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)

2020

ANNUAL REPORT

* For identification purpose only

CONTENTS

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

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

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

REGISTERED OFFICE

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

AUDITOR

Baker Tilly Hong Kong Limited

LEGAL ADVISER

Chungs Lawyers in association with DeHeng Law Offices

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

CORPORATE INFORMATION

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

COMPANY SECRETARY

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

AUTHORISED REPRESENTATIVES

Mr. Hu Yueming
Mr. Lui Wing Hong, Edward

PRINCIPAL BANKERS

Bank of Communications
ICBC
Bank of Jiangsu
Bank of Ningbo
Huaxia Bank
China Minsheng Bank
Everbright Bank
SPD 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

FINANCIAL HIGHLIGHTS

	Year ended 31 December 2020 RMB'000	Year ended 31 December 2019 RMB'000	Change
Continuing operations			
Revenue from contracts with customers	**15,368,511**	9,722,896	58.1%
Gross profit	**3,212,710**	1,934,893	66.0%
Continuing operations and discontinued operations			
Profit for the year attributable to owners of the Company	**840,906**	438,188	91.9%
– Continuing operations	**840,906**	367,426	128.9%
– Discontinued operations	**–**	70,762	N/A
Basic and diluted earnings per share (RMB)	**0.514**	0.268	91.8%
Proposed final dividend per share (HKD)	**N/A**	0.20	N/A

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000	Change
Total assets	**25,851,099**	24,858,848	4.0%
Total liabilities	**13,227,891**	13,529,450	-2.2%
Net assets	**12,623,208**	11,329,398	11.4%
Net assets per share (RMB)	**7.7**	6.9	11.6%
Gearing ratio* (%)	**51.2**	54.4	-3.2 percentage points

* Gearing ratio = total liabilities/total assets

FIVE-YEAR FINANCIAL SUMMARY

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

	Year ended 31 December				
	2020	2019	2018	2017	2016
				Restated*	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
RESULTS					
Revenue from contracts with customers	**15,368,511**	9,722,896	8,203,500	7,990,604	8,966,049
Profit for the year	**851,056**	417,611	206,472	352,816	1,059,435
Profit for the year attributable to owners of the Company	**840,906**	438,188	208,401	451,699	1,108,995

	As at 31 December				
	2020	2019	2018	2017	2016
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
ASSETS AND LIABILITIES					
Total assets	**25,851,099**	24,858,848	26,748,539	27,438,175	26,295,600
Total liabilities	**(13,227,891)**	(13,529,450)	(15,883,275)	(16,462,174)	(15,055,252)
	12,623,208	11,329,398	10,865,264	10,976,001	11,240,348
Attributable to:					
Owners of the Company	**12,215,334**	11,207,043	10,791,832	10,904,962	11,053,873
Non-controlling interests	**407,874**	122,355	73,432	71,039	186,475
	12,623,208	11,329,398	10,865,264	10,976,001	11,240,348

* See note 29 to the consolidated financial statements for the year ended 31 December 2018 set out in the 2018 annual report of the Company for details regarding the restatement as a result of the discontinued operation.

CHAIRMAN'S STATEMENT

I am pleased to present the 2020 annual report of China High Speed Transmission Equipment Group Co., Ltd. (the "**Company**" or "**China High Speed Transmission**"). For the year ended 31 December 2020 (the "**Year**"), the Company and its subsidiaries (collectively referred to as the "**Group**") recorded sales revenue of approximately RMB15,368,511,000, representing an increase of approximately 58.1% from 2019. Profit attributable to owners of the Company was approximately RMB840,906,000, representing an increase of approximately 91.9% from 2019. China High Speed Transmission continued to lead domestic wind power equipment industry with its strong research, design and development capabilities as well as commitment to the provision of high quality, reliable and innovative products for customers. The Company also adjusted the business development strategies of the industrial gear transmission equipment industry to enhance its market competitiveness.

In 2020, the COVID-19 has brought a huge impact on domestic and international society. Economic development at home and abroad experienced severe risks and challenges. In light of the impact of emidemic and the complex and severe domestic and foreign environments, China has launched a series of policies and initiatives in a phased, rhythmic, and targeted manner to help the majority of the maket players resume work and production, resume business and market, and take the lead in restoring positive economic growth in major global economics. According to statistics announcement issued by the National Bureau of Statistics of China, the national annual gross domestic production was approximately RMB101.6 trillion through preliminary calculation, an increase of approximately 2.3% over the previous year. With much effort, we first resumed our work and production and we achieved economic recovery better than that we have expected. We accumulated experience in macroeconomic control and made great progress with reasonable efforts.

In the wind milling industry, although affected by the epidemic in 2020, the domestic epidemic was brought under control in a timely manner and wind power companies actively resumed work and production, coupled with the expiration date of the incentive policy promulgated by the PRC government, which has driven a large number of enterprises to rapidly complete the construction of wind power projects before the end of the year to enjoy the preferential policy. Due to the overall recovery of the industry and installation rush, China's wind power industry achieved faster-than-expected growth in 2020. According to the latest data released by the National Energy Administration of the PRC, in 2020, the new grid-connected installed wind capacity nationwide was approximately 71.67 million kilowatts, of which, onshore wind capacity increased by approximately 68.61 million kilowatts and offshore wind power increased by approximately 3.06 million kilowatts.

CHAIRMAN'S STATEMENT

The Group is a leading supplier of wind gear transmission equipment. By leveraging on its strong research, design and development capabilities, the Group has a range of products including 1.5MW, 2MW, 3MW, 4MW, 5MW and 6MW wind power transmission equipment which have been provided to domestic and overseas customers in bulk. The product technology has reached an internationally advanced technical level. The Group has also successfully developed and accumulated 7MW and above wind power gear box with a technological level comparable to international advanced level. During the Year, gear box above 7MW has also entered the pre-development stage of product design, parts processing and assembly. Relying on the NGC StanGearTM 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 models. In line with market development trends, the Company actively develops large megawatt gearboxes, introduces condition monitoring, big data analysis and mobile terminal technology, and strives to create an integrated product and service system for intelligent gear boxes.

In recent years, the Group's industrial gear transmission equipment business has continued its development strategy. By adhering to the concept of energy conservation and environmental protection, the Group consolidated its industrial heavy equipment market advantages, strengthened R&D and innovation, and exported standardized, modular and intelligent products with international competitiveness. Besides, the Company has also been actively developing and expanding the application of industrial gear transmission equipment such as standard gearboxes and industrial planetary gearboxes in new markets and new industries, building an intelligent product application system, and giving products greater added value and longer life cycles. At the same time, the Group strengthened its efforts to provide and sell parts and components of relevant products as well as system solutions to its customers, helping them enhance their current production efficiency without increasing capital expenditure, and meeting their diversified and differentiated needs, thereby maintaining the Company's position as a major supplier in the industrial gear transmission equipment product market.

During the reporting period, the MLXSS700M vertical mill gear box developed and manufactured by the Group, was included in the "Catalog of New Technologies and New Products the Province Vigorously Promoted and Applied (《省重點推廣應用的新技術新產品目錄》". The MLXSS700M vertical mill gear box is a modular product developed based on the Company's new-generation technology platform by virtue of system dynamics analog simulation, multi-objective gear modification, structural part shape topology optimization, lubrication and sealing simulation and other platform technologies, which not only ensures excellent product performance, but also shortens the product delivery cycle, and provides a stronger boost to accelerate the comprehensive utilization of solid waste to achieve green circle economy.

In addition, the Group's rail transportation 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/TS 22163 Certificate for the Quality Management System of International Railway Industry for its rail transportation gearbox 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 and other cities in China 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 and Canada.

During the reporting period, the Company received orders of PDM490 type two-stage metro gear box for Spanish metro gearboxes. PDM490 type two-stage metro gear box is characterized by its high-density power, strong load-bearing, low noise, high reliability, and easy maintenance. The key components have a lifetime of 40 years with a 1.2 million km maintenance-free life span. With optimized gear box design technology, excellent sealing technology and effective control of the production process, NGC rail transportation gear boxes are more environmentally friendly, and the products are well received by users.

In recent years, the continuous introduction of relevant policies by the state promotes the development of the clean energy industry. In September 2020, President Xi Jinping pointed out in the general debate of the 75th session of the General Assembly of the United Nations that "China will increase its nationally determined contributions, adopt more forceful policies and measures, strive to reach the peak of carbon dioxide emissions by 2030 and achieve carbon neutrality by 2060." At the end of 2020, the White Paper on Energy Development in China's New Era (《新時代的中國能源發展》) was released by the National Development and Reform Commission, which stipulates to comprehensively promote the transformation of energy consumption patterns and build a diversified and clean energy supply system to promote a comprehensive green transformation of economic and social development as well as engage in the governance of global energy to push forward the sustainable development of global energy. It also stipulates that we shall promote the development of the wind power through comprehensive coordination and proactively stabilize the development of marine wind power. The development of the wind power manufacturing industry is enhanced through the scale development and utilization of the wind power and thus its innovation capability and international competitiveness will be increased with its service system gradually improved. In order to deeply implement the target of "the peak of carbon dioxide emissions and carbon neutrality", during the 14th five-year plan period and afterwards, the development of renewable energy in China will enter into a larger scale and higher percentage and a new stage of high quality and then into a new era of large scale, high percentage, low cost and marketization development.

The Group will continue to keep an eye on the market orientation of its products in providing customers with best-in-class products, more excellent skills and sophisticated services than others. We will upgrade the product quality and economies of scale while increasing our share in the international market and thus setting a new record in the Group's profitability in its core business.

Finally, on behalf of the Board, 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 2021

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 equipments that are used in wind power and a wide range of industrial applications. During the Year, the Group recorded sales revenue of approximately RMB15,368,511,000 in continuing operations (2019: RMB9,722,896,000), representing an increase of 58.1% as compared with 2019, and the gross profit margin was approximately 20.9% (2019: 19.9%). Profit attributable to owners of the Company from continuing and discontinued operations was approximately RMB840,906,000 (2019: RMB438,188,000), representing an increase of 91.9% as compared with 2019, and basic earnings per share was RMB0.514 (2019: RMB0.268), representing an increase of 91.8% as compared with 2019.

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 (the "**PRC**" or "**China**"). By leveraging on its strong research, design and development capabilities, the Group has a range of products including 1.5MW, 2MW, 3MW, 4MW, 5MW and 6MW wind power transmission equipment whose technology have reached an internationally advanced technical level and which have been provided to domestic and overseas customers in bulk and are well recognised by customers in general. The Group has also successfully developed and accumulated 7MW and above wind power gear box with a technological level comparable to the international level. With the product platform NGC StanGearTM and our core technology platform, we continue to upgrade product design and computation analysis technology, process manufacturing technology, heat treatment and control technology and the processing technology of precise tooth profiles for the reserve of solid technology foundation for the manufacturing of equipment in MW. In light of market development trend, the Group is actively developing gear boxes in MW and introducing technologies of status monitoring, big data analysis and mobile terminal technology and strives to establish an integrated product and service system of intelligent gear boxes.

Currently, the Group maintains a strong customer portfolio. Customers of its wind power business include the major wind turbine manufacturers in the PRC, as well as the renowned international wind turbine manufacturers such as GE Renewable Energy, Siemens Gamesa Renewable Energy, Vestas and Suzlon. With our quality products and good services, the Group has received a wide range of recognition and trust from customers at home and abroad. The Group has 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 overseas customers with a view to providing further diversified services for global customers.

The wind gear transmission equipment is a major product that has been developed by the Group. During the Year, sales revenue of wind gear transmission equipment business increased by 42.5% to approximately RMB11,651,603,000 (2019: RMB8,178,999,000) as compared with last year.

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 mainly supplied to customers in industries such as metallurgy, construction materials, rubber and plastic, petrochemical, aerospace and mining.

In recent years, the Group insisted on the strategy for green development of the industrial gear transmission equipment business. Above all, with technology as its competitive advantage, the Group has upgraded the technology of the heavy products with a focus on energy-saving and environmentally-friendly products and explored in-depth the heavy-duty transmission field. Meanwhile, the Group has developed modular, serialized and intelligent products which are internationally competitive. Through the characteristics of "complete range, clear layers and precise subdivision" as our products positioning and market positioning, the Group would be able to facilitate its change in sales strategies and to explore new markets and industries. In particular, the Group aims to focus on the research and development of the standard gear box and planetary gear box segment and to explore new markets of the same segment. At the same time, the Group strengthened its efforts to provide and sell parts and components of relevant products as well as comprehensive system solutions to its customers, helping them to enhance their current production efficiency 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 industrial gear transmission equipment market.

During the Year, the industrial gear transmission equipment business generated sales revenue of approximately RMB1,526,091,000 (2019: RMB1,261,820,000) for the Group, representing an increase of 20.9% over last year.

3. **Rail transportation gear transmission equipment**

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

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/TS 22163 Certificate for the Quality Management System of International Railway Industry 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 Beijing, Shanghai, Shenzhen, Nanjing, Hong Kong and other cities in China 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 and Canada. With optimized gearbox design technology, excellent sealing technology and effective control of the production process, NGC rail transportation gearboxes are more environmentally friendly, and the products are well received by users.

During the Year, the rail transportation gear transmission equipment business generated sales revenue of approximately RMB300,031,000 (2019: RMB225,097,000) for the Group, representing an increase of 33.3% over last year.

4. **Trading business**

Explore and expand trading business through resource integration

The trading business of the Group mainly focuses on bulk commodity and steel industry chain. The bulk commodity trading business mainly involves the procurement and wholesale of refined oil and electrolytic copper. During the Year, the bulk commodity trading business accounted for approximately 60% in the trading business. The trading business in steel industry chain mainly involves the procurement and wholesale of coal and coke (the raw material of steel), and the procurement and wholesale of steel. During the Year, the trading business in steel industry chain accounted for approximately 40% in the trading business. The Group's trading business in steel industry chain takes core resources of its trade system as a key point in expanding its system. At present, the Group has completed the preliminary resource integration of the steel industry from the upstream raw material to special steel, which promotes the development of the trading business.

During the Year, the sales revenue of the trading business amounted to approximately RMB1,818,532,000 (2019: Nil).

LOCAL AND EXPORT SALES

During the Year, the Group maintained its position as the leading supplier of mechanical transmission equipment in the PRC. During the Year, the overseas sales amounted to approximately RMB2,576,824,000 (2019: RMB2,876,278,000), representing a decrease of 10.4% over last year. Overseas sales accounted for 16.8% of the total sales (2019: 29.6%), representing a decrease of 12.8 percentage points over last year. At present, the overseas customers of the Group are based mainly in the U.S. and other countries and regions such as Europe, India and Brazil.

PATENTED PROJECTS

The business of the Group has high entry barriers and requires specific technical know-how. The Group enhances corporate growth by introducing new products and new technology. Various 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 over 100 national, provincial and municipal technology advancement awards, outstanding new products awards, certification for new products, certification for high and new tech products and certification of high and new tech enterprise. As of 31 December 2020, a total of 528 patents were granted by the State. In addition, 412 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. It was nominated as an enterprise for the 863 State Plan and a Computer Integrated Manufacturing System (CIMS) Application Model Enterprise by the Ministry of Science and Technology of the PRC. As of 31 December 2020, the Company passed ISO9001:2015 quality management system certification, ISO14001:2015 environmental management system certification, OHSAS18001: 2007 occupational health and safety management system certification and Jiangsu Province Quality and Credit Graded AA certification. Our wind gear transmission equipment products have obtained certifications from China Classification Society (CCS), China General Certification Center (CGC), China Quality Certification Centre (CQC), Technische Überwachungs-Verein (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, American Petroleum Institute (API) Specification IIE and Mining Products Safety Approval and Certification Center Co., Ltd. (MA); and rail transportation products have obtained ISO/TS 22163 Certificate for the Quality Management System of International Railway Industry.

MANAGEMENT DISCUSSION AND ANALYSIS

PROSPECTS

In the early 2020, the COVID-19 pandemic spread across the world and the global economy therefore suffered unprecedented impact. The prevention and control measures and other policies implemented by different nations and countries have led to a temporary recovery of the world economy. The International Monetary Fund (IMF) and other institutions estimated that the global economy will shrink over 4% in 2020 due to the pandemic. China has adopted effective prevention and control measures to deal with the pandemic. The scientific coordination in the normal prevention and control measures of the pandemic and the dual circulation in economic development led to continuous steady recovery and strong resilience and vitality in the national economy. China has also become one of the major economies in the world with positive economic growth in 2020. However, at the end of 2020, the re-occurrence of the pandemic in certain countries resulted in their stricter lockdown measures against it. In this regard, it is hard to expect an overall positive recovery of the global economy. As the pandemic in the overseas subsists, it will have a lasting and far-reaching negative impact on the global economy. Under the current complicated circumstances, the construction of a new development pattern of international and domestic dual circulation reinforcing each other is necessary and China's economy will encounter various risks and challenges.

Looking back at 2020, the wind power industry grew against the downward economic trend. The 2020 is the closing year of the "13th Five-Year Plan", driven by the rapid installation and grid connection of wind power, the performance of wind power and renewable energy industry was remarkable. According to the statistics released by Bloomberg New Energy Finance, the global newly-installed wind power capacity amounted to 96.3GW, representing an increase of 59% over 2019, of which onshore newly-installed wind power capacity amounted to 90.2GW, reaching a record high while offshore newly-installed wind power capacity amounted to 6.1GW. Driven by the rapid installation, China and the United States achieved a new high record in newly-installed wind power capacity. In 2020, the newly installed wind capacity in China has reached 57.8GW, a double increase over 2019. Among which, onshore wind capacity increased to 53.8GW, increased by 105% over the last year while the offshore wind capacity increased to 4GW, increased by 47% over the last year. According to the latest statistics released by Global Wind Energy Council-GWEC, the offshore wind power in China has ranked first for the three consecutive years in the world and its newly-installed wind power capacity accounted for over half of the global newly-installed wind power capacity. The total offshore wind power in China exceeded that of Germany, being the second largest offshore wind power market in the world following the UK.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is a leading supplier of wind power gear transmission equipment, with diversified, large and overseas market development. By leveraging on its strong research, design and development capabilities, the Group has a range of products including 1.5MW, 2MW, 3MW, 4MW, 5MW and 6MW wind power transmission equipment which can be provided to domestic and overseas customers in bulk. The product technology has reached an internationally advanced technical level. The Group has also successfully developed and accumulated 7MW and above wind power gear box with a technological level comparable to international advanced level, thus enabling it to have the capability and technology to produce those products. During the Year, gear box above 7MW has also entered the pre-development stage of product design, parts processing and assembly. Relying on the NGC StanGearTM 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 MW models. In line with market development trends, the Company actively develops large MW gear boxes, introduces condition monitoring, big data analysis, and mobile terminal technology, and strives to create an integrated product and service system for intelligent gearboxes.

Currently, the Group continues to maintain a strong customer portfolio. The customers of 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, Vestas and Suzlon, etc. With our quality products and good services, the Group has gained extensive recognition and trust from customers at home and abroad. The Group has subsidiaries in the United States, Germany, Singapore, Canada and India to support the sustainable development strategy of the Group. The Group strives to have closer communication and discussion with potential customers and to grasp the opportunities in emerging markets so as to enhance production capacity and to further diversify services for global customers.

MANAGEMENT DISCUSSION AND ANALYSIS

In recent years, the Group's industrial gear transmission equipment business has insisted on its green development strategy. By adhering to the concept of energy conservation and environmental protection and focusing on heavy-duty transmission field, the Group consolidated its industrial heavy equipment market advantages, strengthened independent R&D and innovation, and exported modular, serialized and intelligent products with international competitiveness. Besides, the Company has also been actively developing and expanding the application of industrial gear transmission equipment such as standard gear boxes and industrial planetary gear boxes in new markets and new industries, building an intelligent-manufacturing integrated product application system, and giving products greater added value and longer life cycles. At the same time, the Group strengthened its efforts to provide and sell parts and components of relevant products as well as comprehensive system solutions to its customers, helping them enhance their current production efficiency without increasing capital expenditure, and satisfying their diversified and differentiated needs, thereby maintaining the Company's position as a major supplier in the industrial gear transmission equipment product market.

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/TS 22163 Certificate for the Quality Management System of International Railway Industry for its rail transportation 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 Beijing, Shanghai, Shenzhen, Nanjing, Hong Kong and other cities in China 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 and Canada. With optimized gear box design technology, excellent sealing technology and effective control of the production process, the Group's rail transportation transmission equipment are more environmentally friendly, and the products are well received by users. The Group will continue to expand the gear transmission equipment business in high-speed rails, metro lines, urban train and tram and accelerate the research and development of rail transportation transmission equipment products for a stronger development in the field of rail transportation gear transmission equipment.

China made a solemn promise to the world that "We strive to achieve the peak of carbon dioxide emissions by 2030 and achieve carbon neutrality by 2060." Looking ahead to 2021, with the continuous promotion by the Chinese government for the development of renewable energy industry and the high initiative of state-owned enterprises engaged in the business fields of energy and power in developing new energy, the domestic wind power industry will embrace new opportunities in accelerated development. In 2021, "carbon neutrality" is one of the eight key economic tasks of the central government of the PRC. The wind power serves as a key green energy supporting "carbon neutrality" and will enter into a critical stage of a new development. In February 2021, the State Council and the National Energy Administration issued the Guiding Opinions on Accelerating the Establishment and Improvement of a Green and Low-Carbon Loop Development Economic System (《關於加快建立健全綠色低碳迴圈發展經濟體系的指導意見》), which emphasizes the acceleration of the high-quality development and high standard conservation, the establishment of an economic system for the development of a green and low-carbon circle to ensure the realization of the peak of carbon dioxide emissions and carbon neutrality. It also states the need to speed up the green upgrade of infrastructure, propel the transformation of energy system to a green and low-carbon one and raise the utilization rate of the renewable energy so as to promote the development of the wind power industry. In March 2021, the National Development and Reform Commission of China and other four departments jointly issued the Notice on the Guidance of Increasing Financial Support to Promote the Sound and Orderly Development in Wind Power and Photovoltaic Power Generation Industry (《關於引導加大金融支持力度促進風電和光伏發電等行業健康有序發展的通知》) and other nine initiatives, which stipulate that financial institutions may extend or renew loans upon negotiation with renewable energy enterprises on the commercial principles and independently issue subsidy and approve loans based on the market principle and rule of laws. More efforts shall be made in financial support to promote the sound and orderly development in wind power and other renewable energy industries. With the support and guidance of policies, the wind power serves as an importance driven force to the transformation of global energy and will enter into a stage of "double speed" in the future development. The further increase of utilization of wind power and stable investment and growth of the industry will propel the optimization of the wind power layout and effectively help the development of the Group's wind power gear transmission equipment business.

In the future, the Group will adhere to the four core competitive strengths of "innovative thinking, zero defects, professional services, and customer orientation", keep up with market policy trends, and outperform the average market development by the visionary market strategy, continue to invest in innovation, advanced manufacturing technologies, promote the management concept of zero defects, inject high-level investments in human resources and build an excellent corporate culture, etc., to achieve a development speed higher than the market average, and to be a stable and sustainable industry leader.

FINANCIAL PERFORMANCE (CONTINUING OPERATIONS)

Sales revenue of the Group for the Year increased by 58.1% to approximately RMB15,368,511,000.

	Revenue		
	Year ended 31 December		
	2020	2019	Change
	RMB'000	RMB'000	
Continuing operations			
Wind gear transmission equipment	**11,651,603**	8,178,999	42.5%
Industrial gear transmission equipment	**1,526,091**	1,261,820	20.9%
Rail transportation gear transmission equipment	**300,031**	225,097	33.3%
Trading business	**1,818,532**	–	N/A
Other products and services	**72,254**	56,980	26.8%
Total	**15,368,511**	9,722,896	58.1%

Revenue

During the Year, the Group's sales revenue was approximately RMB15,368,511,000, representing an increase of 58.1% as compared with last year. This was mainly due to the increase in the market demand of wind gear transmission equipment and trading business.

During the Year, sales revenue from wind gear transmission equipment was approximately RMB11,651,603,000 (2019: RMB8,178,999,000), representing an increase of 42.5% as compared with last year; sales revenue from industrial gear transmission equipment was approximately RMB1,526,091,000 (2019: RMB1,261,820,000), representing an increase of 20.9% as compared with last year; sales revenue from rail transportation gear transmission equipment was approximately RMB300,031,000 (2019: RMB225,097,000), representing an increase of 33.3% as compared with last year; and sales revenue from trading business was approximately RMB1,818,532,000 (2019: Nil).

Gross profit margin and gross profit

During the Year, the Group's consolidated gross profit margin was approximately 20.9% (2019: 19.9%), representing an increase of 1.0 percentage point as compared with last year. Consolidated gross profit for the Year amounted to approximately RMB3,212,710,000 (2019: RMB1,934,893,000), representing an increase of 66.0% as compared with last year. During the Year, the increase in consolidated gross profit margin was due to the economies of scale. The increase in consolidated gross profit was mainly due to the increase in sales revenue and gross profit margin.

Other income

During the Year, the Group's other income was approximately RMB332,593,000 (2019: RMB182,307,000), representing an increase of 82.4% as compared with last year. Other income mainly comprised of dividend, interest income, government grants and income from sales of scraps and materials. The main reasons for the increase are the increase in government grants and income from sale of scraps and materials.

Other (losses)/gains – net

During the Year, the Group's other net loss was approximately RMB164,618,000 (2019: net gain of RMB64,543,000). Other net loss mainly included foreign exchange losses and impairment losses on property, plant and equipment.

Selling and distribution expenses

During the Year, the Group's selling and distribution expenses were approximately RMB381,553,000 (2019: RMB362,811,000), representing an increase of 5.2% as compared with last year. Selling and distribution expenses mainly comprised of product packaging expenses, transportation expenses, staff costs and business expenses. Selling and distribution expenses represented 2.5% (2019: 3.7%) of sales revenue for the Year, representing a decrease of 1.2 percentage points as compared with last year which was mainly due to the increase in sales revenue.

Administrative expenses

During the Year, the Group's administrative expenses were approximately RMB510,225,000 (2019: RMB519,269,000), representing a decrease of 1.7% as compared with last year. Administrative expenses accounted for 3.3% (2019: 5.3%) to the sales revenue, representing a decrease of 2.0 percentage points as compared with last year which was mainly due to the increase in sales revenue.

Research and development costs

During the Year, the Group's research and development costs amounted to approximately RMB512,737,000 (2019: RMB394,961,000), representing an increase of 29.8% as compared with last year, which was mainly due to the increased efforts in research and development of new products.

Net impairment losses recognized on financial assets

During the Year, the net impairment losses on financial assets of the Group amounted to approximately RMB39,777,000 (2019: RMB62,188,000), which are mainly comprised of impairment losses on trade receivables amounting to RMB63,793,000 and reversal of impairment losses on other receivables amounting to RMB24,016,000, the impairment losses were mainly due to individual provision for bad debts of trade receivables and other receivables based on evaluation of credit risk of specific customers.

Finance costs

During the Year, the Group's finance costs were approximately RMB282,866,000 (2019: RMB512,030,000), representing a decrease of 44.8% as compared with last year, which was mainly due to the decrease in corporate bonds and bank loans as compared with last year.

FINANCIAL RESOURCES AND LIQUIDITY

As at 31 December 2020, the equity attributable to owners of the Company amounted to approximately RMB12,215,334,000 (31 December 2019: RMB11,207,043,000). The Group had total assets of approximately RMB25,851,099,000 (31 December 2019: RMB24,858,848,000), representing an increase of 4.0% as compared with the beginning of the year. Total current assets were approximately RMB17,338,208,000 (31 December 2019: RMB15,913,153,000), representing an increase of 9.0% as compared with the beginning of the year. Total non-current assets were approximately RMB8,512,891,000 (31 December 2019: RMB8,945,695,000), representing a decrease of 4.8% as compared with the beginning of the year.

As at 31 December 2020, total liabilities of the Group were approximately RMB13,227,891,000 (31 December 2019: RMB13,529,450,000), representing a decrease of approximately RMB301,559,000, or 2.2%, as compared with the beginning of the year. Total current liabilities were approximately RMB12,545,009,000 (31 December 2019: RMB12,554,837,000), representing a decrease of 0.1% as compared with the beginning of the year. Total non-current liabilities were approximately RMB682,882,000 (31 December 2019: RMB974,613,000), representing a decrease of 29.9% as compared with the beginning of the year, which was mainly due to the decrease in corporate bonds as compared with the last year.

As at 31 December 2020, the net current assets of the Group were approximately RMB4,793,199,000 (31 December 2019: RMB3,358,316,000), representing an increase of approximately RMB1,434,883,000 or 42.7%, as compared with the beginning of the year.

As at 31 December 2020, total cash and bank balances of the Group were approximately RMB4,157,603,000 (31 December 2019: RMB5,318,455,000), representing a decrease of approximately RMB1,160,852,000, or 21.8%, as compared with the beginning of the year. Total cash and bank balances included pledged bank deposits of RMB1,653,224,000 (31 December 2019: RMB2,642,560,000) and the structured bank deposits included in the financial assets at fair value through profit or loss amounting to RMB320,045,000 (31 December 2019: RMB155,480,000).

As at 31 December 2020, the Group had total borrowings of approximately RMB2,378,970,000 (31 December 2019: RMB5,237,448,000, including corporate bonds), representing a decrease of approximately RMB2,858,478,000, or 54.6%, as compared with the beginning of the year, of which borrowings due within one year were approximately RMB2,378,970,000 (31 December 2019: RMB4,738,275,000), accounting for 100% (31 December 2019: 90.5%) of the total borrowings. The fixed or floating interest rates of the Group's borrowings as at 31 December 2020 ranged from 3.45% to 5.44% per annum.

Taking into account the capital generated within and the banking credit available to the Group, and the net current assets of approximately RMB4,793,199,000 as at 31 December 2020, the Directors believe that the Group will have sufficient capital to meet its working capital requirements and foreseeable capital expenditure.

Gearing ratio

The Group's gearing ratio (defined as total liabilities as a percentage of total assets) decreased from 54.4% as at 31 December 2019 to 51.2% as at 31 December 2020.

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 has no foreign currency borrowings as of 31 December 2020.

As at 31 December 2020, the Group's borrowings with fixed interest rates accounted for 100% of total borrowings.

PLEDGE OF ASSETS

Save as disclosed in note 39 to the consolidated financial statements, the Group has made no further pledge of assets as at 31 December 2020.

CONTINGENT LIABILITIES

Save as disclosed in note 37 to the consolidated financial statements, as at 31 December 2020, the Directors were not aware of any other material contingent liabilities.

COMMITMENTS

As at 31 December 2020, the Group had capital commitments contracted for but not provided in the consolidated financial statements in respect of the acquisition of plant and machinery of approximately RMB438,377,000 (31 December 2019: RMB237,046,000). Details are set out in note 38 to the consolidated financial statements.

FOREIGN EXCHANGE RISK

The Group's operations are mainly conducted in the PRC. With the exception of export sales and the imported equipment which are transacted mainly in U.S. dollars and Euros, 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 was likely to face certain exchange rate risks. The Group does not use any foreign currency derivatives to hedge against the exposure in foreign exchange.

The net loss of foreign exchange (included in "other gains – net" and "finance costs") recorded by the Group during the Year was approximately RMB131,087,000 (2019: net gain of RMB28,241,000), primarily include loss from our export business denominated in U.S. dollars due to the fluctuation of Renminbi against U.S. dollars during the Year.

The Group will actively manage the net amount of foreign currency assets and liabilities by formulating foreign exchange risk management measures and strategies, with a view to reducing its exposures to exchange rate risks in 2021.

INTEREST RATE RISK

During the Year, the loans of the Group are mainly sourced from bank loans and corporate bonds. Therefore, the benchmark lending rate announced by the People's Bank of China will have a direct impact on the Group's cost of debt and future changes in interest rates will 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 expanding financing channels.

SIGNIFICANT INVESTMENT HELD DURING THE YEAR

Set out below is the significant investment held by the Group which was classified as financial assets at fair value through other comprehensive income as at 31 December 2020:

Name of the investee company	Percentage of capital contribution paid up by the Group	Cost of investment *(RMB' 000)*	Fair value as at 31 December 2020 *(RMB' 000)*	Percentage of total assets of the Group	Accumulated change in unrealized gains in fair value *(RMB' 000)*	Dividends received/ receivable during the Year *(RMB' 000)*
Zhejiang Zheshang Chanrong Investment Partnership (Limited Partnership)* (浙江浙商產融投資合夥企業（有限合夥）) *(note)*	6.47%	2,000,000	2,039,719	7.89%	39,719	–

Note: Zhejiang Zheshang Chanrong Investment Partnership (Limited Partnership)* (浙江浙商產融投資合夥企業（有限合夥）), formerly known as "Zhejiang Zheshang Chanrong Share Investment Fund LLP*" (浙江浙商產融股權投資基金合夥企業（有限合夥）), a limited partnership established and registered under the PRC laws in accordance with a limited partnership agreement, is primarily engaged in, among other things, private equity investment, investment management and investment consultation. As at 31 December 2020, the total paid up capital contribution was RMB30,930,080 thousands, of which RMB2,000,000 thousands was contributed by Group.

The Directors believe that the future performance of the significant investment held by the Group will be affected by the overall economic environment, market condition and the business performance of the investee company. In this regard, the Group will continue to maintain a diversified investment portfolio and closely monitor the performance of the investment and the market trends to adjust its investment strategies in due course.

SIGNIFICANT ACQUISITION AND DISPOSAL DURING THE YEAR

On 4 December 2020, Shanghai Shifu Enterprise Management LLP* (上海釃福企業管理合夥企業（有限合夥）) (the "**Employee Partnership Enterprise**"), a connected person of the Company, entered into a capital increase agreement with Nanjing High Speed Gear Manufacturing Co., Ltd.* (南京高速齒輪製造有限公司) ("**Nanjing High Speed**"), an indirect non-wholly owned subsidiary of the Company after such a Capital Increase (as defined hereunder), and Nanjing Gear Enterprise Management Co., Ltd.* (南京高齒企業管理有限公司) ("**Nanjing Gear**"), an indirect wholly-owned subsidiary of the Company, pursuant to which the Employee Partnership Enterprise agreed to make the capital contribution in an aggregate amount of RMB150 million in cash to the registered capital of Nanjing High Speed (the "**Capital Increase**"). As at the date of this annual report, the Employee Partnership Enterprise owned as to approximately 6.98% of the equity interest in Nanjing High Speed (the "**Deemed Disposal**"). For further details, please refer to the announcement of the Company dated 4 December 2020 and the circular of the Company dated 24 December 2020.

Save as the Deemed Disposal disclosed above, during the Year, the Group had no any other significant acquisition and disposal.

FUTURE PLANS RELATING TO MATERIAL INVESTMENT OR CAPITAL ASSET

During the Year, the Group did not enter into any agreement in respect of any proposed acquisitions and did not have any future plans relating to material investment or capital asset.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in note 45 to the consolidated financial statements, there was no other significant event that took place after 31 December 2020.

BIOGRAPHIES OF DIRECTORS AND SENIOR MANAGEMENT

Details of the biographies of Directors and senior management as of 31 December 2020 are listed as follows:

EXECUTIVE DIRECTORS

Mr. Hu Jichun, aged 41, 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 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) and the vice chairman of Gear Manufacturers Association (齒輪專業協會) of China General Machine Components Industry Association (中國機械通用零部件工業協會). 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 71, is an executive Director 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 senior 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 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 58, is an executive Director and a member of the Remuneration Committee of the Company. Mr. Chen is a university graduate. He obtained a bachelor's degree from Jiangsu Institute of Technology majoring in metal material and heat treatment in 1983 and a master's degree from Nanjing University of Science and Technology majoring in engineering in 2007. He is a senior engineer. 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 over 30 years. He has received a number of awards for the achievement of his research on mechanical transmission equipment production techniques.

Mr. Wang Zhengbing, aged 49, is an executive Director of the Company. He is a holder of university degree. He graduated from Zhejiang University and obtained a bachelor's degree in Mental Material & Heat Treatment in 1993 and a master's degree in Engineering in Nanjing University of Science and Technology in 2011. 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, the vice president of Nanjing Drive from November 2016 to September 2020 and since August 2017, 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 48, 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 53, is an executive Director of the Company and 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 52, 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. 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. Fang Jian, aged 54, 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) since June 2015. 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 each of Nanjing Handa Import & Export Trade Co., Ltd.* (南京翰達進出口貿易有限公司) and 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

Dr. Chan Yau Ching, Bob, aged 58, is an independent 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.

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.

Ms. Jiang Jianhua, aged 56, 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.

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

Mr. Jiang Xihe, aged 62, 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).

Currently, Mr. Jiang is also an independent director of Hongbaoli Group Co., Ltd. (stock code: 002165, a company listed on the Shenzhen Stock Exchange), Nanjing Yunhai Special Metals Co., Ltd. (stock code: 002182, a company listed on the Shenzhen Stock Exchange), Jiangsu Lanfeng Bio-chemical Co., Ltd (stock code: 002513, 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).

Mr. Nathan Yu Li, aged 49, 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 Dazu Technology Company Limited* (南京豐盛大族科技股份有限公司), a wholly-owned subsidiary of Fullshare Holdings based in Nanjing, 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 58, 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.

Ms. Zhou Jingjia, aged 57, 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 Altas Copco Construction Machinery Ltd. to Altas Copco (Nanjing) Construction and Mining Equipment Ltd. From 2004 to 2006, in addition to being the accounting department manager, Ms. Zhou was appointed as the regional manager of certain production companies of the Atlas Copco Group in China and was responsible for overseeing the accounting departments. Ms Zhou joined the Group in July 2006. She became 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 2020.

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 25 of this annual report. These discussions form a part of this Directors' Report.

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

The Group has complied with relevant PRC laws and regulations relating to environmental protection, and has operated and implemented the relevant requirements of ISO14001 environment 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 projects and projects in relation to transformation and expansion according to the latest national standards of 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, no procrastination, no repetition, no waste, and reduce the unnecessary carbon emissions. In respect of past projects, the Company also put considerable human and financial resources to conduct inspections and improvements. During the Year, the discharge and disposal of various types of waste of the 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 soil.

Nanjing High Speed has obtained the ISO14001 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 controllability of 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 responsible unit in the production process and the irregular spot check in cooperation with the supervision and management department, we 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 really penetrate the work of environmental protection into the Company’s production operation management. While our business grows, we will improve the Company’s contribution to environmental protection.

The Group maintains good relationships with our clients and suppliers.

At the company level, the Company has complied with the requirements of the Companies Ordinance, the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange (the “**Listing Rules**”) and the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “**SFO**”), including 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**”).

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 23 to 24 of this annual report, the following lists out the key risks and uncertainties facing the Group. It is a non-exhaustive list and there may be other risks and uncertainties further to the key risk areas outlined below. Besides, 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 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 dispatch services and to sell the electricity. If these wind energy generation companies fail to establish effective connection with the power grid or sell the electricity they generate, their demand for our wind gear transmission equipment could decrease, and therefore our business operations may be adversely affected.

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

OPERATING RESULTS

The operating results of the Group for the year ended 31 December 2020 are set out in the consolidated income statement and the consolidated statement of comprehensive income on pages 67 to 69 of this annual report.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: HKD0.20 (tax inclusive)).

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 that exceeds the operational needs of the Group. Pursuant to the Dividend Policy, the dividends are distributed depending on, among other things, the Company's earnings performance, future funding needs, the interests of the shareholders of the Company as a whole and other factors that the Board considers relevant. The Company regularly reviews the Dividend Policy and submits it to the Board for approval when necessary for amendment.

DISTRIBUTABLE RESERVE

The distributable reserve of the Company for the year ended 31 December 2020 was approximately RMB3,716,752,000 (2019: RMB4,180,179,000).

FIVE-YEAR FINANCIAL SUMMARY

The summary of business results and assets and liabilities of the Group for the latest five financial years its 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

During the Year, details of the borrowings of the Group are set out in note 29 to the consolidated financial statements.

TAXATION

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

DONATION EXPENDITURE

During the Year, the donation expenditure of the Group was approximately RMB10,162,000 (2019: RMB573,000).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE GROUP

In March 2017, July 2017 and January 2018, Nanjing Drive, a wholly-owned subsidiary of the Company, issued three tranches of corporate bonds with principal amounts of RMB900 million, RMB1,020 million and RMB500 million (the "**Bonds**") which carry interest rates of 6.47%, 6.50% and 7.50% per annum, respectively, and the Bonds were all listed on the Shanghai Stock Exchange. The Bonds have a period of 5 years, attached with the option to ask for early redemption of the Bonds by the subscriber(s) and to adjust the interest rate by Nanjing Drive. During the Year, Nanjing Drive paid an aggregate amount of RMB2,420 million for the full redemption of the Bonds (the "**Redemption**") and the Bonds were then delisted from the Shanghai Stock Exchange and cancelled subsequently. Nanjing Drive funded the Redemption with its internal resources. For details of the Redemption, please refer to the announcement of the Company dated 19 August 2020.

Save as disclosed above, during the Year, neither the Company nor its subsidiaries has otherwise purchased, sold or redeemed any of the Group's listed securities.

SHARE OPTION SCHEME

During the Year, the Group did not have any share option schemes.

MAJOR SUPPLIERS AND CUSTOMERS

During the Year, the purchase amount (not of a capital nature) from the Group's top five suppliers and largest supplier accounted for approximately 32.8% and 8% 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 50.7% and 15.4% 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 A.4.3 of the Corporate Governance Code (the "**Corporate Governance Code**") contained in Appendix 14 to the Listing Rules, if an independent non-executive Director serves more than nine years, his/her appointment should be subject to a separate resolution to be approved by shareholders.

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

DIRECTORS AND THEIR TERMS

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

Executive Directors:

Mr. Hu Jichun *(Chairman and Chief Executive Officer)*	Three years from the date of his re-election on 18 May 2018, and was appointed as the Chairman of the Board on 24 May 2019.
Mr. Hu Yueming	Three years from the date of his re-election on 24 May 2019, and was re-designated from a non-executive Director to an executive Director and relinquished his position as the Chairman of the Board.
Mr. Chen Yongdao	Three years from the date of his re-election on 24 May 2019.
Mr. Wang Zhengbing	Three years from the date of his re-election on 24 May 2019.
Mr. Zhou Zhijin	Three years from the date of his re-election on 18 May 2018.
Ms. Zheng Qing	Three years from the date of her re-election on 22 May 2020.
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 appointment as an executive Director on 29 August 2020.

Non-executive Director:

Mr. Yuen Chi Ping	Resigned as a non-executive Director on 24 August 2020

Independent Non-executive Directors:

Dr. Chan Yau Ching, Bob	Three years from the date of his re-election on 22 May 2020.
Ms. Jiang Jianhua	Three years from the date of her re-election on 22 May 2020.
Mr. Jiang Xihe	Three years from the date of his re-election on 18 May 2018.
Mr. Nathan Yu Li	Three years from the date of his re-election on 22 May 2020.

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 2020 are set out on pages 26 to 33 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 47 to the consolidated financial statements.

EMPLOYEES AND REMUNERATION POLICY

As of 31 December 2020, the Group employed approximately 6,025 employees (31 December 2019: 5,962) in continuing operations. Staff cost in continuing operations of the Group for the Year approximated to RMB1,930,652,000 (including share-based payment expenses of RMB547,674,000) (31 December 2019: RMB1,359,689,000). The cost included basic salaries, share-based payment expenses, discretionary bonus and staff benefits such as medical and insurance plans, pension scheme, unemployment insurance plan, etc.

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

The 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 enterprise management.

PENSION SCHEME

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

HUMAN RESOURCES POLICY

The 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.

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 protection 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 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 and the connected transactions disclosed below, no transactions, arrangements or contracts of significance to which the Company or its subsidiaries was a party and in which a Director or an entity related to a Director had a material interest, whether directly or indirectly, subsisted on 31 December 2020 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 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.

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 the Employee Partnership Enterprise.

(2) The Employee Partnership Enterprise is a limited liability partnership controlled by Shanghai Shiji Enterprise Management Consultancy Co., Ltd.* (上海釃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 Shouguang Dingneng Information Consultancy Services LLP* (壽光鼎能信息諮詢服務合夥企業(有限合夥)) ("**Shouguang Dingneng**"), as one of the limited partners of the Employee Partnership. Mr. Wang Zhengbing is one of the limited partners of Shouguang Dingneng and holds approximately 31.15% interest in Shouguang Dingneng.

(4) The Employee Partnership Enterprise is owned as to approximately 10.56% by Shouguang Jiding Information Consultancy Services LLP* (壽光吉鼎信息諮詢服務合夥企業(有限合夥)) ("**Shouguang Jiding**"), as one of the limited partners of the Employee Partnership. Mr. Zhou Zhijin is one of the limited partners of Shouguang Jiding and holds approximately 46.70% interest in Shouguang Jiding.

(5) The Employee Partnership Enterprise is owned as to approximately 23.58% by Shouguang Dingchuang Information Consultancy Services LLP* (壽光鼎創信息諮詢服務合夥企業(有限合夥)) ("**Shouguang Dingchuang**"), as one of the limited partners of the Employee Partnership. Mr. Gu Xiaobin is one of the limited partners of Shouguang Dingchuang and holds approximately 20.92% interest in Shouguang Dingchuang.

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 recorded 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 2020, the following persons (other than the Directors or chief executives of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be required, pursuant to section 336 of the SFO, to be entered in the register referred to therein:

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

Note 1: Five Seasons, a company incorporated in the British Virgin Islands, is wholly owned by Fullshare Holdings (stock code: 607), while the issued share capital of Fullshare Holdings is owned as to 38.69% by Magnolia Wealth, a company incorporated in the British Virgin Islands, which is wholly and beneficially owned by Mr. Ji. Accordingly, Fullshare Holdings, Magnolia Wealth and Mr. Ji are considered to have interests in 1,208,577,693 shares of the Company, representing approximately 73.91% of the issued shares of the Company.

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

Note 3: Five Seasons is owned more than one-third of interest of controlled corporation by Mr. Ji and Glorious Time is wholly-owned by Mr. Ji. Accordingly, Mr. Ji is considered to have interests in 1,226,467,693 shares of the Company, representing approximately 74.99% of the issued shares of the Company.

Save as disclosed above and so far as the Directors are aware, as at 31 December 2020, there was no other person, other than the Directors or chief executives of the Company, who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to the provisions of Divisions 2 and 3 of Part XV of the SFO, or which would be required, pursuant to Section 336 of the SFO, to be entered in the register referred to therein.

INTERESTS OF CONTROLLING SHAREHOLDERS IN CONTRACTS

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

CONNECTED TRANSACTIONS

On 4 December 2020, the Employee Partnership Enterprise (a limited liability partnership enterprise established in the PRC and the general partner and limited partners of which are Shanghai Shiji and eight partnership enterprises, respectively), entered into the capital increase agreement (the "**Capital Increase Agreement**") with Nanjing High Speed (a company established in the PRC with limited liability, a direct wholly-owned subsidiary of Nanjing Gear immediately prior to the Capital Increase) and Nanjing Gear (a company established in the PRC with limited liability, an indirect wholly-owned subsidiary of the Company). Pursuant to the Capital Increase Agreement, the Employee Partnership Enterprise agreed to make the Capital Increase in an aggregate amount of RMB150,000,000 in cash to the registered capital of Nanjing High Speed (the "**Capital Increase**"). As at the date of this annual report, the Employee Partnership Enterprise owned as to approximately 6.98% of the equity interest in Nanjing High Speed. Nanjing High Speed was no longer wholly-owned by the Company but continued to be a subsidiary of the Company.

As at 31 December 2020, the Employee Partnership Enterprise is managed and controlled by the general partner, being Shanghai Shiji, a company established in the PRC with limited liability and principally engaged in investment holding business. Mr. Hu Yueming is the sole director and sole shareholder of Shanghai Shiji. Mr. Hu Yueming is an executive Director and thus a connected person of the Company under Chapter 14A of the Listing Rules. The Employee Partnership Enterprise is an associate of Mr. Hu Yueming and thus a connected person of the Company under Chapter 14A of the Listing Rules. As more than one of the percentage ratios (as defined under Rule 14.07 of the Listing Rules) applicable to the Company in respect of the transactions contemplated under the Capital Increase Agreement exceed 5%, but all lower than 25%, the Capital Increase constitutes a non-exempted connected transaction of the Company and is subject to the reporting, announcement, circular (including independent financial advice) and the independent shareholders' approval requirements under Chapter 14A of the Listing Rules. As the Company complies with the conditions under Rule 14A.37 of the Listing Rules, the Company has applied to the Hong Kong Stock Exchange, and the Hong Kong Stock Exchange has exempted the Company from complying with the requirement of convening a shareholders' general meeting to accept the written approval of the Company's shareholders to approve the Capital Increase.

As at the date of this annual report, the Employee Partnership Enterprise owned as to approximately 6.98% of the equity interest in Nanjing High Speed. The equity interest of Nanjing Gear in Nanjing High Speed was reduced from 100% to approximately 93.02%, the Capital Increase contemplated under the Capital Increase Agreement therefore constitutes a deemed disposal of the Company under Rule 14.29 of the Listing Rules for the Company. As more than one of the percentage ratios (as defined under Rule 14.07 of the Listing Rules) applicable to the Company in respect of the Capital Increase contemplated under the Capital Increase Agreement exceed 5%, but all lower than 25%, the Capital Increase also constitutes a discloseable transaction of the Company and is subject to the reporting and announcement requirements under Chapter 14 of the Listing Rules.

Among the capital contribution of RMB150,000,000 made to the registered capital of Nanjing High Speed, approximately 40.69% was contributed by the connected persons of the Company, including four executive Directors and 17 directors of the Company's subsidiaries, representing approximately 2.835% of the enlarged registered capital of Nanjing High Speed immediately after the completion of the Capital Increase. Details of the equity interest held by the Directors after the completion of the Capital Increase are set out below:

No.	Name of Director	Approximate percentage of equity interest in Nanjing High Speed immediately upon completion of the Capital Increase	Details of connected relationship
1.	Mr. Hu Yueming	0.028%	Executive Director
2.	Mr. Wang Zhengbing	0.344%	Executive Director
3.	Mr. Zhou Zhijin	0.344%	Executive Director
4.	Mr. Gu Xiaobin	0.344%	Executive Director

The capital contribution under the Capital Increase is determined with reference to (i) the appraised value of equity interest of Nanjing High Speed as at 31 October 2020, being RMB5,740,000,000 (each enlarged registered capital unit of approximately RMB2.67); (ii) the arm's length negotiations with the designated employees of the Group; (iii) the long-term services provided by the designated employees of the Group in the past; (iv) the purpose and objective of Capital Increase are to recognise the contribution by the Group's designated employees and to provide them with incentives in order to align their interests with the Group's interest and to retain them for the continual operation and development; and (v) the relatively low liquidity of the shares of Nanjing High Speed. Bearing in mind that the Capital Increase is to 'award' employees' contribution, the Directors are mindful of the subscription price which should be at a discount rather than at a market price.

The Capital Increase is to achieve the objectives of (i) rewarding the contribution of the employees of the Group; (ii) retaining talents; and (iii) aligning the employees' interests with the Group's long-term performance, so the Directors decided to offer an opportunity to the employees to subscribe for the equity interest in Nanjing High Speed.

The capital contribution of RMB150,000,000 made by the Employee Partnership Enterprise is intended to be applied by Nanjing High Speed to expand its (i) wind power gear transmission equipment business and (ii) industrial gear transmission equipment business and replace the necessary machinery and equipment.

RELATED PARTY TRANSACTIONS

During the Year, none of the related party transactions disclosed in note 44 to the consolidated financial statements constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules that is required to be disclosed or a connected transaction of the Company which is not fully exempted under Rule 14A.73 of the Listing Rules.

CHANGE OF AUDITOR

At the extraordinary general meeting held on 3 January 2019, the shareholders of the Company passed a special resolution to remove Ernst & Young as the auditor of the Group, and passed an ordinary resolution to appoint PricewaterhouseCoopers ("**Pricewaterhouse Coopers**") as the new auditor of the Group with immediate effect and to hold office until the conclusion of the annual general meeting of the Company held on 24 May 2019 and authorise the Board of the Company to fix its remuneration. The Company has proposed a resolution at the annual general meeting held on 24 May 2019 to re-appoint PricewaterhouseCoopers as the Company's auditor for the next year.

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 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 re-appoint 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 2020 have been audited by Baker Tilly.

MATERIAL LITIGATIONS AND ARBITRATIONS

Save as disclosed in note 37 to the consolidated financial statements, the Company had no other material litigations and arbitrations during the Year.

PERMITTED INDEMNITY PROVISION

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

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

MANAGEMENT CONTRACTS

As at 31 December 2020, 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.

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 2021

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 A.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 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 strength our overall corporate competitiveness in view of the Group's strategy of sustainable development.

COMPOSITION AND PRACTICES 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 six 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	2019 Annual General Meeting
No. of meetings held	6	3	2	2	1
Executive Directors					
Mr. Hu Jichun (Chairman and Chief Executive Officer)	6/6			2/2	1/1
Mr. Hu Yueming	6/6				1/1
Mr. Chen Yongdao	5/6		2/2		0/1
Mr. Wang Zhengbing	5/6				0/1
Mr. Zhou Zhijin	6/6				0/1
Ms. Zheng Qing	6/6				0/1
Mr. Gu Xiaobin	6/6				0/1
Mr. Fang Jian (appointed on 29 August 2020)	2/2				0/0
Non-executive Director					
Mr. Yuen Chi Ping (resigned on 24 August 2020)	2/2				1/1
Independent non-executive Directors					
Dr. Chan Yau Ching, Bob	6/6	3/3	2/2		1/1
Ms. Jiang Jianhua	6/6				1/1
Mr. Jiang Xihe	6/6	3/3	2/2	2/2	1/1
Mr. Nathan Yu Li	6/6	3/3		2/2	1/1

The biographies of each of Directors are set out in the "Biographies of Directors and Senior Management" section on pages 26 to 33 in this annual 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 service terms of the current independent non-executive Directors are set out in the section entitled “Directors and Their Terms” on page 39 of this annual report.

EMOLUMENTS OF FIVE HIGHEST PAID INDIVIDUALS AND SENIOR MANAGEMENT

The five highest paid individuals of the Group during the Year include three Directors, and details of their emoluments are set out in notes 9 and 47 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” on pages 26 to 33 of this annual report were within the following band:

	No. of employees
RMB2,500,001 to RMB3,000,000	1
RMB29,000,001 to RMB29,500,000	1

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 2019 and the interim report for the six months ended 30 June 2020 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 2019; 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.

During the Year, the number of the meetings held by the audit committee and the attendance record of each member of the committee are set out in the section entitled "Composition and Practices of the Board" on pages 49 to 51 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. 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 2020 included (among others) reviewing the remuneration package and structure for the Directors and senior management for the year ended 31 December 2020, the remuneration policy in 2021, and the terms of service agreements for the Directors.

During the Year, the number of the meetings held by the remuneration committee and the attendance record of each member of the committee are set out in the section entitled "Composition and Practices of the Board" on pages 49 to 51 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.

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.

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.

During the Year, the number of the meetings held by the nomination committee and the attendance record of each member of the committee are set out in the section entitled "Composition and Practices of the Board" on pages 49 to 51 of this annual 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 set out in the section entitled "Biographies of Directors and Senior Management" on pages 26 to 33 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.

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.

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 and the introduction to the Corporate Governance Code. With effect from April 2012, all Directors shall provide their training records to the Company annually.

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

	Readings on updates and materials on business, operation and/or corporate governance affairs	Lectures/seminars on business/director's responsibilities attended or participated
Executive Directors		
Mr. 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 (appointed on 29 August 2020)	✓	✓
Independent non-executive Directors		
Dr. Chan Yau Ching, Bob	✓	✓
Ms. Jiang Jianhua	✓	✓
Mr. Jiang Xihe	✓	✓
Mr. Nathan Yu Li	✓	✓

REMUNERATION OF AUDITOR

The audit fee and non-audit service fee for the year ended 31 December 2020 payable to Baker Tilly, the current external auditor of the Group, amounted to RMB4,600,000 and RMB2,659,000, respectively. The breakdown of the non-audit service fee is as follows:

	RMB'000
Review of interim results	1,400
Tax services	429
Reorganization consultation	377
Others	453
	2,659

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 its 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 65 to 66 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 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 taking into account the adequacy of resources, qualification and experience of staff of functions such as accounting, internal audit and financial reporting, and their training programmes and budget.

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

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

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

The Board, through the audit committee, has performed 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 sufficient and effective during the Year.

HANDLING OF INSIDE INFORMATION

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

The Group conducts its affairs with close regard to the applicable laws and regulations and the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensuring that information contained in announcements or circulars is not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts. The Group has conveyed the implementation of the relevant corporate information 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' 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. and its subsidiaries (the "Group") set out on pages 67 to 204, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020 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 ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report. We 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.

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) (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. As at 31 December 2020, 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 RMB6,536 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.	We understood and tested management's procedures and key controls over the measurement of fair value in level 3 financial instruments; We evaluated the competence, independence, capabilities and objectivity of the Group's external valuers;

KEY AUDIT MATTERS *(Continued)*

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

KEY AUDIT MATTERS *(Continued)*

The Key Audit Matter	How our audit addressed the Key Audit Matter
Recoverability of trade receivables at amortised cost	
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. As at 31 December 2020, the Group had approximately RMB3,678 million trade receivables and loss allowances of RMB578 million has been provided. Management applied significant judgement in assessing the expected credit losses. Trade receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for 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 48 months and are adjusted to reflect current and forward-looking information such as macroeconomic factors affecting the ability of the customers to settle the receivables. We focused on this area because significant management judgements and estimates are applied in determining the provision for impairment of such balances.	We understood and tested key controls on a sample basis over management's policies, processes and controls over assessment on recoverability of trade receivables balance and determination of loss allowances; We assessed the appropriateness of the credit loss provisioning methodology used by the Group; For trade receivables assessed individually, we obtained management's assessment of the collectability (both amount and timing) of receivables balances. We corroborated against available evidences, including interviewing sales personnel, examining the correspondences with the relevant customers and inquiring the Group's internal legal counsel as to whether there are any disputes with customers; We challenged the assumptions used to determine the expected credit losses by considering cash collection performance against historical trends and current and forward-looking information such as the impact of macroeconomic factors on probability of default and loss given default based on our understanding of the industry and with reference to both internal and external data source; and We tested on a sample basis, the accuracy of management's ageing report of trade receivables by checking to sales invoices and other supporting documents. Based upon the above, we consider that the judgements and estimates made by management in respect of the loss allowances were supportable by available evidences.

OTHER INFORMATION

The directors 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.

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 HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, 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.

- 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.

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

- 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 Kwan Ho, Edmond.

Baker Tilly Hong Kong Limited
Certified Public Accountants
Hong Kong, 31 March 2021
Chan Kwan Ho, Edmond
Practising certificate number P02092

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2020

		Year ended 31 December	
		2020	2019
	Note	RMB'000	RMB'000
Continuing operations			
Revenue from contracts with customers	5	**15,368,511**	9,722,896
Cost of sales		**(12,155,801)**	(7,788,003)
Gross profit		**3,212,710**	1,934,893
Selling and distribution expenses		**(381,553)**	(362,811)
Administrative expenses		**(510,225)**	(519,269)
Research and development costs		**(512,737)**	(394,961)
Share-based payment expenses	9(a)	**(547,674)**	–
Net impairment losses recognised on financial assets	3.1(b)	**(39,777)**	(62,188)
Other income	6	**332,593**	182,307
Other (losses)/gains – net	7	**(164,618)**	64,543
Operating profit		**1,388,719**	842,514
Finance income	10	**75,587**	80,841
Finance costs	10	**(282,866)**	(512,030)
Finance costs – net		**(207,279)**	(431,189)
Share of results of associates and joint ventures accounted for using the equity method	18	**(3,384)**	4,752
Profit before income tax		**1,178,056**	416,077
Income tax expenses	11	**(327,000)**	(62,430)
Profit for the year from continuing operations		**851,056**	353,647
Profit for the year from discontinued operations	40	**–**	63,964
Profit for the year		**851,056**	417,611

CONSOLIDATED INCOME STATEMENT *(Continued)*

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Profit/(loss) attributable to:			
– Owners of the Company		**840,906**	438,188
– Non-controlling interests		**10,150**	(20,577)
		851,056	417,611
Profit attributable to owners of the Company arises from:			
– Continuing operations		**840,906**	367,426
– Discontinued operations		**–**	70,762
		840,906	438,188
Earnings per share for profit from continuing operations attributable to owners of the Company for the year (expressed in RMB)			
Basic and diluted earnings per share	12	**0.514**	0.225
Earnings per share for profit attributable to owners of the Company for the year (expressed in RMB)			
Basic and diluted earnings per share	12	**0.514**	0.268

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2020

		Year ended 31 December	
		2020	2019
	Note	RMB'000	RMB'000
Profit for the year		**851,056**	417,611
Other comprehensive income/(loss) for the year:			
Items that may be reclassified to profit or loss			
– Changes in the fair value of debt investments at fair value through other comprehensive income		**5,161**	(9,006)
– Exchange differences on translation of foreign operations		**(21,265)**	(7,033)
– Income tax relating to these items		**(3,661)**	1,724
		(19,765)	(14,315)
Items that will not be reclassified to profit or loss			
– Changes in the fair value of equity investments at fair value through other comprehensive income		**210,806**	146,287
– Income tax relating to these items		**(48,227)**	(38,833)
		162,579	107,454
Other comprehensive income for the year, net of tax		**142,814**	93,139
Total comprehensive income for the year		**993,870**	510,750
Total comprehensive income/(loss) for the year attributable to:			
– Owners of the Company		**983,720**	530,205
– Non-controlling interests		**10,150**	(19,455)
		993,870	510,750
Total comprehensive income for the year attributable to owners of the Company arises from:			
– Continuing operations		**983,720**	457,218
– Discontinued operations		**–**	72,987
		983,720	530,205

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2020

		As at 31 December	
		2020	2019
	Note	RMB'000	RMB'000
Non-current assets			
Property, plant and equipment	14	3,832,318	3,973,655
Right-of-use assets	15	646,930	658,942
Goodwill	16	26,414	26,414
Investments accounted for using the equity method	18	346,220	287,011
Financial assets at fair value through other comprehensive income	20	2,480,576	2,597,819
Financial assets at fair value through profit or loss	21	340,000	541,900
Other financial assets at amortised cost	22	576,421	549,827
Deposits for land leases	23	5,890	11,361
Deferred tax assets	33	258,122	298,766
		8,512,891	8,945,695
Current assets			
Inventories	24	3,703,960	2,568,569
Trade receivables	25	3,100,118	2,378,101
Other receivables	25	1,642,832	2,226,429
Other financial assets at amortised cost	22	–	254,050
Prepayments	26	1,115,896	255,606
Financial assets at fair value through other comprehensive income	20	3,422,363	2,780,914
Financial assets at fair value through profit or loss	21	515,126	253,132
Income tax prepaid		355	33,377
Pledged bank deposits	27	1,653,224	2,642,560
Cash and cash equivalents	27	2,184,334	2,520,415
		17,338,208	15,913,153

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 31 December 2020

	Note	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Current liabilities			
Trade payables	28	3,114,085	2,050,701
Bills payable	28	3,250,469	3,884,766
Other payables	28	767,311	1,041,008
Contract liabilities	30	2,203,973	529,255
Borrowings	29	2,378,970	2,824,000
Corporate bonds	29	–	1,914,275
Deferred income	31	19,654	17,124
Income tax payable		231,952	76,840
Warranty provision	32	578,595	216,868
		12,545,009	12,554,837
Net current assets		4,793,199	3,358,316
Total assets less current liabilities		13,306,090	12,304,011
Non-current liabilities			
Borrowings	29	–	736
Corporate bonds	29	–	498,437
Deferred income	31	177,551	180,273
Warranty provision	32	372,480	97,164
Deferred tax liabilities	33	132,851	198,003
		682,882	974,613
Net assets		12,623,208	11,329,398

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

As at 31 December 2020

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
Capital and reserves			
Share capital	34	**119,218**	119,218
Reserves	35	**12,096,116**	11,087,825
Equity attributable to owners of the Company		**12,215,334**	11,207,043
Non-controlling interests		**407,874**	122,355
Total equity		**12,623,208**	11,329,398

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

Approved and authorised for issue by the Board of Directors on 31 March 2021.

Hu Jichun
Director

Chen Yongdao
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2020

		Attributable to owners of the Company					
	Note	Share capital RMB'000	Other reserves RMB'000 (Note 35)	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total equity RMB'000
At 1 January 2019		119,218	5,414,069	5,258,545	10,791,832	73,432	10,865,264
Profit/(loss) for the year		–	–	438,188	438,188	(20,577)	417,611
Other comprehensive income for the year		–	92,017	–	92,017	1,122	93,139
Total comprehensive income/(loss) for the year		–	92,017	438,188	530,205	(19,455)	510,750
Dividends recognised as distribution	13	–	(114,994)	–	(114,994)	–	(114,994)
Transfer of fair value reserve upon disposal of equity investments at fair value through other comprehensive income		–	(93,525)	93,525	–	–	–
Disposal of subsidiaries	40	–	–	–	–	68,378	68,378
Appropriation to statutory reserve		–	4,105	(4,105)	–	–	–
At 31 December 2019		119,218	5,301,672	5,786,153	11,207,043	122,355	11,329,398

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the year ended 31 December 2020

	Note	Attributable to owners of the Company					
		Share capital	Other reserves	Retained earnings	Total	Non-controlling interests	Total equity
	Note	RMB'000	RMB'000 (Note 35)	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2020		119,218	5,301,672	5,786,153	11,207,043	122,355	11,329,398
Profit for the year		–	–	840,906	840,906	10,150	851,056
Other comprehensive income for the year		–	142,814	–	142,814	–	142,814
Total comprehensive income for the year		–	142,814	840,906	983,720	10,150	993,870
Dividends recognised as distribution	13	–	(299,193)	–	(299,193)	–	(299,193)
Transfer of fair value reserve upon disposal of equity investments at fair value through other comprehensive income		–	(287,611)	287,611	–	–	–
Deemed disposal of a subsidiary	41	–	–	–	–	(87,641)	(87,641)
Transactions with non-controlling interests	43	–	(223,910)	–	(223,910)	363,010	139,100
Equity-settled share-based payment	9(a)	–	547,674	–	547,674	–	547,674
Appropriation to statutory reserve		–	51,054	(51,054)	–	–	–
At 31 December 2020		119,218	5,232,500	6,863,616	12,215,334	407,874	12,623,208

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash generated from operations	36	1,391,057	2,134,239
Income tax paid		(215,262)	(20,522)
Net cash generated from operating activities		1,175,795	2,113,717
Cash flows from investing activities			
Placements of pledged bank deposits		(4,349,603)	(5,955,991)
Withdrawal of pledged bank deposits		5,338,939	6,242,712
Investment in structured bank deposits		(388,000)	(150,000)
Redemption of structured bank deposits		233,860	960,247
Purchase of financial assets at fair value through other comprehensive income		(100,000)	(26,998)
Proceeds from sale of financial assets at fair value through other comprehensive income		430,554	151,609
Dividends received from financial assets at fair value through other comprehensive income		9,668	7,641
Purchase of financial assets at fair value through profit or loss		(340,000)	(1,500)
Proceeds from sale of financial assets at fair value through profit or loss		420,816	5,300
Dividends received from financial assets at fair value through profit or loss		–	22,808
Purchases of other financial assets at amortised cost		–	(33,087)
Redemption of other financial assets at amortised cost		254,050	–
Purchases of property, plant and equipment		(465,185)	(525,093)
Purchases of right-of-use assets		(5,113)	(46,951)
Purchases of intangible assets		–	(345)
Proceeds from disposal of property, plant and equipment		44,362	40,471
Proceeds from disposal of right-of-use assets		4,611	–
Proceeds from disposal of an associate		–	31,549
Proceeds from disposal of joint ventures		–	81,500
Dividend from an associate		15,000	21,800
Net cash inflow on acquisition of a subsidiary	42	–	1,386
Net cash inflow on disposal of the discontinued operations	40	–	104,979
Net cash outflow from deemed disposal of a subsidiary	41	(40)	–

CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the year ended 31 December 2020

	Note	Year ended 31 December	
		2020	2019
		RMB'000	RMB'000
Receipt of consideration receivables for disposal of subsidiaries in prior years		**181,703**	163,506
Interests received		**84,694**	72,590
Refund on deposit for land lease		**–**	70,000
Receipt of government grants		**19,313**	143,042
Loans to an associate		**–**	(95,800)
Loans to third parties		**(300,000)**	(149,950)
Receipt of loans receivable and other receivables		**768,435**	–
Net cash generated from investing activities		**1,858,064**	1,135,425
Cash flows from financing activities			
Proceeds from borrowings		**3,523,970**	4,290,950
Repayment of borrowings		**(3,962,448)**	(6,472,469)
Redemption of corporate bonds		**(2,420,000)**	–
Interest paid		**(360,673)**	(515,011)
Dividends paid to owners of the Company		**(299,193)**	(114,994)
Acquisition of interest in a non-wholly-owned subsidiary		**(15,600)**	–
Capital contribution from non-controlling shareholder of a subsidiary		**150,000**	–
Net cash used in financing activities		**(3,383,944)**	(2,811,524)
Net (decrease)/increase in cash and cash equivalents		**(350,085)**	437,618
Cash and cash equivalents at beginning of year		**2,520,415**	2,087,881
Exchange gains/(losses) on cash and cash equivalents		**14,004**	(5,084)
Cash and cash equivalents at end of year	27	**2,184,334**	2,520,415

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 3rd Floor, Royal Bank House, 24 Shedden Road, Grand Cayman KY1-1110, Cayman Islands. The head office and principal place of business is located at Room 1302, 13th Floor, COFCO Tower, No. 262 Gloucester Road, Causeway Bay, Hong Kong.

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

As at 31 December 2020, total shares of the Company were 1,635,291 thousands (2019: 1,635,291 thousands).

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

These financial statements were approved for issue by the Board of Directors on 31 March 2021.

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 financial assets and financial liabilities which are carried at fair value.

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

The Group has applied the following standards and amendments for their annual reporting period commencing 1 January 2020:

- Amendments to IFRS 3, 'Definition of a Business'
- Amendments to IFRS 9, IAS 39 and IFRS 7, 'Interest Rate Benchmark Reform'
- Amendments to IAS 1 and IAS 8, 'Definition of Material'
- Amendments to Reference to the Conceptual Framework in IFRS Standards

The amendments had no material impact on the Group's financial positions and performance for the current and prior year and/or on the disclosures set out in these consolidated financial statements.

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 2020 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 IFRS 16, 'COVID-19-Related Rent Concessions', effective for the accounting period beginning on or after 1 June 2020.
- Amendments to IFRS 3, 'Reference to the Conceptual Framework', effective for the accounting period beginning on or after 1 January 2022
- Amendments to IAS 16, 'Property, Plant and Equipment: Proceeds before Intended Use', effective for the accounting period beginning on or after 1 January 2022
- Amendments to IAS 37, 'Onerous Contracts – Cost of Fulfilling a Contract', effective for the accounting period beginning on or after 1 January 2022
- Annual Improvements to IFRSs 2018-2020 Cycle, effective for the accounting period beginning on or after 1 January 2022
- Amendments to IAS 1, 'Classification of Liabilities as Current or Non-current', effective for the accounting period beginning on or after 1 January 2023
- IFRS 17, 'Insurance contract', effective for the accounting period beginning on or after 1 January 2023

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. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

(a) Business combinations

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

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

Acquisition-related costs are expensed as incurred.

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

2.2.1 Consolidation *(Continued)*

(a) ***Business combinations*** *(Continued)*

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the 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.

(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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Subsidiaries *(Continued)*

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 arrangements and associates are accounted for using the equity method of accounting.

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.

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

The Group's share of post-acquisition profit or loss is recognised in 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Associates *(Continued)*

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 the profit or loss.

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

2.4 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 arrangements 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 ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Joint arrangements *(Continued)*

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

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 RMB, which is the Company's functional and the Group's presentation currency.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currency translation *(Continued)*

(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 (losses)/gains – 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.

(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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Foreign currency translation *(Continued)*

(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 arrangement 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 arrangements 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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.7 Property, plant and equipment *(Continued)*

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 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 (losses)/gains – net" in the consolidated income statement.

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, intangible assets 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 fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.10 Assets of disposal groups held for sale and discontinued operations

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

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

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Investments and other financial assets

2.11.1 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 FVOCI.

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

2.11.2 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.

2.11.3 Measurement

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Investments and other financial assets *(Continued)*

2.11.3 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), 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 and recognised in finance costs. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in other gains/(losses), 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) in the period in which it arises.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Investments and other financial assets *(Continued)*

2.11.3 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) 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.

2.11.4 Derecognition of financial assets

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

- The rights to receive cash flows from the asset have expired; or

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

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.11 Investments and other financial assets *(Continued)*

2.11.5 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 expected lifetime losses to be recognised from initial recognition of the receivables, see Note 3.1(b) for further details.

2.12 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Derivative financial instruments

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

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

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

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

2.14 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.

2.15 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Trade receivables, bills receivable and other receivables *(Continued)*

Trade receivables and other receivables is unconditional unless they contain significant financing components when they are recognised at fair value. The Group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method, less allowance for impairment. See Note 2.11 for further information about the Group's accounting for receivables and for a description of the Group's impairment policies.

2.16 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.

2.17 Restricted cash

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

2.18 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.

2.19 Trade payables, bills payable and other payables

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

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 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.

2.21 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 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 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 arrangements operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions, where appropriate, on the basis of amounts expected to be paid to the tax authorities.

(b) **Deferred income tax**

Inside basis differences

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill, 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.22 Current and deferred income tax *(Continued)*

(b) Deferred income tax *(Continued)*

Outside basis differences

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

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

(c) Offsetting

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

2.23 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.23 Employee benefits *(Continued)*

(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.

(d) Share-based payment expenses

Equity-settled share-based payments to employees are measured at the fair value of the equity instruments at the grant date. For shares that vest immediately at the date of grant, the fair value of the shares granted is expensed immediately to profit or loss, and the share-based payment reserve is increased accordingly.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.24 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.25 Revenue recognition

(i) Sales of mechanical transmission equipment and goods

The Group manufactures and sells a broad range of mechanical transmission equipment and trade of 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 2.29 for further details.

2.26 Interest income

Interest income from financial assets at FVPL is included in "Other (losses)/gains – 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 below.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.27 Dividend income

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

2.28 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 company within 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.

2.29 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.29 Leases *(Continued)*

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 payment 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

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.

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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.29 Leases *(Continued)*

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.

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.

2.30 Dividend distribution

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

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.31 Research and development costs

All research costs are charged to the statement of profit or loss 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.

Deferred development costs are stated at cost less any impairment losses and are amortised using the straight-line basis over the commercial lives of the underlying products not exceeding five years, commencing from the date when the products are put into commercial production.

2.32 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 arrangements are provided for no compensation, the fair values are accounted for as contributions and recognised as part of the cost of the investment.

2.33 Contract liabilities

A contract liability is recognised when a payment is received or a payment is 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).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.34 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.

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 13% (2019: 27%) of the Group's sales were denominated in currencies other than the functional currencies of the operating units making the sale, whilst approximately 2% (2019: 3%) 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	
	2020	2019
	RMB'000	RMB'000
Assets		
USD	1,031,324	997,817
EUR	220,763	288,920
HKD	57,146	35,013
Liabilities		
USD	196,910	55,026
EUR	1,339	16,027
HKD	283	306

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 2019.

	Increase/ (decrease) in RMB rate %	Increase/ (Decrease) in profit after income tax RMB'000	Increase/ (decrease) in equity* RMB'000
For the year ended 31 December 2020			
If the USD weakens against the RMB	**5%**	**(35,013)**	**–**
If the USD strengthens against the RMB	**(5%)**	**35,013**	**–**
If the EUR weakens against the RMB	**5%**	**(9,218)**	**–**
If the EUR strengthens against the RMB	**(5%)**	**9,218**	**–**
If the HKD weakens against the RMB	**5%**	**(1,194)**	**(1,334)**
If the HKD strengthens against the RMB	**(5%)**	**1,194**	**1,344**
For the year ended 31 December 2019			
If the USD weakens against the RMB	5%	(39,120)	–
If the USD strengthens against the RMB	(5%)	39,120	–
If the EUR weakens against the RMB	5%	(11,352)	–
If the EUR strengthens against the RMB	(5%)	11,352	–
If the HKD weakens against the RMB	5%	(244)	(1,425)
If the HKD strengthens against the RMB	(5%)	244	1,425

* Excluding retained earnings

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 fix-rate borrowings. The Group is also exposed to cash flow interest rate risk in relation to variable-rate bank balances. The Group cash flow interest rate risk is mainly concentrated on the fluctuation of interest rates on bank balances. 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 2020, the Group has no variable-rate borrowings. As at 31 December 2019, the Group had RMB90,000 thousands variable-rate borrowings, if interest rates on the variable-rate borrowings had risen/fallen by 50 basis points while all other variables had been constant, the Group's net profit would have decreased/increased by approximately RMB383 thousands.

(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 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 analyses below have been determined based on the exposure to equity price risk at the end of the reporting period. If the prices of the respective listed equity instruments had been 10% (2019: 10%) higher/lower, the total comprehensive income for the year ended 31 December 2020 would have increased/decreased by approximately RMB22,211 thousands excluding any tax effect as above (2019: RMB35,523 thousands excluding any tax effect as above),as a result of the changes in fair value of the listed equity instruments.

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% (2019: 10%) higher/lower, the total comprehensive income for the year ended 31 December 2020 would have increased/decreased by approximately RMB260,828 thousands excluding any tax effect as above (2019: RMB279,680 thousands excluding any tax effect as above), as a result of the changes in fair value of the listed equity instruments.

(b) Credit risk

(i) Risk management

Credit risk is managed on group basis. It mainly arises from cash and cash equivalents, 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 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.

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

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

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

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

The Group has concentration of credit risk in respect of bank balances and pledged bank deposits. As at 31 December 2020, approximately 73% (2019: 74%) of the total bank balances and pledged bank deposits were deposited at 5 (2019: 5) banks, with deposits at each bank with a balance exceeding 7% (2019: 10%) of total bank balances and pledged bank deposits.

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 2020, trade receivables from top five customers accounted for approximately 29% (2019: 24%) 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.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(b) Credit risk *(Continued)*

(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

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 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.

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 2020 and 2019 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 2020						
ECL rate	2%	35%	56%	83%	100%	11%
Gross carrying amount						
– Trade receivables assessed under provision matrix	3,064,594	104,256	65,355	54,704	202,067	3,490,976
Loss allowance under provision matrix	70,353	35,984	36,841	45,613	202,067	390,858
100% specifically provided	–	11,429	49,968	108,964	17,151	187,512
Loss allowance	70,353	47,413	86,809	154,577	219,218	578,370

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 2019						
ECL rate	3%	24%	45%	83%	100%	16%
Gross carrying amount						
– Trade receivables assessed under provision matrix	2,208,502	187,738	153,897	52,314	221,156	2,823,607
Loss allowance under provision matrix	67,349	44,627	69,095	43,279	221,156	445,506
100% specifically provided	1,872	24,861	56,320	6,652	951	90,656
Loss allowance	69,221	69,488	125,415	49,931	222,107	536,162

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 2019	445,732	90,656	536,388
Impairment losses recognised	18,853	–	18,853
Amount written off as uncollectible	(19,079)	–	(19,079)
As at 31 December 2019	445,506	90,656	536,162
Transferred to credit-impaired	(12,353)	12,353	–
Impairment losses (reversed)/recognised	(20,710)	84,503	63,793
Amount written off as uncollectible	(21,560)	–	(21,560)
Exchange differences	(25)	–	(25)
As at 31 December 2020	390,858	187,512	578,370

During the year ended 31 December 2020, two debtors of the same group are in the process of liquidation due to their financial difficulties, which at the opinion of the directors of the Group, the recovery of these debts are in doubt and therefore a specific provision of RMB79,540 thousands are made.

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 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	Lifetime ECL	20% – 50%
Stage three	There is evidence indicating the receivable is credit impaired	Lifetime ECL	50% – 100%

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 2019	7,515	15,994	–	23,509
Transfer to credit-impaired	(813)	–	813	–
Impairment losses recognised from continuing operations	19,101	11,319	12,915	43,335
Impairment losses recognised from discontinued operations	–	405,239	–	405,239
Amount written off as uncollectible	(20)	–	–	(20)
As at 31 December 2019	25,783	432,552	13,728	472,063
Transfer to credit-impaired	(2,929)	(163,544)	166,473	–
Transfer to lifetime ECL	(22,304)	22,304	–	–
Impairment losses recognised/ (reversed)	32,657	(212,164)	155,491	(24,016)
Amount written off as uncollectible	–	–	(8,899)	(8,899)
Deemed disposal of a subsidiary	(17,978)	–	–	(17,978)
As at 31 December 2020	15,229	79,148	326,793	421,170

During the year ended 31 December 2019, the disposal of discontinued operations was completed, the Group reassessed the collectability of amounts due from the subsidiaries of the disposal group and considered certain amounts were doubtful, therefore an impairment loss of RMB405,239 thousands was recognised, which was included in the calculation of the gain from discontinued operations as disclosed in Note 40.

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)

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.

Bills receivables carried at FVOCI

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

Financial guarantee contracts

Management considered the internal credit risk of financial guarantee contracts 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 2020, no provision for loss allowance were recognised in profit or loss in relation to the financial guarantee contracts.

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

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

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

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

Net impairment losses on financial assets recognised in profit or loss

For the year ended 31 December 2020 and 2019, the summary of the net impairment losses recognised in profit or loss is as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
From continuing operations:		
Impairment losses for trade receivables	**63,793**	18,853
(Reversal of)/impairment losses for other receivables	**(24,016)**	43,335
	39,777	62,188
From discontinued operations:		
Loss from discontinued operation	**–**	410,238
	39,777	472,426

(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 2020, 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 Credit Risk Management Committee 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 RMB505,314 thousands (2019: RMB243,320 thousands).

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 2020, the Group held cash and cash equivalents of RMB2,184,334 thousands (2019: RMB2,520,415 thousands) (Note 27) and trade receivables of RMB3,100,118 thousands (2019: RMB2,378,101 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 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
At 31 December 2020					
Non-derivatives					
Borrowings	2,425,796	–	–	–	2,425,796
Trade payables	3,114,085	–	–	–	3,114,085
Bills payable	3,250,469	–	–	–	3,250,469
Other payables	464,671	–	–	–	464,671
Financial guarantee contracts	687,645	4,587	83,360	–	775,592
	9,942,666	4,587	83,360	–	10,030,613

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(c) Liquidity risk *(Continued)*

Contractual maturities of financial liabilities	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
At 31 December 2019					
Non-derivatives					
Borrowings	4,930,844	538,236	–	–	5,469,080
Trade payables	2,050,701	–	–	–	2,050,701
Bills payable	3,884,766	–	–	–	3,884,766
Other payables	709,916	–	–	–	709,916
Financial guarantee contracts	697,133	31,429	16,818	90,665	836,045
	12,273,360	569,665	16,818	90,665	12,950,508

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 RMB7,103 thousands (2019: RMB28,115 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.

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 ratios as at 31 December 2020 and 2019 are as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Total assets	**25,851,099**	24,858,848
Total liabilities	**13,227,891**	13,529,450
Gearing ratio	**51.2%**	54.4%

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2020 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.

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 2020 and 2019:

Recurring fair value measurements	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
At 31 December 2020				
Financial assets				
Financial assets at FVPL	–	–	855,126	855,126
Financial assets at FVOCI	222,108	–	5,680,831	5,902,939
	222,108	–	6,535,957	6,758,065
At 31 December 2019				
Financial assets				
Financial assets at FVPL	–	–	795,032	795,032
Financial assets at FVOCI	355,231	–	5,023,502	5,378,733
	355,231	–	5,818,534	6,173,765

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 and etc.

There were no transfers among levels during the years ended 31 December 2020 and 2019.

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 2020 and 31 December 2019:

	Financial assets at FVPL					Financial assets at FVOCI		Financial assets
	Unlisted equity investments RMB'000 (Note 21)	Unlisted debt investments RMB'000 (Note 21)	Trade receivables RMB'000 (Note 21)	Derivative instrument RMB'000 (Note 21)	Structured bank deposits RMB'000 (Note 21)	Unlisted equity investments RMB'000 (Note 20)	Bills receivable RMB'000 (Note 20)	Total RMB'000
Opening balance								
1 January 2019	10,315	485,072	551,057	518,602	947,150	2,258,612	1,365,791	6,136,599
Acquisitions	–	1,500	–	–	150,000	–	1,421,624	1,573,124
Disposals	–	(5,299)	(464,053)	–	(960,245)	–	–	(1,429,597)
Reclassified to financial assets at amortised cost	–	(512,814)	–	–	–	–	–	(512,814)
Gains/(losses) recognised in profit or loss	(503)	33,041	(664)	23,298	18,575	–	–	73,747
Losses recognised in other comprehensive income	–	–	–	–	–	(13,519)	(9,006)	(22,525)
Closing balance								
31 December 2019	9,812	1,500	86,340	541,900	155,480	2,245,093	2,778,409	5,818,534
Opening balance								
1 January 2020	9,812	1,500	86,340	541,900	155,480	2,245,093	2,778,409	5,818,534
Acquisitions	340,000	–	99,849	–	388,000	–	638,793	1,466,642
Disposals	–	(1,500)	–	(568,317)	(233,860)	–	–	(803,677)
Gains/(losses) recognised in profit or loss	–	–	(920)	26,417	10,425	–	–	35,922
Gains recognised in other comprehensive income	–	–	–	–	–	13,375	5,161	18,536
Closing balance								
31 December 2020	349,812	–	185,269	–	320,045	2,258,468	3,422,363	6,535,957

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 – Unlisted debt securities – Trade receivables – Structured bank deposits – Derivative instruments	Level 3	Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level	Expected future cash flow; expected recovery date; discounted rates that correspond to the expected risk level	The higher the future cash flow, the higher the fair value; the earlier the recovery date, the higher the fair value; the lower the discount rate, the higher the fair value

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.3 Fair value estimation *(Continued)*

(ii) Valuation inputs and relationships to fair value *(Continued)*

Financial instruments	Fair value hierarchy	Valuation techniques and key inputs	Significant unobservable inputs	Relationship of significant unobservable inputs to fair value
Financial assets at FVOCI – Unlisted equity Investments – Bills receivable	Level 3	Discounted cash flow with future cash flows that are estimated based on expected recoverable amounts, discounted at rates that reflect management's best estimation of the expected risk level	Expected future cash flow; expected recovery date; discounted rates that correspond to the expected risk level	The higher the future cash flow, the higher the fair value; the earlier the recovery date, the higher the fair value; the lower the discount rate, the higher the fair value
		Net asset value approach	N/A	N/A
		Market comparison approach	Discount for lack of marketability	The lower the discount rate, the higher the fair value

(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 the reporting period. If the respective rate of return of the respective financial assets had been 10% higher/lower, the total comprehensive income (net of tax), for the year ended 31 December 2020 would have increased/decreased by approximately RMB19,313 thousands (2019: increased/decreased by approximately RMB15,239 thousands) as a result of the changes in fair value of the financial assets. The analysis is performed on the same basis as 2019.

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

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 36-66 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 2020, this particular provision had a carrying amount of RMB951,075 thousands (2019: RMB314,032 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 2020, the carrying value of deferred tax liabilities relating to withholding tax was approximately RMB49,087 thousands (2019: RMB63,736 thousands).

5 OPERATING SEGMENT INFORMATION

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

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

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

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

The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2.5. Segment results represent the gross profit (including depreciation of production plants), government grants, sales of scraps and materials, and selling and distribution expenses earned/incurred by each segment. The remaining items in the profit or loss are unallocated.

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

5 OPERATING SEGMENT INFORMATION *(Continued)*

(a) Segment information

	PRC RMB'000	USA RMB'000	Europe RMB'000	Other countries RMB'000	Total RMB'000
For the year ended 31 December 2020					
Segment revenue					
Total segment revenue	17,493,226	1,696,999	364,982	732,688	20,287,895
Inter-segment revenue	(4,701,539)	(91,481)	(114,225)	(12,139)	(4,919,384)
Revenue from external customers	12,791,687	1,605,518	250,757	720,549	15,368,511
Timing of revenue recognition					
At a point in time	12,791,687	1,605,518	250,757	720,549	15,368,511
Segment results	2,571,425	324,812	47,456	148,164	3,091,857
Unallocated other income					71,893
Other losses – net					(164,618)
Net impairment losses on recognised financial assets					(39,777)
Finance costs – net					(207,279)
Share of results of associates and joint ventures					(3,384)
Corporation and other unallocated expenses					(1,570,636)
Profit before income tax					1,178,056

5 OPERATING SEGMENT INFORMATION *(Continued)*

(a) Segment information *(Continued)*

	PRC RMB'000	USA RMB'000	Europe RMB'000	Other countries RMB'000	Total RMB'000
Other segment information					
Write-down of inventories	37,565	–	–	–	37,565
Net impairment losses on financial assets	39,495	(35)	(9)	326	39,777
Impairment losses on property, plant and equipment	65,074	–	–	–	65,074
Impairment losses on prepayments	20,937	–	–	–	20,937
Depreciation and amortisation	423,377	7,322	995	264	431,958
Capital expenditure	376,208	2,906	5,790	17,112	402,016
As at 31 December 2020					
Segment assets	6,492,319	16,968	11,839	1,355	6,522,481
Corporate and other unallocated assets					19,328,618
Total assets					25,851,099

5 OPERATING SEGMENT INFORMATION *(Continued)*

(a) Segment information *(Continued)*

	PRC RMB'000	USA RMB'000	Europe RMB'000	Other countries RMB'000	Total RMB'000
For the year ended 31 December 2019					
Segment revenue					
Total segment revenue	9,178,669	2,108,333	616,165	318,496	12,221,663
Inter-segment revenue	(2,332,051)	(64,338)	(94,940)	(7,438)	(2,498,767)
Revenue from external customers	6,846,618	2,043,995	521,225	311,058	9,722,896
Timing of revenue recognition					
At a point in time	6,846,618	2,043,995	521,225	311,058	9,722,896
Segment results	1,123,404	390,123	92,432	54,536	1,660,495
Unallocated other income					93,894
Other gains – net					64,543
Net impairment losses recognised on financial assets					(62,188)
Finance costs – net					(431,189)
Share of results of associates and joint ventures					4,752
Corporation and other unallocated expenses					(914,230)
Profit before income tax					416,077

5 OPERATING SEGMENT INFORMATION *(Continued)*

(a) Segment information *(Continued)*

	PRC RMB'000	USA RMB'000	Europe RMB'000	Other countries RMB'000	Total RMB'000
Other segment information					
Reversal of write-down of inventories	(1,838)	–	–	–	(1,838)
Net impairment losses on financial assets	62,196	(16)	–	8	62,188
Impairment losses on property, plant and equipment	8,003	–	–	–	8,003
Impairment losses on prepayments	12,982	–	–	–	12,982
Depreciation and amortisation	464,267	7,729	1,200	274	473,470
Capital expenditure	581,033	775	234	25,584	607,626
As at 31 December 2019					
Segment assets	4,799,221	96,020	27,596	233,673	5,156,510
Corporate and other unallocated assets					19,702,338
Total assets					24,858,848

5 OPERATING SEGMENT INFORMATION *(Continued)*

(b) Other geographical information

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	
	2020	2019
	RMB'000	RMB'000
PRC	4,669,477	4,768,785
USA	139,754	154,886
Europe	6,390	7,558
Other countries	42,151	26,154
	4,857,772	4,957,383

(c) Revenue from major products and services within the scope of IFRS 15

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Wind gear transmission equipment	11,651,603	8,178,999
Industrial gear transmission equipment	1,526,091	1,261,820
Trading business	1,818,532	–
Rail transportation gear transmission equipment	300,031	225,097
Other products and services	72,254	56,980
	15,368,511	9,722,896

5 OPERATING SEGMENT INFORMATION *(Continued)*

(d) 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	
	2020	2019
	RMB'000	RMB'000
Customer A (Note (i))	**2,363,793**	2,980,529
Customer B (Note (ii))	**1,562,929**	1,224,934

Notes:

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

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

6 OTHER INCOME

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Dividend income from financial assets at FVOCI (Note 20)	**9,668**	7,641
Dividend income from financial assets at FVPL (Note 21)	**–**	22,808
Interest income from other financial assets at amortised cost	**37,431**	47,602
Government grants (Note)		
– Deferred income recognised (Note 31)	**19,505**	17,124
– Other government subsidies	**163,085**	46,083
Sale of scraps and materials	**73,160**	19,335
Gross fixed rental income	**8,230**	8,850
Others	**21,514**	12,864
	332,593	182,307

6 OTHER INCOME *(Continued)*

Note:

Government grants mainly represented grants from the PRC's local authority to support local companies. The recognition of government grants to profit or loss is set out in the accounting policy in Note 2.28.

7 OTHER (LOSSES)/GAINS – NET

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Losses on disposal of property, plant and equipment, net	(4,379)	(25,818)
Gains on disposal of joint ventures	–	1,469
Losses on disposal of an associate	–	(5,093)
Foreign exchange (losses)/gains, net	(131,087)	28,241
Net fair value gains on financial assets at FVPL (Note 21(ii))	35,922	73,747
Impairment losses on property, plant and equipment (Note 14)	(65,074)	(8,003)
	(164,618)	64,543

8 EXPENSES BY NATURE

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Cost of inventories sold	**10,717,864**	6,408,722
Employee benefit expenses (Note 9)	**1,930,652**	1,359,689
Depreciation of property, plant and equipment (Note 14)	**416,322**	438,326
Depreciation of right-of-use assets (Note 15)	**15,636**	12,195
Amortisation of intangible assets	**–**	14,825
Auditors remuneration		
– Audit services	**4,600**	3,600
– Non-audit services	**2,659**	1,500
Write-down/(reversal of write-down) of inventories (Note 24)	**37,565**	(1,838)
Other expenses	**982,692**	828,025
Total cost of sales, selling and distribution expenses, research and development costs, administrative expenses and share-based payment expenses	**14,107,990**	9,065,044

9 EMPLOYEE BENEFIT EXPENSES

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Wages and salaries	**1,023,109**	976,789
Pension scheme contributions	**77,577**	101,856
Share-based payment expenses (Note a)	**547,674**	–
Other benefits	**282,292**	281,044
Total employee benefit expenses	**1,930,652**	1,359,689

9 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(a) Share-based payment expenses

On 4 December 2020, an employee partnership enterprise, namely Shanghai Shifu Enterprise Management LLP ("Shanghai Shifu"), which was established to incentivise the core employees of the Group and on behalf of certain designated employees of the Group, entered into a capital increase agreement with Nanjing Gear Enterprise Management Co., Ltd. ("Nanjing Gear"), an indirect wholly-owned subsidiary of the Group, and Nanjing High Speed Gear Manufacturing Co., Ltd. ("Nanjing High Speed"), a direct non-wholly owned subsidiary of Nanjing Gear after such Capital Increase (as defined hereunder), pursuant to which Shanghai Shifu agreed to make the capital contribution in an aggregate amount of RMB150 million (the "Capital Increase") in cash to the registered capital of Nanjing High Speed. Upon completion of the Capital Increase, Shanghai Shifu owned as to approximately 6.98% equity interest in Nanjing High Speed. For details of the Capital Increase, please refer to the Company's announcement dated 4 December 2020 and circular dated 24 December 2020.

The Capital Increase was completed on 24 December 2020. The Capital Increase constituted a deemed disposal of 6.98% equity interest of Nanjing High Speed (Note 43) and an equity-settled share-based payment transaction. The fair value of 100% equity interest of Nanjing High Speed at the date of Capital Increase is assessed as RMB10,000,000 thousands with reference to the consideration of RMB4.3 billion for the sale of 43% equity interest of Nanjing High Speed to an independent third party on 30 March 2021, further details of the disposal are included in Note 45 to the consolidated financial statements. The difference between the fair value of the 6.98% equity interest in Nanjing High Speed and the Capital Increase amount, being RMB547,674 thousands, is recognised in profit or loss as share-based payment expenses.

9 EMPLOYEE BENEFIT EXPENSES *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2019: five) directors whose emoluments are reflected in the analysis shown in Note 47. The emoluments payable to the remaining two individuals during the year ended 31 December 2020 are as follows:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Salaries, allowances and other benefits	**5,394**	–
Share-based payment expenses	**54,038**	–
Pension scheme contributions	**106**	–
	59,538	–

The emoluments fell within the following bands:

	Number of individuals	
	2020	2019
HK$35,000,001 to HK$35,500,000	**2**	–

10 FINANCE INCOME AND COSTS

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Finance income		
Bank interest income	75,587	80,841
Finance costs		
Interest expenses	(282,866)	(510,020)
Net foreign exchange losses	–	(2,010)
	(282,866)	(512,030)
Finance costs – net	(207,279)	(431,189)

11 INCOME TAX EXPENSES

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Current income tax – charge for the year		
– PRC	233,744	85,021
– Hong Kong	63,852	12,545
– Others	206	669
Current income tax – (over)/under provision in respect of prior years	(4,926)	5,894
	292,876	104,129
Deferred tax	34,124	(41,699)
Income tax expenses	327,000	62,430

11 INCOME TAX EXPENSES *(Continued)*

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

	Year ended 31 December	
	2020 RMB'000	2019 RMB'000
Profit before income tax from continuing operations	**1,178,056**	416,077
Tax calculated at statutory tax rate of 25%	**294,514**	104,019
Tax effect of:		
– Lower tax rate enacted by local authority or different tax rates of subsidiaries in other jurisdictions	**(155,528)**	(12,385)
– Share of results of associates and joint ventures	**846**	(4,552)
– Non-taxable income	**(2,180)**	(1,910)
– Non-deductible expenses	**154,745**	20,215
– Utilisation of previously unrecognised tax losses	**(95,127)**	(112,022)
– Tax losses for which no deferred tax assets was recognised	**88,479**	60,234
– Temporary differences for which no deferred income tax assets was recognised	**60,373**	15,137
– Additional deductions on research and development expenses	**(35,303)**	(26,849)
– Withholding tax at 5% on the undistributed earnings of the PRC subsidiaries	**–**	14,649
– (Over)/under provision in respect of prior years	**(4,926)**	5,894
– Others	**21,107**	–
	327,000	62,430

11 INCOME TAX EXPENSES *(Continued)*

(a) PRC corporate income tax

PRC corporate income tax has been provided at the rate of 25% (2019: 25%) on the taxable profits of the Group's PRC subsidiaries for the year ended 31 December 2020.

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

(b) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 16.5%) on the estimated assessable profits arising in Hong Kong for the year ended 31 December 2020.

(c) Other corporate income tax

Other corporate income tax has been provided at the applicable rate of 8.5% to 18.5% (2019: 8.5%-18.5%) on the estimated assessable profits arising from the jurisdictions at which the entities are operated.

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	
	2020	2019
	RMB'000	RMB'000
Profit from continuing operations attributable to owners of the Company	**840,906**	367,426
Profit from discontinued operations attributable to owners of the Company	**–**	70,762
Net profit attributable to owners of the Company	**840,906**	438,188
Weighted average number of ordinary shares outstanding for basic earnings per share ('000)	**1,635,291**	1,635,291
Basic earnings per share (RMB per share)		
– From continuing operations attributable to owners of the Company	**0.514**	0.225
– From discontinued operations attributable to owners of the Company	**–**	0.043
	0.514	0.268

No adjustment is made to the diluted earnings per share for the year ended 31 December 2020 and 2019 as there was no potential dilutive shares in issue.

13 DIVIDENDS

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Dividends recognised as distribution during the year:		
2019 final dividend of HK20 cents per share (2018: final dividend of HK8 cents per share)	**299,193**	114,994

The directors did not recommend to declare any final dividend in respect of the year ended 31 December 2020.

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 2019							
Cost	1,581,315	18,842	4,633,951	257,452	288,916	903,118	7,683,594
Accumulated depreciation	(345,347)	(7,125)	(3,133,796)	(170,427)	(197,993)	–	(3,854,688)
Impairment losses	(1,259)	–	(190)	–	–	(12,174)	(13,623)
Net book amount	1,234,709	11,717	1,499,965	87,025	90,923	890,944	3,815,283
For the year ended 31 December 2019							
Opening net book amount	1,234,709	11,717	1,499,965	87,025	90,923	890,944	3,815,283
Transferred from construction in progress	151,330	6,850	562,218	15,687	36,151	(772,236)	–
Other additions	275	4,771	1,362	1,344	535	491,917	500,204
Acquisition of a subsidiary (Note 42)	80,967	–	88,885	68	599	5,698	176,217
Depreciation	(53,120)	(6,555)	(356,619)	(13,870)	(16,286)	–	(446,450)
Disposals	(7,503)	–	(53,563)	(3,181)	(2,042)	–	(66,289)
Impairment losses provided during the year (Note 7)	–	–	–	–	–	(8,003)	(8,003)
Exchange differences	1,879	–	371	438	8	(3)	2,693
Closing net book amount	1,408,537	16,783	1,742,619	87,511	109,888	608,317	3,973,655
At 31 December 2019							
Cost	1,803,531	30,463	5,037,205	252,526	313,754	628,494	8,065,973
Accumulated depreciation	(393,735)	(13,680)	(3,294,586)	(165,015)	(203,866)	–	(4,070,882)
Impairment losses	(1,259)	–	–	–	–	(20,177)	(21,436)
Net book amount	1,408,537	16,783	1,742,619	87,511	109,888	608,317	3,973,655

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 2020							
Cost	1,803,531	30,463	5,037,205	252,526	313,754	628,494	8,065,973
Accumulated depreciation	(393,735)	(13,680)	(3,294,586)	(165,015)	(203,866)	–	(4,070,882)
Impairment losses	(1,259)	–	–	–	–	(20,177)	(21,436)
Net book amount	1,408,537	16,783	1,742,619	87,511	109,888	608,317	3,973,655
For the year ended 31 December 2020							
Opening net book amount	1,408,537	16,783	1,742,619	87,511	109,888	608,317	3,973,655
Transferred from construction in progress	21,814	–	357,595	21,246	21,535	(422,190)	–
Other additions	5,305	11,825	31,712	1,418	623	342,020	392,903
Depreciation	(58,483)	(9,070)	(307,165)	(21,187)	(20,417)	–	(416,322)
Disposals	(3,529)	(6,730)	(25,025)	(3,375)	(4,184)	–	(42,843)
Impairment losses provided during the year (Note 7)	–	–	(8,603)	(312)	–	(56,159)	(65,074)
Exchange differences	11,607	–	(831)	(20,764)	(13)	–	(10,001)
Closing net book amount	1,385,251	12,808	1,790,302	64,537	107,432	471,988	3,832,318
At 31 December 2020							
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

The Group is in the process of obtaining property certificates for the buildings above with a carrying amount of RMB537,980 thousands (2019: RMB790,264 thousands) at the end of the reporting period.

The freehold land is located in the USA.

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

During the year ended 31 December 2020, 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 the result of the assessment, the recoverable amounts were lower than the carrying amounts, impairment losses of RMB65,074 thousands (2019: RMB8,003 thousands) were recognised in profit or loss accordingly.

15 RIGHT-OF-USE ASSETS

	Land use rights RMB'000
Carrying amount as at 1 January 2019	543,287
Transferred from deposits for land leases (Note 23)	40,910
Additions	41,480
Acquisition of a subsidiary (Note 42)	45,460
Depreciation charge for the year	(12,195)
Carrying amount as at 31 December 2019	**658,942**
Transferred from deposits for land leases (Note 23)	**5,471**
Additions	**3,642**
Disposals	**(4,611)**
Depreciation charge for the year	**(15,636)**
Exchange differences	**(878)**
Carrying amount as at 31 December 2020	**646,930**

The land use rights are located in the PRC and Germany. At 31 December 2020, the Group is in the process of obtaining certain land use rights certificates with a carrying amount of RMB141,361 thousands (2019: RMB237,442 thousands).

16 GOODWILL

	RMB'000
At 1 January 2019	
Cost	272
Accumulated impairment	–
Net carrying amount	272
For the year ended 31 December 2019	
Opening net book amount	272
Addition from acquisition of a subsidiary (Note 42)	26,142
Closing net book amount	26,414
At 31 December 2019 and 31 December 2020	
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	
	2020 RMB'000	2019 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 11% (2019: 11%) and cash flows beyond the five-year period were extrapolated using a growth rate of 5% (2019: 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 16% (2019: 16%) and cash flows beyond the five-year period were extrapolated using a growth rate of 3% (2019: 3%), 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 2020 and 2019. The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Budgeted gross margins – The basis used to determine the value assigned to the budgeted gross margins is the average gross margins achieved in the year immediately before the budget year, increased for expected efficiency improvements, and expected market development.

- Discount rate – The discount rate used is before tax and reflects specific risks relating to the unit.

Based on the assessments, no goodwill as at 31 December 2020 and 2019 was impaired and there was sufficient headroom available as at 31 December 2020 and 2019. A reasonably possible change in key assumptions would not cause the recoverable amount to fall below the carrying amount of the respective CGU.

17 SUBSIDIARIES

Particulars of major subsidiaries of the Group are as follows:

Name of company	Place and date of incorporation	Registered capital	Percentage of equity held by the Group		Principal activities
			2020	2019	
Nanjing High Accurate@	PRC 16 August 2001	RMB693,800,000	100	100	Manufacture and sale of gear, gear box and fittings
Nanjing High Speed@	PRC 8 July 2003	RMB2,150,000,000	100	100	Manufacture and sale of gear, gear box and fittings
Nanjing Ningkai Mechanical Co., Ltd. ("Nanjing Ningkai")@	PRC 19 November 2002	RMB41,077,000	100	85.83	Engineering processing and manufacturing
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	RMB1,000,000,000	100	100	Trading business
Nanjing Gaote Gearbox Manufacturing Co., Ltd.@	PRC 26 November 2003	USD42,393,264	100	100	Manufacture and sale of gear, gear box and fittings
Nanjing Maifala Information Technology Co., Ltd.@	PRC 22 April 2016	RMB10,000,000	100	100	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	100	100	Manufacture and sale of gear, gear box and fittings

17 SUBSIDIARIES *(Continued)*

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

Name of company	Place and date of incorporation	Registered capital	Percentage of equity held by the Group		Principal activities
			2020	2019	
Tianjin Chuanzai Jingtong Finance Leasing Co., Ltd. ("Tianjin Finance Leasing")#	PRC 23 December 2013	USD29,800,000	N/A	46.96	Rendering of finance lease services
NGC (Baotou) Transmission Equipment Co., Ltd.@	PRC 7 January 2009	RMB260,000,000	100	100	Manufacture and sale of gear, gear box and fittings
Nanjing Lianyu Supply Chain Co., Ltd.@	PRC 10 June 2020	RMB1,000,000,000	100	–	Trading business
High Speed Holdings Limited	Hong Kong 21 April 2020	USD100	100	–	Investment holding and sale of gear box and fittings
Nanjing Gear*	PRC 10 September 2020	USD285,475,000	100	–	Investment holding

* Registered as wholly foreign owned enterprises under PRC law

Registered as sino-foreign equity joint venture under PRC law

@ Registered as domestic enterprises under PRC law

During the year, the Group lost control over Tianjin Finance Leasing, further details are included in Note 41 to the consolidated financial statements.

The statutory financial statements of the above subsidiaries established in the PRC prepared in accordance with the relevant accounting principles and financial regulations applicable to enterprises established in the PRC, were not audited by Baker Tilly Hong Kong or any member firms of the Baker Tilly global network.

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the directors, result in particulars of excessive length.

18 INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Associates		
– Share of net assets	205,376	145,532
– Goodwill on acquisition	6,710	6,710
– Financial guarantee granted to an associate	37,016	37,016
– Impairment	(32,110)	(13,457)
	216,992	175,801
A joint venture		
– Share of net assets	129,228	111,210
	346,220	287,011

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Associates	(2,749)	2,365
Joint ventures	18,018	15,844
Impairment losses provided for an associate	(18,653)	(13,457)
	(3,384)	4,752

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

(a) Investments in associates

	2020 RMB'000	2019 RMB'000
As at 1 January	**175,801**	228,874
Addition (Note (i))	**77,593**	–
Financial guarantees granted to an associate (Note (iii))	**–**	16,461
Share of results for the year	**(2,749)**	2,365
Impairment provision for an associate	**(18,653)**	(13,457)
Dividends received	**(15,000)**	(21,800)
Disposal of an associate (Note (ii))	**–**	(36,642)
As at 31 December	**216,992**	175,801

Notes:

(i) During the year, the Group lost control over Tianjin Finance Leasing, a subsidiary of the Group, and accounted for the remaining 46.96% interest as investment in an associate, further details are included in Note 41 to the consolidated financial statements.

(ii) On 11 February 2019, the Group entered into an agreement with an independent third party to dispose of its 10% equity interest in an associate, Shandong Energy Group Unitrust Finance Leasing Co., Ltd, at a total cash consideration of RMB31,549 thousands, and resulted in a loss of RMB5,093 thousands.

(iii) Further details of the financial guarantee granted to an associate are set out in Note 44(b) to the consolidated financial statements.

Principal activities of material associates as at 31 December 2020 and 2019 are as follows:

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest 2020	Percentage of ownership interest 2019	Principal activity	Measurement method
Zhongbang Finance Leasing (Jiangsu) Co., Ltd. ("Zhongbang Finance Leasing")	PRC	**37.21**	37.21	Finance leasing	Equity method
Tianjin Finance Leasing	PRC	**46.96**	N/A	Finance leasing	Equity method

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	
	2020	2019
	RMB'000	RMB'000
Current assets	50,877	105,053
Non-current assets	255,835	277,948
Current liabilities	(12,412)	(55,393)
Net assets	294,300	327,608
Percentage of ownership interest	37.21%	37.21%
Carrying value of the investment	109,509	121,903

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue	4,089	3,319
Loss for the year	(33,306)	(1,690)
Total comprehensive loss for the year	(33,306)	(1,690)
Dividends declared by the associate	–	–

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 2020 RMB'000
Current assets	166,671
Current liabilities	(1,438)
Net assets	165,233
Percentage of ownership interest	46.96%
Carrying value of the investment	77,593

	Year ended 31 December 2020 RMB'000
Revenue	–
Loss for the year	(1)
Total comprehensive loss for the year	(1)
Dividends declared by the associate	–

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	
	2020	2019
	RMB'000	RMB'000
Aggregate carrying value of investments	**29,890**	53,898
Aggregate amounts of the Group's share of:		
– Profit for the year	**9,645**	2,994
– Total comprehensive income for the year	**9,645**	2,994

(b) Investment in a joint venture

	2020	2019
	RMB'000	RMB'000
As at 1 January	**111,210**	189,945
Share of profit for the year	**18,018**	15,844
Disposal of joint ventures (Note)	**–**	(94,579)
As at 31 December	**129,228**	111,210

Note:

On 22 January 2019, the Group entered into an agreement with an independent third party to dispose of its 50% equity interest in a joint venture, Shandong Energy Machinery Group Zhong-Chuan Heavy Duty Mine Equipment Manufacturing Co., Ltd, at a total cash consideration of RMB10,800 thousands, which is approximate to its carrying value at the disposal date.

In May 2019, the Group entered into an agreement with an independent third party to dispose of its 30% equity interest in Jiangsu An Rhonda Health Industry Development Co., Ltd, at a total cash consideration of RMB85,248 thousands, and resulted in a gain of RMB1,469 thousands.

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

(b) Investment in a joint venture *(Continued)*

The principal activities of the material joint venture as at 31 December 2020 and 2019 is as follows:

Name of entity	Place of business/ country of incorporation	Percentage of ownership interest		Principal activities	Measurement method
		2020	2019		
Nanjing High Accurate Construction Equipment Co., Ltd. ("Nanjing Construction")	PRC	50	50	Metallurgical engineering and manufacturing	Equity method

Summarised financial information for the material joint venture

Nanjing Construction

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Cash and cash equivalents	282,815	77,744
Other current assets	816,596	566,368
Total current assets	1,099,411	644,112
Non-current assets	1,845	2,505
Financial liabilities, excluding trade and other payables	–	–
Other current liabilities	(842,800)	(424,198)
Total current liabilities	(842,800)	(424,198)
Net Assets	258,456	222,419
Percentage of ownership interest	50%	50%
Carrying value of the investment	129,228	111,210

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

(b) Investment in a joint venture *(Continued)*

Summarised financial information for the material joint venture *(Continued)*

Nanjing Construction (Continued)

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Revenue	744,448	452,278
Depreciation and amortisation	(146)	(450)
Interest income	629	487
Interest expense	(657)	(303)
Income tax expense	(8,703)	(4,911)
Profit for the year	36,036	34,627
Total comprehensive income	36,036	34,627
Dividends declared by the joint venture	–	–

Summarised financial information for other joint ventures

The following table illustrates the aggregate financial information of the Group's joint ventures that are not individually material:

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Aggregate carrying value of investments	N/A	–
Aggregate amounts of the Group's share of:		
– Loss for the year	N/A	(1,469)
– Total comprehensive loss	N/A	(1,469)

19 FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The Group holds the following financial instruments:

		As at 31 December	
		2020	2019
	Note	RMB'000	RMB'000
Financial assets			
Financial assets at amortised cost			
– Trade receivables	25	**3,100,118**	2,378,101
– Other receivables	25	**1,554,740**	2,102,473
– Other financial assets at amortised cost	22	**576,421**	803,877
– Pledged bank deposits	27	**1,653,224**	2,642,560
– Cash and cash equivalents	27	**2,184,334**	2,520,415
Financial assets at FVOCI	20	**5,902,939**	5,378,733
Financial assets at FVPL	21	**855,126**	795,032
		15,826,902	16,621,191
Financial liabilities			
Liabilities at amortised cost:			
– Trade, bills and other payables	28	**6,836,328**	6,673,498
– Borrowings and corporate bonds	29	**2,378,970**	5,237,448
		9,215,298	11,910,946

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.

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	
	2020	2019
	RMB'000	RMB'000
Non-current assets		
Listed equity investments (Note (ii)(a))	222,108	355,231
Unlisted equity investments (Note (ii)(b))	2,258,468	2,242,588
	2,480,576	2,597,819
Current assets		
Unlisted equity investments (Note (ii)(b))	–	2,505
Debt investments (Note (iii))	3,422,363	2,778,409
	3,422,363	2,780,914
	5,902,939	5,378,733

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	
	2020	2019
	RMB'000	RMB'000
Riyue Heavy Industry Co., Ltd.	**195,233**	326,729
Guodian Technology & Environmental Group Co., Ltd.	**8,179**	10,814
China PengFei Group Limited	**18,696**	17,688
	222,108	355,231

During the year ended 31 December 2020, the Group has sold part of its shares in Riyue Heavy Industry Co., Ltd.. The shares sold had a fair value of RMB430,554 thousands and the Group realised a gain of RMB383,482 thousands which was included in other comprehensive income. This gain was transferred to retained earnings, net of tax of RMB95,871 thousands during the year.

(b) Unlisted equity investments

Unlisted equity investments comprise the following individual investments:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Zhejiang Zheshang Chanrong Equity Investment Fund L.P. *	**2,039,719**	2,027,647
Su Yin Financial Leasing Co., Ltd.	**183,180**	161,740
Jiangsu Zhong Bang Business Factoring Co., Ltd.	**28,960**	46,719
Others	**6,609**	8,987
	2,258,468	2,245,093

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 2020, the investment in Zhejiang Zheshang Chanrong had a fair value of RMB2,039,719 thousands (2019: RMB2,027,647 thousands) and a fair value gain of RMB12,072 thousands (2019: fair value loss of RMB21,232 thousands) was recognised in other comprehensive income for the year ended 31 December 2020. The fair value of Zhejiang Zheshang Chanrong was revalued on 31 December 2019 and 2020 based on net asset value approach performed by Canwin Appraisal Co., Ltd, an independent professional qualified valuer. The auditor expressed an unmodified opinion on the financial statements of Zhejiang Zheshang Chanrong for the years ended 31 December 2019 and 2020.

(iii) Debt investments at FVOCI

Debt investments at FVOCI represents bills receivable that are held for collection of contractual cash flows and for selling purpose.

For the year ended 31 December 2020, fair value gain of RMB5,161 thousands (2019: fair value loss of RMB9,006 thousands) for bills receivable are recognised in other comprehensive income.

(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 (the "Endorsement"). In the opinion of the directors, the Group has retained the substantial risks and rewards, which include default risks relating to such Endorsed Bills, and accordingly, it continued to recognise the full carrying amounts of the Endorsed Bills and the associated trade payables settled.

Bills receivable endorsed to suppliers with full recourse are as follows:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Carrying amount of transferred assets	237,198	199,687
Carrying amount of associated liabilities	(237,198)	(199,687)

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

(v) Amounts recognised in profit or loss and other comprehensive income

During the year, the following gains were recognised in profit or loss and other comprehensive income:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Gains recognised in other comprehensive income	**215,967**	137,281
Dividends from equity investments held at FVOCI recognised in profit or loss in other income	**9,668**	7,641

(vi) Current assets pledged as securities

Refer to Note 39 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 receivables 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.

Financial assets measured at FVPL include the following:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Non-current assets		
Derivative financial instruments (Note (a))	–	541,900
Unlisted equity investments (Note (b))	340,000	–
	340,000	541,900
Current assets		
Structured bank deposits (Note (c))	320,045	155,480
Trade receivables measured at FVPL (Note (d))	185,269	86,340
Unlisted debt investments	–	1,500
Unlisted equity investments	9,812	9,812
	515,126	253,132
	855,126	795,032

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

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

Notes:

(a) Derivative financial instruments

On 31 August 2017, Nanjing Drive entered into a limited partnership agreement with Ningbo Zhongbang Chanrong Holding Co., Ltd. ("Ningbo Zhongbang") and Ningbo Jingbang Asset Management Co., Ltd. in respect of the establishment of an investment fund in the PRC named Shanghai Guiman Enterprise Management L.P. (the "Guiman Fund"). Nanjing Drive is a limited partner and has invested RMB500,000 thousands in the Guiman Fund. As mentioned in the investment agreement, Nanjing Drive would not bear any losses of Guiman Fund and was guaranteed with an annualised return rate no less than 9% during the 3-year investment period. If Nanjing Drive do not choose to withdraw from the partnership at the end of the 3-year investment period, the profit or loss attributable to Nanjing Drive afterwards shall be negotiated separately.

The separate derivative derived from Guiman Fund was measured at FVPL because the investment income would be guaranteed by the other limited partner, Ningbo Zhongbang, due to the accumulated losses of Guiman Fund.

On 4 August 2020, Nanjing Drive decided to withdraw from the partnership. As at 31 December 2020, the investment of RMB149,000 thousands has yet to be recovered, and included in other receivables which was received subsequent to the end of the reporting period.

(b) 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 2020, the investment in Ningbo Nangao Jingchuan, Ningbo Gaona Jingte and Ningbo Gaotai Jingli had a fair value of RMB120,000 thousands, RMB120,000 thousands and RMB100,000 thousands respectively.

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

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

Note *(Continued)*

(c) Structured bank deposits

As at 31 December 2020, structured bank deposits of RMB320,045 thousands (2019: RMB155,480 thousands) represented financial instruments placed by the Group to three (2019: two) banks in the PRC for a term within one year. The contract guarantees principal and proceeds are related to the performance of exchange rate, interest rate or stock index on the market. Structured bank deposits amounted to RMB320,045 thousands (2019: RMB104,176 thousands) were redeemed subsequent to the end of the reporting period.

(d) Trade receivables measured at FVPL

In 2018 and 2020, the Group entered into several agreements with two banks to sell all of its eligible trade receivables under certain customers and all right, title, interest and benefit the Group has in each such eligible trade receivables on a non-recourse basis without the need for any further action or documentation on the part of the Group or 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 2020, such trade receivables held solely for selling purpose amounting to RMB185,269 thousands (2019: RMB86,340 thousands) were classified as financial assets at FVPL. For the year ended 31 December 2020, fair value losses of RMB920 thousands (2019: RMB664 thousands) for trade receivables measured at FVPL are recognised in ‘other (losses)/gains – net’.

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

(ii) Amounts recognised in profit or loss

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Fair value gains on equity investments at FVPL recognised in other (losses)/gains – net (Note 7)	**26,417**	22,796
Fair value gains on debt investments at FVPL recognised in other (losses)/gains – net (Note 7)	**9,505**	50,951
Dividends from equity investments held at FVPL recognised in other income (Note 6)	**–**	22,808
	35,922	96,555

(iii) Fair value measurements and exposure

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

22 Other financial assets at amortised cost

Financial assets at amortised cost include the following debt investments:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Non-current assets		
Insurance investment (Note (i))	**576,421**	549,827
Current assets		
Corporate bonds (Note (ii))	**–**	254,050
	576,421	803,877

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 2023, which carried fixed interest rate at 6.50% per annum. Interest and the principal amount are repayable at the maturity date.

(ii) On 26 April 2018, the Group acquired a corporate bond, issued by one of the Group's related parties in prior years, from an independent third party with the amount of approximately RMB205,861 thousands. In 2019, the Group acquired another corporate bond from an independent third party with the amount of approximately RMB34,189 thousands. As at 31 December 2019, the carrying amount of corporate bonds was RMB254,050 thousands and all of the corporate bonds were settled during the year ended 31 December 2020.

(iii) Impairment and risk exposure

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

All of the financial assets at amortised cost are denominated in RMB. 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.

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. During the year ended 31 December 2020, deposits for land lease of RMB5,471 thousands (2019: RMB40,910 thousands) has been transferred to right-of-use assets.

24 INVENTORIES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Raw materials	**578,339**	441,256
Work in progress	**1,849,951**	1,149,900
Finished goods	**1,275,670**	977,413
	3,703,960	2,568,569

During the year ended 31 December 2020, the cost of inventories recognised as expense amounted to RMB12,118,236 thousands (2019: RMB7,789,841 thousands) which was included in "cost of sales".

During the year ended 31 December 2020, write-down of inventories to net realisable value amounted to RMB37,565 thousands (2019: reversal of write-down of RMB1,838 thousands) which was recognised and included in "cost of sales" in profit or loss.

25 TRADE AND OTHER RECEIVABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables		
– Amounts due from third parties	3,673,273	2,904,710
– Amounts due from a joint venture (Note 44(c))	5,215	9,553
	3,678,488	2,914,263
Less: Loss allowances	(578,370)	(536,162)
	3,100,118	2,378,101
Other receivables		
– Amounts due from third parties	1,947,272	2,336,404
– Amounts due from associates (Note 44(c))	26,713	237,687
– Amounts due from a joint venture (Note 44(c))	1,925	445
	1,975,910	2,574,536
Less: Loss allowances	(421,170)	(472,063)
	1,554,740	2,102,473
Value-added tax recoverable	88,092	123,956
	1,642,832	2,226,429
	4,742,950	4,604,530

25 TRADE AND OTHER RECEIVABLES *(Continued)*

The Group generally allows a credit period within 180 days to its trade customers. 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 joint venture and associates are unsecured, interest-free and repayable on credit terms similar to those offered to the major customers of the Group.

As at 31 December 2020, included in other receivables were receivables from former subsidiaries of the bundle transaction of RMB890,024 thousands (2019: RMB1,003,834 thousands).

During the year ended 31 December 2020, the Group received overdue beneficial interests of the trust of RMB512,813 thousands which was reclassified from financial assets at FVPL to other receivables at maturity as at 31 December 2019.

(i) Fair values of trade and other receivables

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

(ii) Impairment and risk exposure

The Group applies the IFRS 9 simplified approach to measuring 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.

25 TRADE AND OTHER RECEIVABLES *(Continued)*

(ii) Impairment and risk exposure *(Continued)*

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Less than 90 days	**2,695,596**	1,826,916
90 to 180 days	**193,705**	96,585
181 to 365 days	**104,940**	217,652
1 to 2 years	**68,272**	143,111
Over 2 years	**37,605**	93,837
	3,100,118	2,378,101

26 PREPAYMENTS

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Prepayments		
– Amounts due from third parties	**1,156,656**	275,099
– Amounts due from a joint venture (Note 44(c))	**–**	195
– Amounts due from associates (Note 44(c))	**6,973**	7,108
Less: Impairment provision	**(47,733)**	(26,796)
	1,115,896	255,606

26 PREPAYMENTS *(Continued)*

The movement of impairment provision is as follows:

	2020 RMB'000	2019 RMB'000
As at 1 January	**26,796**	15,340
Impairment losses recognised during the year, net	**20,937**	12,982
Amounts written off as uncollectible	**–**	(1,526)
As at 31 December	**47,733**	26,796

27 CASH AND CASH EQUIVALENTS AND PLEDGED BANK DEPOSITS

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Cash at banks and on hand	**3,837,558**	5,162,975
Less: Pledged bank deposits	**(1,653,224)**	(2,642,560)
Cash and cash equivalents	**2,184,334**	2,520,415

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. The bank balances and pledged deposits are deposited in credit-worthy banks with no recent history of default.

28 TRADE, BILLS AND OTHER PAYABLES

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade payables		
– Amounts due to third parties	3,112,705	2,049,268
– Amounts due to an associate (Note 44(c))	253	318
– Amounts due to a joint venture (Note 44(c))	1,127	1,115
	3,114,085	2,050,701
Bills payable	3,250,469	3,884,766
	6,364,554	5,935,467
Other payables		
– Accruals	65,984	86,480
– Other tax payables	36,742	65,259
– Purchase of property, plant and equipment	93,574	167,867
– Payroll and welfare payables	192,811	151,238
– Financial guarantee liabilities	7,103	28,115
– Amounts due to third parties	370,995	541,828
– Amounts due to associates (Note 44(c))	–	221
– Amounts due to a joint venture (Note 44(c))	102	–
	767,311	1,041,008
	7,131,865	6,976,475

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	
	2020	2019
	RMB'000	RMB'000
0 – 30 days	**3,062,192**	2,198,577
31- 60 days	**558,016**	407,034
61 – 180 days	**873,572**	863,605
181 – 365 days	**1,428,972**	2,301,865
Over 365 days	**441,802**	164,386
	6,364,554	5,935,467

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

All of the amounts due to the Group's joint ventures and associates are unsecured, interest-free and repayable within 180 days.

29 BORROWINGS AND CORPORATE BONDS

	As at 31 December			
	2020		2019	
	Effective interest rate %	RMB'000	Effective interest rate %	RMB'000
Current				
Bank loans – Unsecured	**3.45-5.44**	**1,828,970**	4.35-5.92	1,927,500
Bank loans – Secured	**3.69-5.44**	**550,000**	3.69-5.92	896,500
		2,378,970		2,824,000
Corporate bonds -Unsecured (Note)		**–**	6.59-6.62	1,914,275
		2,378,970		4,738,275
Non-current				
Bank loans – Secured		**–**	8.00	736
Corporate bonds -Unsecured (Note)		**–**	7.62	498,437
		–		499,173
		2,378,970		5,237,448

Note:

In March 2017, July 2017 and January 2018, Nanjing Drive issued three tranches of corporate bonds with principal amounts of RMB900,000 thousands, RMB1,020,000 thousands and RMB500,000 thousands which carries interest rates of 6.47%, 6.50% and 7.50% per annum respectively. All corporate bonds have a period of 5 years, attached with the option of adjusting the nominal interest rate for issuer and the option of redemption for investors at the end of the third year. During the year ended 31 December 2020, Nanjing Drive have paid in an aggregate amount of RMB2,420,000 thousands for the full redemption of the three tranches of bonds. All of the bonds have been cancelled subsequently.

29 BORROWINGS AND CORPORATE BONDS *(Continued)*

The maturity of borrowings and corporate bonds is as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Analysed into:		
Bank loans repayable:		
– On demand or within 1 year	**2,378,970**	2,824,000
– Between 1 and 2 years	**–**	736
	2,378,970	2,824,736
Corporate bonds repayable:		
– On demand or within 1 year	**–**	1,914,275
– Between 1 and 2 years	**–**	498,437
	–	2,412,712
	2,378,970	5,237,448

The exposure of the Group's fixed-rate borrowings and the contractual maturity dates (or reset dates) are as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Fixed-rate borrowings:		
– Within one year	**2,378,970**	4,648,275
– More than one year	**–**	499,173
	2,378,970	5,147,448

The Group has no variable-rate borrowings as at 31 December 2020. As at 31 December 2019, the Group had variable-rate borrowings of RMB90,000 thousands which carried interest rates based on the prescribed rate of People's Bank of China.

29 BORROWINGS AND CORPORATE BONDS *(Continued)*

The ranges of effective interest rates (which are also equal to contracted interest rates) on the Group's borrowings are as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Effective interest rates:		
– Fixed-rate borrowings	**3.45%-5.44%**	3.69%-8.00%
– Variable-rate borrowings	**–**	4.57%-4.70%

All borrowings are denominated in RMB.

The secured borrowings were secured by pledge of assets, details of which are set out in Note 39.

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. The increase in contract liabilities in 2020 was mainly due to the increase in advances from customers in relation to the sale of wind gear transmission equipment.

Amount of RMB431,617 thousands (2019: RMB113,235 thousands) was recognised as revenue during the year ended 31 December 2020, which was included in contract liabilities at the beginning of the year.

31 DEFERRED INCOME

	2020 RMB'000	2019 RMB'000
At 1 January	**197,397**	71,479
Government grants received during the year	**19,313**	143,042
Recognised in profit or loss (Note 6)	**(19,505)**	(17,124)
At 31 December	**197,205**	197,397
Represented		
– Current portion	**19,654**	17,124
– Non-current portion	**177,551**	180,273
	197,205	197,397

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

	Warranty provision RMB'000
At 1 January 2020	**314,032**
Additional provisions recognised during the year	**922,806**
Amounts utilised during the year	**(285,763)**
At 31 December 2020	**951,075**

32 WARRANTY PROVISION *(Continued)*

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Represented		
– Current portion	578,595	216,868
– Non-current portion	372,480	97,164
	951,075	314,032

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.

The increase in warranty provision in 2020 was mainly due to the increase in sales volume and special one-off warranty provision was made for certain customers in 2020.

33 DEFERRED INCOME TAX

Deferred income tax assets	Taxable losses carried forward	Impairment of receivables	Write-down of inventories	Provisions	Deferred income	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	44,228	117,203	51,163	22,327	17,870	18,636	271,427
(Charged)/credit to profit or loss	(20,094)	(4,220)	(5,407)	24,205	26,662	4,469	25,615
Credit to other comprehensive income	–	–	–	–	–	1,724	1,724
At 31 December 2019	24,134	112,983	45,756	46,532	44,532	24,829	298,766
(Charged)/credit to profit or loss	(24,134)	(91,070)	(11,092)	92,682	(5,316)	1,947	(36,983)
Charged to other comprehensive income	–	–	–	–	–	(3,661)	(3,661)
At 31 December 2020	–	21,913	34,664	139,214	39,216	23,115	258,122

33 DEFERRED INCOME TAX *(Continued)*

Deferred income tax liabilities	Change in fair value of identified assets upon acquisition of subsidiaries RMB'000	Development costs RMB'000	Withholding taxes RMB'000	Fair value change on financial assets at FVOCI and FVPL RMB'000	Others RMB'000	Total RMB'000
At 1 January 2019	(12,699)	474	(49,087)	(73,361)	(27,525)	(162,198)
Credit/(charged) to profit or loss	1,627	(474)	(14,649)	22,773	6,807	16,084
Charged to other comprehensive income	–	–	–	(38,091)	–	(38,091)
Acquisition of a subsidiary (Note 42)	(13,798)	–	–	–	–	(13,798)
At 31 December 2019	**(24,870)**	**–**	**(63,736)**	**(88,679)**	**(20,718)**	**(198,003)**
Credit to profit or loss	**1,248**	**–**	**–**	**–**	**1,611**	**2,859**
Charged to other comprehensive income	**–**	**–**	**–**	**(48,227)**	**–**	**(48,227)**
Reversal on payment of withholding tax	**–**	**–**	**14,649**	**–**	**–**	**14,649**
Derecognised on disposal of financial assets at FVOCI	**–**	**–**	**–**	**95,871**	**–**	**95,871**
At 31 December 2020	**(23,622)**	**–**	**(49,087)**	**(41,035)**	**(19,107)**	**(132,851)**

Deferred tax assets not recognised

As at 31 December 2020, the Group has unused tax losses of RMB809,848 thousands available for offset against future profits, no deferred tax asset has been recognised due to the unpredictability of future profit streams. As at 31 December 2019, the Group had unused tax losses of RMB1,208,226 thousands, a deferred tax asset was recognised in respect of RMB96,536 thousands of such loss, no deferred tax asset was recognised in respect of the remaining RMB1,111,690 thousands. The unused tax losses arising in PRC mainland 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 2020, no deferred tax asset has been recognised in relation to deductible temporary differences of RMB1,061,421 thousands (2019: RMB916,266 thousands) as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised.

33 DEFERRED INCOME TAX *(Continued)*

Deferred tax assets not recognised *(Continued)*

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on the dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement is effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between the PRC and the jurisdiction of the foreign investors. The Group is therefore liable to 5% withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of their earnings generated from 1 January 2008. The aggregate amount of temporary differences associated with unremitted earnings of RMB6,775 million (31 December 2019: RMB6,746 million) of investments in subsidiaries in the PRC for which deferred tax liabilities have not been recognised amounted to approximately RMB339 million as at 31 December 2020 (2019: RMB337 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 2019, 31 December 2019 and 31 December 2020	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.

35 RESERVES

	Share premium RMB'000	Deemed capital contribution reserve RMB'000	Statutory surplus reserve RMB'000	Capital reserve RMB'000	Fair value reserve of financial assets at FVOCI RMB'000	Exchange reserve RMB'000	Other reserve RMB'000	Total in other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2019	4,119,682	77,651	877,420	143,249	153,267	(9,535)	52,335	5,414,069	5,258,545	10,672,614
Profit for the year	–	–	–	–	–	–	–	–	438,188	438,188
Other comprehensive income/(loss) for the year:										
– Change in fair value of financial assets at FVOCI, net of tax	–	–	–	–	99,050	–	–	99,050	–	99,050
– Exchange differences	–	–	–	–	–	(7,033)	–	(7,033)	–	(7,033)
Total comprehensive income for the year	–	–	–	–	99,050	(7,033)	–	92,017	438,188	530,205
Final 2018 dividend declared	(114,994)	–	–	–	–	–	–	(114,994)	–	(114,994)
Disposal of financial assets at FVOCI	–	–	–	–	(93,525)	–	–	(93,525)	93,525	–
Appropriation to statutory reserve	–	–	4,105	–	–	–	–	4,105	(4,105)	–
Balance at 31 December 2019	4,004,688	77,651	881,525	143,249	158,792	(16,568)	52,335	5,301,672	5,786,153	11,087,825

35 RESERVES *(Continued)*

	Share premium RMB'000	Deemed capital contribution reserve RMB'000	Statutory surplus reserve RMB'000	Capital reserve RMB'000	Fair value reserve of financial assets at FVOCI RMB'000	Share-based payment reserve RMB'000	Exchange reserve RMB'000	Other reserve RMB'000	Total in other reserves RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2020	4,004,688	77,651	881,525	143,249	158,792	-	(16,568)	52,335	5,301,672	5,786,153	11,087,825
Profit for the year	-	-	-	-	-	-	-	-	-	840,906	840,906
Other comprehensive income/(loss) for the year:											
– Change in fair value of financial assets at FVOCI, net of tax	-	-	-	-	164,079	-	-	-	164,079	-	164,079
– Exchange differences	-	-	-	-	-	-	(21,265)	-	(21,265)	-	(21,265)
Total comprehensive income for the year	-	-	-	-	164,079	-	(21,265)	-	142,814	840,906	983,720
Final 2019 dividend declared	(299,193)	-	-	-	-	-	-	-	(299,193)	-	(299,193)
Disposal of financial assets at FVOCI	-	-	-	-	(287,611)	-	-	-	(287,611)	287,611	-
Transactions with non-controlling interests (Note 43)	-	-	-	(223,910)	-	-	-	-	(223,910)	-	(223,910)
Share-based payment (Note 9(a))	-	-	-	-	-	547,674	-	-	547,674	-	547,674
Appropriation to statutory reserve	-	-	51,054	-	-	-	-	-	51,054	(51,054)	-
Balance at 31 December 2020	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

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 pages 73 to 74 of the consolidated financial statements.

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, and (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.

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) 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.

(g) 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.

36 CASH GENERATED FROM OPERATIONS

Reconciliation of profit before income tax to cash generated from operations:

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Profit before income tax			
– From continuing operations		1,178,056	416,077
– From discontinued operations		–	63,694
Adjustments for:			
– Finance costs	10	282,866	517,022
– Finance income	10	(75,587)	(81,001)
– Interest income from other financial assets at amortised cost	6	(37,431)	(47,602)
– Dividend income	6	(9,668)	(30,449)
– Share of results of associates and joint ventures		(15,269)	(14,131)
– Losses on disposal of property, plant and equipment	7	4,379	33,203
– Gains on disposal of the discontinued operations		–	(139,943)
– Loss on disposal of associates and joint ventures		–	3,624
– Net fair value gains on financial assets at FVPL	7	(35,922)	(73,747)
– Depreciation of property, plant and equipment	14	416,322	472,635
– Depreciation of right-of-use assets	15	15,636	13,789
– Amortisation of intangible assets		–	14,825
– Impairment losses of property, plant and equipment	7	65,074	8,159
– Impairment loss of investments in associates and joint ventures		18,653	13,457
– Write-down/(reversal of write-down) of inventories	8	37,565	(5,488)
– Impairment loss of trade receivable		63,793	23,852
– (Reversal of impairment loss)/impairment loss of other receivables		(24,016)	43,335
– Impairment loss of prepayments		20,937	12,982
– Unrealised exchange (gains)/losses, net		(14,004)	5,084
– Deferred income on financial guarantee		(21,012)	(4,188)
– Share-based payment expenses		547,674	–
– Release of deferred income		(19,505)	(17,124)
Operating profit before changes in working capital		2,398,541	1,228,065

36 CASH GENERATED FROM OPERATIONS *(Continued)*

Reconciliation of profit before income tax to cash generated from operations: (continued)

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Changes in working capital:		
– Increase in inventories	**(1,172,956)**	(243,353)
– (Increase)/decrease in trade and bills receivable	**(1,533,366)**	1,135,957
– (Increase)/decrease in other receivables	**(59,659)**	83,126
– (Increase)/decrease in prepayments	**(883,238)**	129,344
– Increase/(decrease) in trade and bills payable	**430,559**	(366,996)
– Increase in contract liabilities	**1,674,718**	209,874
– Decrease in other payables and accruals	**(100,585)**	(192,359)
– Increase in warranty provision	**637,043**	150,581
Cash generated from operations	**1,391,057**	2,134,239

(a) Net debt reconciliation

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Cash and cash equivalents (Note 27)	**2,184,334**	2,520,415
Borrowings and corporate bonds – due within one year (Note 29)	**(2,378,970)**	(4,738,275)
Borrowings and corporate bonds – due after one year (Note 29)	**-**	(499,173)
Net debt	**(194,636)**	(2,717,033)
Cash and cash equivalents	**2,184,334**	2,520,415
Gross debt – fixed interest rates	**(2,378,970)**	(5,147,448)
Gross debt – variable interest rates	**–**	(90,000)
Net debt	**(194,636)**	(2,717,033)

36 CASH GENERATED FROM OPERATIONS *(Continued)*

(a) Net debt reconciliation *(Continued)*

	Cash	Liabilities from financing activities			
		Borrowings and corporate bonds due within 1 year	Borrowings and corporate bonds due after 1 year	Sub-total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January 2019	2,062,624	(4,960,387)	(2,412,570)	(7,372,957)	(5,310,333)
Cash flows	462,875	2,137,150	369	2,137,519	2,600,394
Reclassification	–	(1,913,028)	1,913,028	–	–
Exchange differences	(5,084)	(2,010)	–	(2,010)	(7,094)
At 31 December 2019	**2,520,415**	**(4,738,275)**	**(499,173)**	**(5,237,448)**	**(2,717,033)**
Cash flows	**(350,085)**	**2,359,305**	**499,173**	**2,858,478**	**2,508,393**
Exchange differences	**14,004**	**–**	**–**	**–**	**14,004**
At 31 December 2020	**2,184,334**	**(2,378,970)**	**–**	**(2,378,970)**	**(194,636)**

37 CONTINGENT LIABILITIES

(i) Financial guarantees

As at 31 December 2020, the Group issued financial guarantees to banks in respect of bank loans of RMB732,012 thousands (2019: RMB780,008 thousands) granted to one of the Group's associates and two independent third parties. 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 RMB7,103 thousands (2019: RMB28,115 thousands) has been recognised in the consolidated statement of financial position as liabilities.

37 CONTINGENT LIABILITIES *(Continued)*

(ii) Outstanding litigation

On 12 November 2015, Nanjing High Speed and NGC Transmission Europe GmbH (collectively referred to as "NGC Parties") jointly entered into a strategic cooperation agreement (the "Cooperation Agreement") with Sustainable Energy Technologies GmbH ("SET") on the development and sale of certain electromechanical differential gearboxes for the use in industrial plants and wind mills, including its production and marketing (the "Project"). The Cooperation Agreement was terminated prematurely by SET on 23 February 2018.

In 2019, NGC Transmission Europe GmbH received a claim (the "Claim") filed by SET with a total amount of EUR11,773 thousands (equivalent to RMB92,012 thousands) (the "Claimed Amount") against NGC Parties for breaches of contractual obligations under the Cooperation Agreement relating to the Project.

Upon the date of the approval of these consolidated financial statements, the Claim was still awaiting for trial. The independent lawyers engaged by the Group believe that there are solid arguments to rebut the Claim on the merits and is of a view that the settlement value to this case would be substantially below 50% of the total Claimed Amount. As at 31 December 2020, based on the assessment of the independent lawyers, a provision amounting to RMB8,066 thousands (2019: RMB8,066 thousands) was accrued by management.

38 CAPITAL COMMITMENTS

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

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Contracted, but not provided for:		
Plant and machinery	**438,377**	237,046

39 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	
	2020	2019
	RMB'000	RMB'000
Bills receivable	**1,202,626**	1,179,231
Property, plant and equipment	**600,754**	757,984
Land use rights	**146,068**	176,107
Pledged bank deposits	**1,653,224**	2,642,560
	3,602,672	4,755,882

40 DISCONTINUED OPERATIONS

On 23 November 2018, the Group entered into a bundle transaction of equity transfer agreements (the "Bundle Transaction") with an independent third party, Ningbo Gaoguang Enterprise Management Co., Ltd. ("Ningbo Gaoguang") to dispose of its entire equity interests of ten subsidiaries and four associates for an aggregate cash consideration of RMB299,432 thousands. The ten subsidiaries include Zhongchuan Heavy Duty Machine Tool Corporation Ltd., Nanjing Gaochuan Sky Digital Control Equipment Manufacturing Co., Ltd., AE&E Nanjing Boiler Co., Ltd., Nantong Diesel Engine Co., Ltd., Zhongchuan Heavy Machine Tool Nanjing Co., Ltd., Nantong City Zhenhua Hongsheng Heavy Forging Co., Ltd., Rugao City Hongmao Scrap Metal Recycling Co.,Ltd., Nanjing Nanchuan Laser Equipment Co., Ltd., Nanjing Jingrui Semi-conductor Co., Ltd. and Jiangsu Jingrui Semi-conductor Co., Ltd.. The four associates include Nantong FLW Agriculture Equipment Co., Ltd., Nanjing Yijing Optoelectronics Technology Co., Ltd., Nanjing Yijing Energy Co., Ltd. and Inner Mongolia Jingjing Optoelectronics Technology Co., Ltd.. The Bundle Transaction was completed in the prior year and an aggregate cash consideration amounted to RMB119,886 thousands were received from Ningbo Gaoguang up to 31 December 2019. The remaining consideration receivable of RMB179,546 thousands was recorded in other receivables as at 31 December 2019 and received in full during the year.

The above companies are engaged in the manufacturing and sales of non-core business segment that the Group would discontinue and therefore were classified as discontinued operations. Accordingly, the operating results for the above companies and the gains arises from the disposal were separately presented as profit from discontinued operations in the consolidated income statement up to the disposal date in 2019.

40 DISCONTINUED OPERATIONS *(Continued)*

(a) Financial performance

	From 1 January 2019 to the date of disposal RMB'000
Gross profit	3,917
Selling and distribution expenses	(8,276)
Administrative expenses	(36,686)
Research and development costs	(2,576)
Net impairment loss on financial assets	(4,999)
Other expenses	(9,573)
Other losses – net	(9,146)
Operating loss	(67,339)
Finance costs – net	(4,831)
Share of results of associates accounted for using equity method	(4,078)
Loss before income tax	(76,248)
Income tax credit	269
Loss after income tax of discontinued operations	(75,979)
Gain on disposal of discontinued operations after income tax	139,943
Gain from discontinued operations	63,964
Other comprehensive income	
Items that will not be reclassified to profit or loss	
Changes in the fair value of equity investments at FVOCI	2,967
Income tax relating to these items	(742)
	2,225

40 DISCONTINUED OPERATIONS *(Continued)*

(b) Cashflow information

	From 1 January 2019 to the date of disposal RMB'000
Net cash inflows from operating activities	6,057
Net cash inflows from investing activities	36,696
Net cash outflows from financing activities	(53,103)
Net decrease in cash and cash equivalents	(10,350)

(c) Details of the disposal of discontinued operations

The carrying amounts of assets and liabilities at the date of disposal and the resulting gain on disposal recognised were as follows:

	2019 RMB'000
Property, plant and equipment	417,859
Right-of-use assets	113,732
Intangible assets	4,034
Investments in associates	56,808
Deferred tax assets	2,325
Goodwill	2,991
Financial assets at FVOCI	2,000
Inventories	310,151
Trade and bills receivable	90,308
Other receivables	265,637
Prepayments	29,872
Pledged bank deposits	12,019
Cash and cash equivalents	14,907
Borrowings	(137,125)
Trade and bills payables	(134,974)

40 DISCONTINUED OPERATIONS *(Continued)*

(c) Details of the disposal of discontinued operations *(Continued)*

	2019 RMB'000
Other payables	(315,910)
Amounts due to group companies	(1,002,494)
Contract liabilities	(22,775)
Deferred tax liabilities	(23,493)
Net liabilities disposed of	(314,128)
Total consideration for the disposal	299,432
Net liabilities disposed of	314,128
Non-controlling interests	(68,378)
Impairment of other receivables from subsidiaries of the Bundle Transaction	(405,239)
Gain on disposal of discontinued operations	139,943

An analysis of the net cash inflows in respect of the disposal of discontinued operations is as follows:

	Year ended 31 December 2019 RMB'000
Total consideration	299,432
Less: cash consideration receivables	(179,546)
Less: cash and cash equivalents in the subsidiaries disposed of	(14,907)
Net cash inflows from the disposal	104,979

41 DEEMED DISPOSAL OF A SUBSIDIARY

As at 31 December 2019, Tianjin Finance Leasing was considered as a subsidiary of the Group even though the Group has only 46.96% ownership interest. Based on the contractual arrangements between the Group and other investor, the Group had the power to appoint and remove the majority of the board of directors of Tianjin Finance Leasing that had the power to direct the relevant activities of Tianjin Finance Leasing. Therefore, the directors of the Company concluded that the Group had control over Tianjin Finance Leasing.

During the year ended 31 December 2020 and upon loss of right to appoint the majority of the board of directors, the directors of the Company consider that the Group has lost control over Tianjin Finance Leasing. As a result, Tianjin Finance Leasing then ceased to be a subsidiary of the Group and accounted for as an associate.

The net assets of Tianjin Finance Leasing at the date of deemed disposal and the resulting gain on deemed disposal are as follows:

	RMB'000
Trade and other receivables	166,666
Cash and bank balances	40
Trade and other payables	(1,472)
Net assets disposed of	165,234
Less: Fair value of 46.96% retained equity interest held by the Group classified as interest in an associate	(77,593)
Non-controlling interests	(87,641)
Gain on deemed disposal of a subsidiary	–

Analysis of cash flows on deemed disposal is as follows:

	RMB'000
Cash consideration	–
Cash and bank balances disposed of a subsidiary	(40)
Net cash outflow on deemed disposal	(40)

42 BUSINESS COMBINATION

In February 2019, the Group acquired 100% equity interest in NGC (Baotou) Transmission Equipment Co., Ltd. (formerly known as "Guodian United Power Technology (Baotou) Co. Ltd.") from an independent third party with a total purchase consideration of RMB10,010 thousands.

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

	Fair value
	RMB'000
Cash and cash equivalents	1,386
Trade receivables	4,436
Other receivables	1,104
Prepayment	52,668
Inventories	41,247
Property, plant and equipment	176,217
Right-of-use assets	45,460
Trade payables	(30,935)
Other payables	(293,917)
Deferred tax liabilities	(13,798)
Net identifiable liabilities acquired	(16,132)
Add: Goodwill	26,142
Consideration	10,010

42 BUSINESS COMBINATION *(Continued)*

Purchase consideration – cash inflow

	Year ended 31 December 2019 RMB'000
Inflow of cash to acquire subsidiary, net of cash acquired	
Cash consideration	10,010
Less: Prepayment in prior year	(10,010)
Add: Cash and cash equivalents acquired	1,386
Net inflow of cash – investing activities	1,386

The goodwill is attributable to the synergies expected to arise in the business of wind gear transmission equipment after the Group's acquisition of the new subsidiary. It has been allocated to the CGU of wind gear transmission equipment. None of the goodwill is expected to be deductible for tax purposes. Please refer to Note 16 above for the changes in goodwill as a result of the acquisition.

According to the finalised valuation report, deferred tax liabilities of RMB13,798 thousands has been provided in relation to the fair value adjustments as to the acquired inventories, property, plant and equipment and right-of-use assets with a total amount of RMB55,190 thousands.

43 TRANSACTIONS WITH NON-CONTROLLING INTERESTS

(i) Partial disposal of interest in a subsidiary without loss of control

On 24 August 2020, the Group disposed of 30% equity interest in Jiangsu Green Lighting Engineering Co., Ltd. ("Jiangsu Green Lighting") to an independent third party for RMB4,700 thousands. At the date of the disposal, the carrying amount of 30% non-controlling interest in Jiangsu Green Lighting was RMB5,396 thousands. Accordingly, the Group recognised an increase in non-controlling interests of RMB5,396 thousands and a decrease in equity attributable to owners of the parent of RMB696 thousands.

(ii) Acquisition of additional interest in a subsidiary

On 15 October 2020, the Group purchased an additional 14.17% equity interest in Nanjing NingKai from an independent third party by RMB15,600 thousands. At the date of the purchase, the carrying amount of 14.17% non-controlling interest in Nanjing NingKai was RMB7,639 thousands. Accordingly, the Group recognised an decrease in non-controlling interests of RMB7,639 thousands and a decrease in equity attributable to owners of the Company of RMB7,961 thousands.

43 TRANSACTIONS WITH NON-CONTROLLING INTERESTS *(Continued)*

(iii) Capital Increase in Nanjing High Speed

On 24 December 2020, the Capital Increase, as stated in Note 9(a) to the consolidated financial statements, constituted a deemed disposal of 6.98% equity interest of Nanjing High Speed. At the date of the Capital Increase, the carrying amount of 6.98% non-controlling interest in Nanjing High Speed was RMB365,253 thousands. Accordingly, the Group recognised an increase in non-controlling interests of RMB365,253 thousands and a decrease in equity attributable to owners of the Company of RMB215,253 thousands.

The effects on the equity attributable to the owners of the Company during the year is summarised as follows:

	Year ended 31 December 2020			
	Jiangsu Green Lighting RMB'000	Nanjing Ningkai RMB'000	Nanjing High Speed RMB'000	Total RMB'000
Increase/(decrease) in non-controlling interests	5,396	(7,639)	365,253	363,010
Consideration (received)/paid	(4,700)	15,600	(150,000)	(139,100)
Decrease in equity attributable to owners of the Company	696	7,961	215,253	223,910

44 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	
	2020 RMB'000	2019 RMB'000
Associates:		
Sales of products (Note (i))	365	1,655
Purchases of products (Note (ii))	1,066	25,279
Joint venture:		
Sales of products (Note (i))	29,523	16,407
Purchases of products (Note (ii))	12	831

Notes:

(i) The sales to the joint venture and associates were made according to the published prices and conditions offered to the major customers of the Group.

(ii) The purchases from the associates and joint venture were made according to the published prices and were agreed by both parties.

(b) Other transactions with related parties:

As at 31 December 2020, 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 RMB290,012 thousands (2019: RMB306,008 thousands).

44 RELATED PARTY TRANSACTIONS *(Continued)*

(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 47, the Group did not have any other significant compensation to key management personnel.

45 EVENTS AFTER THE REPORTING PERIOD

On 30 March 2021, Nanjing Gear and Nanjing High Speed entered into an equity transfer agreement (the "Agreement") with Shanghai Wensheng Asset Management Co., Ltd. ("the Purchaser"), an independent third party, pursuant to which, Nanjing Gear agreed to sell and the Purchaser agreed to purchase the 43% equity interest of Nanjing High Speed (the "Disposal") at a consideration of RMB4.3 billion. Completion of the Disposal is subject to the satisfaction of the conditions precedent contained in the Agreement. For details, please refer to the Company's announcement dated 30 March 2021.

46 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Assets		
Non-current assets		
Property, plant and equipment	3	3
Interests in subsidiaries	3,854,838	4,323,902
Financial assets at FVOCI	26,874	28,502
	3,881,715	4,352,407
Current assets		
Other receivables	285	302
Cash and cash equivalents	13,272	8,046
	13,557	8,348
Total assets	3,895,272	4,360,755
Liabilities		
Current liabilities		
Amounts due to subsidiaries	5,694	6,088
Other payables	277	312
	5,971	6,400
Total liabilities	5,971	6,400
Equity attributable to owners of the Company		
Share capital	119,218	119,218
Reserves (Note (a))	3,770,083	4,235,137
Total equity	3,889,301	4,354,355
Total equity and liabilities	3,895,272	4,360,755

46 STATEMENT OF FINANCIAL POSITION AND RESERVE MOVEMENT OF THE COMPANY

(Continued)

(a) Reserve movement of the Company

	Share premium RMB'000	Deemed capital contribution reserve RMB'000	Fair value reserve of financial assets at FVOCI RMB'000	Retained profit RMB'000	Total RMB'000
At 1 January 2019	4,119,682	77,651	(11,899)	142,796	4,328,230
Profit for the year	–	–	–	32,695	32,695
Other comprehensive loss for the year:					
Change in fair value of financial assets at FVOCI, net of tax	–	–	(10,794)	–	(10,794)
Final 2018 dividend declared and paid	(114,994)	–	–	–	(114,994)
At 31 December 2019 and 1 January 2020	**4,004,688**	**77,651**	**(22,693)**	**175,491**	**4,235,137**
Loss for the year	**–**	**–**	**–**	**(164,234)**	**(164,234)**
Other comprehensive loss for the year:					
– Change in fair value of financial assets at FVOCI, net of tax	**–**	**–**	**(1,627)**	**–**	**(1,627)**
Final 2019 dividend declared and paid	**(299,193)**	**–**	**–**	**–**	**(299,193)**
At 31 December 2020	**3,705,495**	**77,651**	**(24,320)**	**11,257**	**3,770,083**

47 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	Share-based payment RMB'000	Total RMB'000
For the year ended 31 December 2020					
Executive Directors					
Mr. Chen Yongdao	–	3,097	53	–	3,150
Mr. Wang Zhengbing	–	2,697	53	27,019	29,769
Mr. Zhou Zhijin	–	2,697	53	27,019	29,769
Mr. Hu Jichun	–	2,397	53	–	2,450
Mr. Hu Yueming (Note (i))	–	3,450	–	2,191	5,641
Mr. Gu Xiaobin (Note (ii))	–	5,447	53	27,019	32,519
Ms. Zheng Qing	202	–	–	–	202
Mr. Fang Jian (Note (iii))	–	650	17	–	667
Non-executive directors					
Mr. Yuen Chi Ping (Note (iv))	151	–	–	–	151
Independent non-executive directors					
Mr. Jiang Xihe	202	–	–	–	202
Ms. Jiang Jianhua	202	–	–	–	202
Mr. Nathan Yu Li	202	–	–	–	202
Dr. Chan Yau Ching	202	–	–	–	202
	1,161	20,435	282	83,248	105,126

47 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

The remuneration of every director and chief executive is set out below: *(Continued)*

	Fees RMB'000	Salaries and other benefits RMB'000	Pension scheme contributions RMB'000	Total RMB'000
For the year ended 31 December 2019				
Executive Directors				
Mr. Chen Yongdao	–	3,097	53	3,150
Mr. Wang Zhengbing	–	2,697	53	2,750
Mr. Zhou Zhijin	–	2,697	53	2,750
Mr. Hu Jichun	–	2,397	53	2,450
Mr. Hu Yueming (Note (i))	–	3,397	53	3,450
Mr. Gu Xiaobin (Note (ii))	–	3,177	31	3,208
Ms. Zheng Qing	215	–	–	215
Non-executive directors				
Mr. Yuen Chi Ping	215	–	–	215
Independent non-executive directors				
Mr. Jiang Xihe	215	–	–	215
Ms. Jiang Jianhua	215	–	–	215
Mr. Nathan Yu Li	215	–	–	215
Dr. Chan Yau Ching	215	–	–	215
	1,290	17,462	296	19,048

47 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

Notes:

(i) Mr. Hu Yueming was re-designated from a non-executive director to an executive director of the Company on 24 May 2019.

(ii) Mr. Gu Xiaobin was appointed as an executive director of the Company on 24 May 2019. His annual remuneration was RMB5,500 thousands.

(iii) Mr. Fang Jian was appointed as an executive director of the Company on 29 August 2020. His annual remuneration was RMB2,000 thousands.

(iv) Mr. Yuen Chi Ping has tendered his resignation as the non-executive Director on 24 August 2020.

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 (2019: Nil).

(c) Directors' material interests in transactions, arrangements or contracts

Certain of the Company's directors are entitled to the share-based payments as disclosed in Note 9(a) to the consolidated financial statements and as set out in the section entitled "Connected Transactions" on page 44 of this annual report. Saved as disclosed as above, no other significant transaction, arrangement and contract 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.