431)	165,233
Percentage of ownership interest	46.96%	46.96%
Carrying value of the investment	–	77,593

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Revenue	–	–
Loss for the year	(166,664)	–
Total comprehensive loss for the year	(166,664)	–
Dividends declared by the associate	–	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(a) Investments in associates *(Continued)*

Summarised financial information for material associates *(Continued)*

Hainan Kaibang

	As at 31 December
	2022
	RMB'000
Current assets	158,974
Non-current assets	79,660
Current liabilities	(1,099)
Net assets	237,535
Percentage of ownership interest	33.69%
Carrying value of the investment	80,025

	Year ended 31 December
	2022
	RMB'000
Revenue	–
Loss for the year	(189)
Total comprehensive loss for the year	(189)
Dividends declared by the associate	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD *(Continued)*

(a) Investments in associates *(Continued)*

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	
	2022 RMB'000	2021 RMB'000
Aggregate carrying value of investments	37,914	43,193
Aggregate amounts of the Group's share of:		
– Loss for the year	(5,286)	(1,697)
– Total comprehensive loss for the year	(5,286)	(1,697)

(b) Investment in a joint venture

	2021 RMB'000
As at 1 January	129,228
Share of loss for the year	(22,244)
Dividends received	(50,000)
Disposal (Note)	(56,984)
As at 31 December	–

Note:

On 27 December 2021, the Group entered into an agreement with an independent third party to dispose all of its 50% equity interest in a joint venture, Nanjing High Accurate Construction Equipment Co., Ltd., at a total cash consideration of RMB40,000 thousands, and resulted in a loss of RMB16,984 thousands.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

19 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

	Note	As at 31 December	
		2022 RMB'000	2021 RMB'000
Financial assets			
Financial assets at amortised cost			
– Trade receivables	25	7,090,581	4,433,827
– Other receivables	25	1,092,041	860,270
– Other financial assets at amortised cost	22	641,421	608,921
– Pledged bank deposits	27	4,897,224	1,897,477
– Cash and cash equivalents	27	4,383,517	3,284,166
– Financial assets at FVOCI	20	5,144,754	5,279,302
– Financial assets at FVPL	21	569,635	775,378
		23,819,173	17,139,341
Financial liabilities			
Liabilities at amortised cost:			
– Trade, bills and other payables	28	10,964,883	8,442,405
– Borrowings	29	7,842,584	3,998,099
– Written put option liability	43(b)	4,514,175	–
		23,321,642	12,440,504

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

(i) Classification of financial assets at FVOCI

Financial assets measured 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.

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Non-current assets		
Listed equity investments (Note (ii)(a))	64,062	66,886
Unlisted equity investments (Note (ii)(b))	1,549,033	1,950,061
	1,613,095	2,016,947
Current assets		
Debt investments – bills receivable (Note (iii))	3,531,659	3,262,355
	5,144,754	5,279,302

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (Continued)

(ii) Equity investments at FVOCI

(a) Listed equity investments

Listed equity investments comprise the following individual investments:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Riyue Heavy Industry Co., Ltd.	16,914	27,453
Guodian Technology & Environmental Group Co., Ltd. ("Guodian Tech")	–	23,755
China PengFei Group Limited	17,808	15,678
Sany Renewable Energy Co.,Ltd	29,340	–
	64,062	66,886

During the year ended 31 December 2022, Guodian Tech was privatised and the Group has received a consideration of RMB46,256 thousands for cancellation of its shares in Guodian Tech. The Group realised a loss of RMB41,147 thousands which was included in other comprehensive income and transferred to retained earnings during the year.

(b) Unlisted equity investments

Unlisted equity investments comprise the following individual investments:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Zhejiang Zheshang Chanrong Equity Investment Fund L.P. *	1,541,019	1,942,431
Others	8,014	7,630
	1,549,033	1,950,061



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

(ii) Equity investments at FVOCI *(Continued)*

(b) Unlisted equity investments *(Continued)*

- * 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, which had been paid up by Nanjing Drive to the investment fund.

As at 31 December 2022, the investment in Zhejiang Zheshang Chanrong had a fair value of RMB1,541,019 thousands (2021: RMB1,942,431 thousands) and a fair value loss of RMB401,412 thousands (2021: fair value loss of RMB97,288 thousands) was recognised in other comprehensive income for the year ended 31 December 2022. The fair value of Zhejiang Zheshang Chanrong was revalued on 31 December 2022 and 2021 based on net asset value approach performed by the independent professional qualified valuer.

(iii) Debt investments – bills receivable

Bills receivable that are held for collection of contractual cash flows and for selling the financial assets are measured at FVOCI.

For the year ended 31 December 2022, fair value gain of RMB10,810 thousands (2021: fair value loss of RMB6,552 thousands) for bills receivable measured at FVOCI are recognised in other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

(iv) 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. 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	
	2022 RMB'000	2021 RMB'000
Carrying amount of transferred assets	315,500	218,931
Carrying amount of associated liabilities	(315,500)	(218,931)

(v) 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:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Losses recognised in other comprehensive income	(376,787)	(169,869)
Dividends from equity investments held at FVOCI recognised in profit or loss in other income	3,005	25,207



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME *(Continued)*

(vi) Current assets pledged as securities

Refer to Note 40 for information on current assets pledged as securities by the Group.

(vii) Fair value, impairment and risk exposure

Information about the Group's exposure to equity price risk is provided in Note 3.1(a)(iii).

Information about the methods and assumptions used in determining fair value is provided in Note 3.3.

Information about the loss allowance measured on bills receivable classified as debt investments at FVOCI is provided in Note 3.1(b).

21 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 22 and Note 25) or FVOCI (Note 20);
- 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS (Continued)

(i) Classification of financial assets at FVPL (Continued)

Financial assets measured at FVPL include the following:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Non-current assets		
Unlisted equity investments (Note (a))	387,600	363,800
Current assets		
Structured bank deposits (Note (b))	51,374	225,811
Trade receivables measured at FVPL (Note (c))	121,304	176,407
Unlisted equity investments	9,357	9,360
	182,035	411,578
	569,635	775,378

Notes:

(a) Unlisted equity investments

In December 2020, Nanjing Drive entered into three limited partnership agreements in respect of the establishment of three partnerships in the PRC, namely Ningbo Nangao Jingchuan Enterprise Management Partnership L.P. ("Ningbo Nangao Jingchuan"), Ningbo Gaona Jingte Enterprise Management Partnership L.P. ("Ningbo Gaona Jingte") and Ningbo Gaotai Jingli Enterprise Management Partnership L.P. ("Ningbo Gaotai Jingli"), pursuant to which Nanjing Drive has contributed RMB120,000 thousands, RMB120,000 thousands and RMB100,000 thousands, respectively, as a limited partner.

As at 31 December 2022, the investment in Ningbo Nangao Jingchuan, Ningbo Gaona Jingte and Ningbo Gaotai Jingli had a fair value of RMB136,800 thousands, RMB136,800 thousands and RMB114,000 thousands (2021: RMB128,400 thousands, RMB128,400 thousands and RMB107,000 thousands) respectively, and an aggregate fair value gain of RMB23,800 thousands (2021: RMB23,800 thousands) was recognised in profit or loss during the year ended 31 December 2022.

(b) Structured bank deposits

As at 31 December 2022, structured bank deposits of RMB51,374 thousands (2021: RMB225,811 thousands) represented financial instruments placed by the Group to one (2021: two) bank(s) in the PRC for a term within one year. The contract guarantees principal and proceeds are related to the performance of exchange rate. Structured bank deposits amounted to RMB51,374 thousands (2021: RMB225,811 thousands) were redeemed subsequent to the end of the reporting period.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

21 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS *(Continued)*

(i) Classification of financial assets at FVPL *(Continued)*

Notes: *(Continued)*

(c) Trade receivables measured at FVPL

In 2021 and 2022, the Group entered into several agreements with a bank to sell all of its eligible trade receivables under certain customers and all rights, 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 the bank, at a discount calculated based on the base rate and number of days for early payment as specified in the agreements.

As at 31 December 2022, such trade receivables held solely for selling purpose amounting to RMB121,304 thousands (2021: RMB176,407 thousands) were classified as financial assets at FVPL. For the year ended 31 December 2022, fair value losses of RMB970 thousands (2021: RMB1,390 thousands) for trade receivables measured at FVPL are recognised in “Other gains/(losses) – net”.

(ii) Amounts recognised in profit or loss

During the year, the following were recognised in profit or loss:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Fair value gains on equity investments at FVPL recognised in other gains/(losses) – net (Note 7)	23,797	23,348
Fair value gains on debt investments at FVPL recognised in other gains/(losses) – net (Note 7)	1,606	5,336
	25,403	28,684

(iii) Fair value measurements and exposure

Information about the fair value measurement is set out in Note 3.3.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

22 OTHER FINANCIAL ASSETS AT AMORTISED COST

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Insurance investment (Note (i))	641,421	608,921
Represented		
– Current asset	641,421	–
– Non-current asset	–	608,921
	641,421	608,921

Notes:

- (i) The balance represented advances made to an insurance company in the PRC with a principal of RMB500,000 thousands and 5-year maturity in June 2023, which carried fixed interest rate at 6.50% per annum. Interest and the principal amount are repayable at the maturity date.
- (ii) Impairment and risk exposure

Note 3.1(b) sets out information about the impairment of financial assets and the Group's exposure to credit risk.

Other financial assets at amortised cost are denominated in RMB. 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.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

23 DEPOSITS FOR LAND LEASES

The amount represents deposits for land leases paid partly in relation to the acquisition of land use rights and the transfer is subject to the approval of the local government.

24 INVENTORIES

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Raw materials	979,155	566,029
Work in progress	3,712,196	2,570,242
Finished goods	2,237,250	2,070,648
	6,928,601	5,206,919

During the year ended 31 December 2022, the cost of inventories recognised as expense amounted to RMB17,598,790 thousands (2021: RMB16,858,019 thousands) which was included in “cost of sales”.

During the year ended 31 December 2022, write-down of inventories to net realisable value amounted to RMB217,632 thousands (2021: RMB164,197 thousands) which was recognised and included in “cost of sales”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

25 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Trade receivables		
– Amounts due from third parties	7,761,041	4,996,424
Less: Loss allowances	(670,460)	(562,597)
	7,090,581	4,433,827
Other receivables		
– Value-added tax recoverable	221,855	133,286
– Loans to third parties	632,208	180,729
– Amounts due from associates (Note 42(c))	45,951	45,951
– Amounts due from former subsidiaries	513,755	542,233
– Amounts due from other third parties	367,504	465,488
	1,781,273	1,367,687
Less: Loss allowances	(467,377)	(374,131)
	1,313,896	993,556
	8,404,477	5,427,383

The Group generally allows a credit period within 90 days to its trade customers for trading business. Apart from that, the Group generally allows a credit period within 180 days to its customers for other sales. The Group seeks to maintain strict control over its outstanding receivables and has set up a credit control department to actively monitor the status of its outstanding receivables and take proper actions in order 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.

All of the amounts due from the Group's associates are unsecured, interest-free and repayable on demand.

Loan receivables is unsecured, interest bearing at 6% to 15% (2021:6% to 15%) per annum.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

25 TRADE AND OTHER RECEIVABLES (Continued)

(i) Fair values of trade and other receivables

Due to the short-term nature of the current trade and other receivables, their carrying amount are considered to be the same as their fair value.

(ii) Impairment and risk exposure

The Group applies the IFRS 9 simplified approach to measuring ECL which uses a lifetime expected loss allowance for all trade receivables. Note 3.1(b) provides details about the calculation of the loss allowances.

Information about the Group's exposure to financial risk factors of trade and other receivables are disclosed in Note 3.1.

The ageing analysis of trade receivables as at the end of the reporting period, based on the invoice date and net of loss allowances, is as follows:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Less than 90 days	5,905,783	3,401,925
90 to 180 days	415,828	441,965
181 to 365 days	412,200	407,263
1 to 2 years	265,114	146,182
Over 2 years	91,656	36,492
	7,090,581	4,433,827

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

26 PREPAYMENTS

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Prepayments		
– Amounts due from third parties	1,904,344	1,375,513
– Amounts due from associates (Note 42(c))	6,973	6,973
Less: Impairment provision	(55,681)	(55,444)
	1,855,636	1,327,042

27 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Cash at banks and on hand	9,280,741	5,181,643
Less: Pledged bank deposits	(4,897,224)	(1,897,477)
Cash and cash equivalents	4,383,517	3,284,166

Cash at banks earns interest at floating rates based on daily bank deposit rates. Short-term time deposits are made for varying periods 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. Bank balances and pledged deposits are deposited in credit-worthy banks with no recent history of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

28 TRADE, BILLS AND OTHER PAYABLES

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Trade payables		
– Amounts due to third parties	4,148,611	2,764,295
– Amount due to an associate (Note 42(c))	18	18
	4,148,629	2,764,313
Bills payable	5,916,252	3,833,491
	10,064,881	6,597,804
Other payables		
– Accruals	135,996	125,652
– Other tax payables	44,539	20,515
– Purchase of property, plant and equipment	522,501	158,189
– Payroll and welfare payables	229,189	198,803
– Financial guarantee liabilities	3,417	6,359
– Consideration received for partial disposal of a subsidiary (Note 43)	–	1,000,000
– Dividends payable to non-controlling interests	–	89,002
– Amount due to an associate (Note 42(c))	15,000	15,000
– Amounts due to third parties	359,084	576,051
	1,309,726	2,189,571
	11,374,607	8,787,375

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

28 TRADE, BILLS 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	
	2022 RMB'000	2021 RMB'000
0 to 30 days	4,522,861	2,704,030
31 to 60 days	948,427	484,097
61 to 180 days	2,678,443	1,464,588
181 to 365 days	1,834,680	1,832,549
Over 365 days	80,470	112,540
	10,064,881	6,597,804

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

Amount due to an associate is unsecured, interest-free and repayable on demand.

29 BORROWINGS

	2022		2021	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Current				
Bank loans – Unsecured	3.50-4.79	4,257,412	3.00-5.22	2,200,939
Bank loans – Secured	N/A	–	3.40-5.22	1,397,160
Loans from other financial institution – Secured	7.61	400,000	7.61	400,000
		4,657,412		3,998,099
Non-current				
Bank loans – Unsecured	4.53-4.55	849,756	N/A	–
Bank loans – Secured	3.10-5.03	2,335,416	N/A	–
		3,185,172		–
		7,842,584		3,998,099

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

29 BORROWINGS *(Continued)*

Bank and other borrowings are repayable as follows:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Within one year or on demand	4,657,412	3,998,099
Between one and two years	882,578	–
Between two and five years	1,250,025	–
Over five years	1,052,569	–
	7,842,584	3,998,099

The exposure of the Group's fixed-rate borrowings are as follows:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Fixed-rate borrowings	4,762,412	3,998,099

As at 31 December 2022, the Group's borrowing denominated in currencies other than RMB was USD2,500 thousands (2021: USD2,500 thousands), which was equivalent to RMB17,412 thousands (2021: RMB15,939 thousands).

The secured borrowings were secured by pledge of assets, details of which are set out in Note 40. In addition, as at 31 December 2022, the secured non-current bank loans were secured by the Group's 100% equity interests in NGC (Huai'an) High Speed Gear Manufacturing Co., Ltd.

30 CONTRACT LIABILITIES

It represented deposits received in advance for made-to-order manufacturing arrangement on acceptance of manufacturing orders. The sum of deposits received are based on negotiation on a case by case basis with customers.

Amount of RMB712,079 thousands (2021: RMB2,047,878 thousands) was recognised as revenue during the year ended 31 December 2022, which was included in contract liabilities at the beginning of the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

31 DEFERRED INCOME

	2022 RMB'000	2021 RMB'000
At 1 January	212,961	197,205
Government grants received during the year	125,829	35,690
Recognised in profit or loss (Note 6)	(17,218)	(19,934)
At 31 December	321,572	212,961
Represented		
– Current portion	18,495	12,484
– Non-current portion	303,077	200,477
	321,572	212,961

As at the end of the reporting period, 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.

32 WARRANTY PROVISION

	2022 RMB'000
At 1 January	1,712,034
Additional provision recognised during the year	650,924
Amounts utilised during the year	(259,834)
At 31 December	2,103,124
Represented	
– Current portion	988,395
– Non-current portion	1,114,729
	2,103,124

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33 DEFERRED INCOME TAX

Deferred income tax assets	Impairment of receivables RMB'000	Write- down of inventories RMB'000	Fair value change on financial assets at FVOCI RMB'000	Provisions RMB'000	Deferred income RMB'000	Unwinding discount on put option upon partial disposal of a subsidiary RMB'000	Unrealised profits on intra-group transactions RMB'000	Others RMB'000	Total RMB'000
At 1 January 2021	21,913	34,664	-	139,214	39,216	-	6,712	16,403	258,122
Credited/(charged) to profit or loss	787	2,162	-	112,071	(26,900)	-	4,576	7,795	100,491
Credited to other comprehensive income	-	-	19,392	-	-	-	-	933	20,325
At 31 December 2021	22,700	36,826	19,392	251,285	12,316	-	11,288	25,131	378,938
Credited to profit or loss	17,947	8,603	-	58,885	11,995	53,544	45,876	53,523	250,373
Credited/(charged) to other comprehensive income	-	-	100,362	-	-	-	-	(779)	99,583
At 31 December 2022	40,647	45,429	119,754	310,170	24,311	53,544	57,164	77,875	728,894

Deferred income tax liabilities	Change in fair value of identified assets upon acquisition of subsidiaries RMB'000	Withholding taxes RMB'000	Fair value change on financial assets at FVOCI and FVPL RMB'000	Others RMB'000	Total RMB'000
At 1 January 2021	(23,622)	(49,087)	(41,035)	(19,107)	(132,851)
Credited/(charged) to profit or loss	5,888	-	(5,950)	(8,125)	(8,187)
Credited to other comprehensive income	-	-	24,403	-	24,403
Derecognised on disposal of financial assets at FVOCI	-	-	15,060	-	15,060
At 31 December 2021	(17,734)	(49,087)	(7,522)	(27,232)	(101,575)
Credited/(charged) to profit or loss	1,365	-	(7,086)	(8,125)	(13,846)
Credited to other comprehensive income	-	-	1,572	-	1,572
Acquisition of a subsidiary	(1,733)	-	-	-	(1,733)
At 31 December 2022	(18,102)	(49,087)	(13,036)	(35,357)	(115,582)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

33 DEFERRED INCOME TAX (Continued)

Deferred tax assets not recognised

As at 31 December 2022, the Group has unused tax losses of RMB537,001 thousands (2021: RMB594,774 thousands) available for offset against future profits, no deferred tax asset has been recognised due to the unpredictability of future profit streams. The unused tax losses arising in the PRC can be carried forward up to five years from the year in which the loss was originated to offset future taxable profits. The unused tax losses arising in HK and other countries may be carried forward indefinitely.

As at 31 December 2022, no deferred tax asset has been recognised in relation to deductible temporary differences of RMB1,381,164 thousands (2021: RMB1,305,809 thousands) as it is not probable that future taxable profit will be available against which the deductible temporary differences can be utilised.

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 RMB9,031 million (2021: RMB7,440 million) of investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised amounted to approximately RMB452 million as at 31 December 2022 (2021: RMB372 million), in the opinion of the directors, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future.

34 SHARE CAPITAL

	Number of ordinary shares '000	Equivalent nominal value of ordinary shares RMB'000
At 1 January 2021, 31 December 2021 and 31 December 2022	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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35 RESERVES

	Share premium	Deemed capital contribution reserve	Statutory surplus reserve	Capital reserve	Fair value reserve of financial assets at FVOCI	Share-based payment reserve	Exchange reserve	Other reserve	Total in other reserves	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2021	3,705,495	77,651	932,579	(80,661)	35,260	547,674	(37,833)	52,335	5,232,500	6,863,616	12,096,116
Profit for the year	-	-	-	-	-	-	-	-	-	1,315,245	1,315,245
Other comprehensive loss for the year:											
- Change in fair value of financial assets at FVOCI, net of tax	-	-	-	-	(124,492)	-	-	-	(124,492)	-	(124,492)
- Exchange differences	-	-	-	-	-	-	(6,892)	-	(6,892)	-	(6,892)
Total comprehensive (loss)/ income for the year	-	-	-	-	(124,492)	-	(6,892)	-	(131,384)	1,315,245	1,183,861
Disposal of financial assets at FVOCI	-	-	-	-	(58,675)	-	-	-	(58,675)	58,675	-
Appropriation to statutory reserve	-	-	103,740	-	-	-	-	-	103,740	(103,740)	-
Balance at 31 December 2021	3,705,495	77,651	1,036,319	(80,661)	(147,907)	547,674	(44,725)	52,335	5,146,181	8,133,796	13,279,977

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

35 RESERVES (Continued)

	Share premium	Deemed capital contribution reserve	Statutory surplus reserve	Capital reserve	Fair value reserve of financial assets at FVOCI	Share-based payment reserve	Exchange reserve	Other reserve	Total in other reserves	Retained earnings	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2022	3,705,495	77,651	1,036,319	(80,661)	(147,907)	547,674	(44,725)	52,335	5,146,181	8,133,796	13,279,977
Profit for the year	-	-	-	-	-	-	-	-	-	101,599	101,599
Other comprehensive loss for the year:											
- Change in fair value of financial assets at FVOCI, net of tax	-	-	-	-	(277,453)	-	-	-	(277,453)	-	(277,453)
- Exchange differences	-	-	-	-	-	-	(18,380)	-	(18,380)	-	(18,380)
Total comprehensive loss for the year	-	-	-	-	(277,453)	-	(18,380)	-	(295,833)	101,599	(194,234)
Disposal of financial assets at FVOCI	-	-	-	-	41,147	-	-	-	41,147	(41,147)	-
Partial disposal of interest in a subsidiary without loss of control (Note 43)	-	-	-	(2,729,010)	-	-	-	-	(2,729,010)	-	(2,729,010)
Appropriation to statutory reserve	-	-	414,597	-	-	-	-	-	414,597	(414,597)	-
Balance at 31 December 2022	3,705,495	77,651	1,450,916	(2,809,671)	(384,213)	547,674	(63,105)	52,335	2,577,082	7,779,651	10,356,733

The amounts of the Group's reserves and the movements therein for the current and prior year are presented in the consolidated statement of changes in equity on page 66 of the consolidated financial statements.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

35 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 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 (i) the difference between the consideration given and the proportionate share of the carrying amount of net assets of subsidiaries attributable to non-controlling interests upon acquisition of additional interests in subsidiaries, (ii) the difference between the consideration received and the proportionate share of the carrying amount of net assets of subsidiaries attributable to non-controlling interests upon disposal/deemed disposal of partial interests in subsidiaries without loss of control, (iii) the initial recognition of written put option liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

35 RESERVES *(Continued)*

(e) Fair value reserve of financial assets at FVOCI

The Group has elected to recognise changes in the fair value of certain investments in equity securities in other comprehensive income (see Note 20). These changes are accumulated in 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 (see Note 20). For these investments, changes in fair value are accumulated in 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) Share-based payment reserve

It represented the difference between the consideration given for the capital increase to Nanjing High Speed in 2020 by certain of the core employees of the Group in exchange of 6.98% equity interest of Nanjing High Speed and the corresponding fair value of Nanjing High Speed.

(g) Exchange reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in Note 2.6 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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

36 SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

Details of the Group's subsidiaries that have material non-controlling interests are set out below:

	2022 RMB'000
Percentage of equity interest held by non-controlling interests:	
Nanjing High Speed	49.98%
Accumulated balances of non-controlling interests at the end of the reporting period:	
Nanjing High Speed	3,115,256
Total comprehensive income for the year allocated to non-controlling interests:	
Nanjing High Speed	554,515

The following table illustrates the summarised financial information of the above subsidiary.

Nanjing High Speed and subsidiaries	2022 RMB'000
Revenue	15,319,282
Total expenses	14,165,489
Profit for the year	1,153,793
Total comprehensive income for the year	1,135,425
Net cash flows generated from operating activities	1,916,455
Net cash flows used in investing activities	(5,277,960)
Net cash flows generated from financing activities	4,331,060
Net increase in cash and cash equivalents	969,555
Current assets	21,797,503
Non-current assets	8,076,569
Current liabilities	19,012,443
Non-current liabilities	4,629,773

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*



37 CASH GENERATED FROM/(USED IN) OPERATIONS

Reconciliation of profit before income tax to cash generated from/(used in) operations:

	Note	Year ended 31 December	
		2022 RMB'000	2021 RMB'000
Profit before income tax		1,043,590	1,631,674
Adjustments for:			
– Finance costs	10	588,814	233,498
– Finance income	10	(116,534)	(68,959)
– Interest income from other financial assets at amortised cost	6	(32,500)	(32,500)
– Interest income from deferred payment of consideration for partial disposal of a subsidiary	6	(21,373)	(94,118)
– Dividend income	6	(3,005)	(25,207)
– Share of results of associates and a joint venture	18	83,849	30,453
– Gains on disposal of property, plant and equipment	7	(1,123)	(5,196)
– Gain on disposal of subsidiaries	7	–	(411)
– Losses on disposal of a joint venture	7	–	16,984
– Net fair value gains on financial assets at FVPL	7	(25,403)	(28,684)
– Depreciation of property, plant and equipment	14	407,451	410,776
– Depreciation of right-of-use assets	8	17,232	15,649
– Impairment losses of property, plant and equipment	7	18,331	82,232
– Write-down of inventories	8	217,632	164,197
– Impairment loss of trade receivable	3.1(b)	119,450	4,216
– Impairment loss/(reversal of impairment loss) of other receivables	3.1(b)	93,362	(47,039)
– Impairment loss of prepayments		237	7,711
– Unrealised exchange (gains)/losses, net		(77,553)	32,019
– Deferred income on financial guarantee		(2,942)	(744)
– Release of deferred income	6	(17,218)	(19,934)
Operating profit before changes in working capital		2,292,297	2,306,617

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

37 CASH GENERATED FROM/(USED IN) OPERATIONS *(Continued)*

Reconciliation of profit before income tax to cash generated from/(used in) operations: *(Continued)*

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Changes in working capital:		
– Increase in inventories	(1,939,314)	(1,669,997)
– Increase in trade receivables	(3,007,782)	(1,187,573)
– (Increase)/decrease in other receivables	(109,530)	1,148
– Increase in prepayments	(608,920)	(218,884)
– Increase in trade and bills payable	3,467,077	235,123
– Increase/(decrease) in contract liabilities	684,269	(1,379,441)
– Increase in other payables and accruals	56,412	13,462
– Increase in warranty provision	391,090	760,959
Cash generated from/(used in) operations	1,225,599	(1,138,586)

(a) Net debt reconciliation

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Cash and cash equivalents (Note 27)	4,383,517	3,284,166
Borrowings (Note 29)	(7,842,584)	(3,998,099)
Net debt	(3,459,067)	(713,933)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

37 CASH GENERATED FROM/(USED IN) OPERATIONS *(Continued)*

(a) Net debt reconciliation *(Continued)*

	Cash	Liabilities from financing activities			Total
		Borrowings due within 1 year	Borrowings due after 1 year	Sub-total	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2021	2,184,334	(2,378,970)	–	(2,378,970)	(194,636)
Cash flows	1,131,851	(1,619,129)	–	(1,619,129)	(487,278)
Exchange differences	(32,019)	–	–	–	(32,019)
At 31 December 2021	3,284,166	(3,998,099)	–	(3,998,099)	(713,933)
Cash flows	1,021,798	(659,313)	(3,185,172)	(3,844,485)	(2,822,687)
Exchange differences	77,553	–	–	–	77,553
At 31 December 2022	4,383,517	(4,657,412)	(3,185,172)	(7,842,584)	(3,459,067)

38 CONTINGENT LIABILITIES

Financial guarantees

As at 31 December 2022, the Group issued financial guarantees to banks in respect of bank loans of RMB40,020 thousands granted to an associate (2021: RMB220,796 thousands granted to an associate and RMB3,000 thousands granted to an independent third party). 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 RMB3,417 thousands (2021: RMB6,359 thousands) has been recognised in the consolidated statement of financial position as liabilities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

39 CAPITAL COMMITMENTS

The Group had the following capital commitments at the end of the reporting period:

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Contracted, but not provided for:		
Property, plant and equipment	3,117,804	1,573,737

40 ASSETS PLEDGED AS SECURITIES

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

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Bills receivables	1,034,234	1,338,295
Trade receivables	398,826	398,803
Property, plant and equipment	1,281,047	660,886
Land use rights	269,570	358,195
Pledged bank deposits	4,897,224	1,897,477
	7,880,901	4,653,656

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)



41 BUSINESS COMBINATION

In May 2022, the Group acquired 100% equity interest in Shanghai Faske Energy Technology Co., Ltd. ("Shanghai Faske") from an independent third party with a consideration of RMB8,397 thousands.

The assets and liabilities recognised as a result of the acquisition are as follows:

	RMB'000
Cash and cash equivalents	1,557
Trade receivables	1,448
Property, plant and equipment	39,611
Other payables	(32,486)
Deferred tax liabilities	(1,733)
Net identifiable assets acquired	8,397
Consideration	8,397

Purchase consideration – cash outflow

	Year ended 31 December 2022 RMB'000
Outflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration paid	(8,397)
Add: Cash and cash equivalents acquired	1,557
Net outflow of cash – investing activities	(6,840)

According to the finalised valuation report, deferred tax liabilities of RMB1,733 thousands has been provided in relation to the fair value adjustments as to the acquired property, plant and equipment of RMB6,932 thousands.

The post acquisition revenue and net loss that Shanghai Faske contributed to the Group for the year ended 31 December 2022 were Nil and RMB2,916 thousands respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

42 RELATED PARTY TRANSACTIONS

- (a) In addition to the transactions detailed elsewhere in these consolidated statements, the Group has the following significant transactions with related parties during the year:

	Year ended 31 December	
	2022 RMB'000	2021 RMB'000
Associates:		
Sales of products (Note (i))	–	–
Purchases of products (Note (ii))	–	183
Joint ventures:		
Sales of products (Note (i))	N/A	94,503

Notes:

- (i) The sales to the associates and joint ventures were made according to the published prices and conditions offered to the major customers of the Group.
- (ii) The purchases from the associates were made according to the published prices and were agreed by both parties.

(b) Other transactions with related parties:

As at 31 December 2022, the Group provided financial guarantees to Nanjing Gaochuan Mechanical and Electrical Automatic Control Equipment Co., Ltd., an associate of the Group, and its subsidiaries (collectively referred to as “Nanjing Gaochuan”) in favour of Nanjing Gaochuan’s bank loans of RMB40,020 thousands (2021: RMB220,796 thousands).

(c) Outstanding balances with related parties:

The Group’s trade and other balances with its associates and joint ventures as at the end of the reporting period are disclosed in Notes 25, 26 and 28 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 45, the Group did not have any other significant compensation to key management personnel.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

43 PARTIAL DISPOSAL OF A SUBSIDIARY WITHOUT LOSS OF CONTROL

On 30 March 2021, Nanjing Gear Enterprise Management Co., Ltd (the “Vendor”), a wholly-owned subsidiary of the Group, and Nanjing High Speed entered into an equity transfer agreement (the “Equity Transfer Agreement”) with Shanghai Wensheng Asset Management Co., Ltd. (the “Purchaser”), an independent third party, to dispose 43% of the equity interests of Nanjing High Speed at a consideration of RMB4,300,000 thousands (the “Disposal”). Pursuant to the Equity Transfer Agreement, if the transferee is not the Purchaser itself, the identity of the transferee is restricted to be a legal entity controlled or jointly controlled directly or indirectly by the Purchaser. The actual transferee is Shanghai Qiwo Enterprise Management Partnership (Limited Partnership) (the “Transferee”). For further details of the Disposal, please refer to the announcements of the Company dated 30 March 2021, 15 July 2021 and 15 October 2021 and the circular of the Company dated 26 May 2021.

The Disposal has been completed on 4 March 2022. Upon the completion of the Disposal, the Group’s equity interest in Nanjing High Speed decreased from approximately 93.02% to approximately 50.02%. Nanjing High Speed remains a subsidiary of the Group and as such, the Disposal is accounted for as an equity transaction.

The effect on equity attributable to owners of the Company as at the disposal date is summarised as follows:

	RMB’000
Consideration received for the Disposal	4,300,000
Less: Non-controlling interests recognised	(2,205,346)
Less: Income tax recognised directly in equity (Note (a))	(523,664)
Less: Written put option liability initially recognised (Note (b))	(4,300,000)
Decrease in equity attributable to owners of the Company	(2,729,010)

Notes:

- (a) Income tax of RMB838,804 thousands is recognised from the Disposal, which is calculated on the differences between the consideration for the Disposal of RMB4,300,000 thousands and the investment cost of RMB944,785 thousands, at applicable PRC income tax rate of 25%. Out of which, RMB523,664 thousands is recognised directly in equity as the Disposal is accounted for as an equity transaction, and the amount is calculated on the differences between the consideration for the Disposal of RMB4,300,000 thousands and 43% of the consolidated net assets of Nanjing High Speed at the date of the Disposal of RMB2,205,346 thousands, at applicable PRC income tax rate of 25%. The remaining portion of income tax of RMB315,140 thousands relates to post acquisition profit of Nanjing High Speed, and is recognised in profit or loss.



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

43 PARTIAL DISPOSAL OF A SUBSIDIARY WITHOUT LOSS OF CONTROL *(Continued)*

Notes: *(Continued)*

(b) Written put option liability

As part of the Equity Transfer Agreement, the Vendor grants a put option to the Transferee, at which the Transferee could request the Vendor to repurchase all of the equity interest of Nanjing High Speed acquired by the Transferee during the 3 years from the completion date of the Disposal under certain conditions, at the Transferee's discretion, at an exercise price of RMB4,300,000 thousands plus 6% interest per annum.

The fair value of the written put option liability at grant date is measured at the present value of the exercise price of RMB4,300,000 thousands plus 6% interest per annum, by applying a discount rate of 6%, and on the assumption that the put option will be redeemable in 3 years.

The movement of written put option liability during the year is as follows:

	RMB'000
At 1 January 2022	–
Issuance of written put option	4,300,000
Unwinding of discount	214,175
At 31 December 2022	4,514,175

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)



44 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2022 RMB'000	2021 RMB'000
Assets		
Non-current assets		
Property, plant and equipment	13	19
Interests in subsidiaries	4,015,703	3,788,585
Financial assets at FVOCI	17,808	39,433
	4,033,524	3,828,037
Current assets		
Other receivables	213	229
Cash and cash equivalents	48,315	14,835
	48,528	15,064
Total assets	4,082,052	3,843,101
Liabilities		
Current liabilities		
Amounts due to subsidiaries	6,077	5,564
Other payables	1,316	285
Total liabilities	7,393	5,849
Equity attributable to owners of the Company		
Share capital	119,218	119,218
Reserves (Note (a))	3,955,441	3,718,034
Total equity	4,074,659	3,837,252
Total equity and liabilities	4,082,052	3,843,101

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

44 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY (Continued)

(a) Reserve movement of the Company

	Share premium RMB'000	Deemed contribution capital reserve RMB'000	Fair value reserve of financial assets at FVOCI RMB'000	Retained earnings/ (accumulated losses) RMB'000	Total RMB'000
At 1 January 2021	3,705,495	77,651	(24,320)	11,257	3,770,083
Loss for the year	-	-	-	(64,607)	(64,607)
Other comprehensive loss for the year:					
- Change in fair value of financial assets at FVOCI, net of tax	-	-	12,558	-	12,558
At 31 December 2021 and 1 January 2022	3,705,495	77,651	(11,762)	(53,350)	3,718,034
Profit for the year				212,776	212,776
Other comprehensive income for the year:					
- Change in fair value of financial assets at FVOCI, net of tax	-	-	24,631	-	24,631
- Disposal of financial assets at FVOCI	-	-	41,147	(41,147)	-
At 31 December 2022	3,705,495	77,651	54,016	118,279	3,955,441

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

45 BENEFITS AND INTERESTS OF DIRECTORS

(a) Directors' and chief executive's emoluments:

The remuneration of every director and chief executive is set out below:

	Fees RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2022				
Executive Directors				
Mr. Hu Jichun (<i>chief executive</i>)	–	2,397	53	2,450
Mr. Hu Yueming	–	3,450	–	3,450
Mr. Chen Yongdao	–	3,097	53	3,150
Mr. Wang Zhengbing	–	2,697	53	2,750
Mr. Zhou Zhijin	–	2,697	53	2,750
Ms. Zheng Qing	214	–	–	214
Mr. Gu Xiaobin	–	5,447	53	5,500
Mr. Fang Jian	–	1,947	53	2,000
Independent Non-executive Directors				
Mr. Jiang Xihe	214	–	–	214
Ms. Jiang Jianhua	214	–	–	214
Dr. Chan Yau Ching	214	–	–	214
Mr. Nathan Yu Li	214	–	–	214
	1,070	21,732	318	23,120

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

45 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

(a) Directors' and chief executive's emoluments: *(Continued)*

	Fees RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
For the year ended				
31 December 2021				
Executive Directors				
Mr. Hu Jichun (<i>chief executive</i>)	–	2,397	53	2,450
Mr. Hu Yueming	–	3,450	–	3,450
Mr. Chen Yongdao	–	3,097	53	3,150
Mr. Wang Zhengbing	–	2,697	53	2,750
Mr. Zhou Zhijin	–	2,697	53	2,750
Ms. Zheng Qing	196	–	–	196
Mr. Gu Xiaobin	–	5,447	53	5,500
Mr. Fang Jian	–	1,947	53	2,000
Independent Non-executive Directors				
Mr. Jiang Xihe	196	–	–	196
Ms. Jiang Jianhua	196	–	–	196
Dr. Chan Yau Ching	196	–	–	196
Mr. Nathan Yu Li	196	–	–	196
	980	21,732	318	23,030

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year.

(b) 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 (2021: Nil).

(c) 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.